

# Role of Microfinance for Poverty Reduction and Women Empowerment

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## Abstract

*Microfinance is a financial and social intermediation to the poor or especially for women. Microfinance provides financial services like micro credit, micro saving, micro insurance and micro remittance. Easy services of microfinance attracted back ward women, which may be caused to push women toward new horizon. In this article, the researcher has defined the new horizon as empowerment of women. Empowerment is a situation where women have their self-dependency, free mobility, free participation on their own desired sector and field. The meaning of empowerment becomes meaning-full when women become economically, socially and politically strong. In this regard, this study aims to explore to identify the role of microfinance has played to poverty reduction and to find out role of microfinance to women empowerment. The study has been based on primary source, data collected from interview schedule by fulfilling the validity from the review of literature with the sample from Mahila Sahayogi Sahakari Bachat Tatha Rin Sahakari Sanstha, Tarakeswar Municipality ward no. 2. The sample includes 60 respondents. The study concludes that there is an improvement in the earnings and stimulated the living standard of women beneficiaries from the microfinance. The study further concludes the member of microfinance women of the study area are becoming active mentally and physically as the way their participation, communication, fund management discussion, cooperative power and accountability.*

**Key words :** Microfinance, poverty, women, living standard, empowerment..

## 1. Introduction

The idea of microfinance is derived from England; "Rekadel Pioneer Society", is the pioneer of microfinance concept. In 1950s development projects began to introduce subsidized credit program targeted at specific communities. These subsidized schemes were rarely successful. Rural development banks suffered massive erosion of their capital base due to subsidized lending rates and poor repayment discipline and funds did not always reach the poor often ending up concentrated in hands of shelter off farmers. In 1976 Prof. Yunus implemented the microfinance experimental program in Bangladesh. Brazil and other few countries extended tiny loans to groups of poor women to invest in micro business. This type of microenterprise credit was based on solidarity group lending in which every member of group guaranteed the repayment of all members. Through 1980s and 1990s microfinance program thought the world improved upon the original methodologies and bucket

conventional wisdom about financing the poor. The year 2006 has proved to be very important year for micro finance development. The observation of 2005 as the international year of micro credit by the united nation followed by organization of Global Micro Credit submitted 2006 in Canada. Nobel Peace Prize Award awarded to Prof. Mohammad Yunus who is the founder of Grameen Bank of Bangladesh.

Micro financing practice in Nepal has originated from traditional practices of cooperatives like Guthi, Dhikuri, DharamBhakarietc, at present there are numerous co-operative societies, NGOs, INGOs and Governmental Organizations (GOs) working under this sector. After the financial sector policy liberalization Nepalese financial sector has expanded massively.

Formal sector financing began with the establishment of credit cooperatives from the government level in 1950s particularly to supply the production support to the farmers. Further, Cooperative Bank established in 1963 was envisioned to supply adequate credit for the agriculture sector. Development financing through ADB was further focused when it introduced a separate programme in 1975: Small Farmers Development Programme (SFDP) characterized with group collateral. SFDP, a state sponsored and subsidized developmental credit programme, has covered almost whole country geographically. Since 1990s, such groups developed under SFDP were converted into Small Farmers Cooperatives Limited (SFCL) to hand over to the community along with shift in equity is a clear turn from subsidized credit to the concept of sustainable microfinance.

During 90s, Government of Nepal established Regional Rural Development Banks (RRDBs) with the partly support from government starting from 1992 to replicate the Grameen Bank of Bangladesh (Sinha, 2000). Following the move, twelve microfinance development banks are also established from the private sector after the enactment of Development Bank Act 1996.

1990s remained one of the most influencing decades in the history for microfinance in Nepal as well. Number of donors, bi-lateral agencies, and international non-governmental organizations (INGOs) supported and subsidized for the promotion of microfinance through operation deficit, seed funds, capacity building and systems development. Considering the enactment of Cooperative Act 1992, thousands solidarity groups were emerged out of which many legalized as Savings and Credit Cooperatives (SCCs). A very few of them also obtained the limited banking license from NRB. (Baral: 2005:15)

In addition to the promotion and facilitation of solidarity groups; savings and credit cooperatives; and intermediary non-governmental organizations to carry out microfinance, many NGOs themselves started implementing microfinance activities once the Financial Intermediary Act 1999 allowed them for retailing. Certain number of SCCs and NGOs also scaled up with subsidized wholesale fund of Rural Self Reliance Fund (RSRF) created in 1991. But, NRB at the moment is in the process of transforming RSRF into a National Microfinance Development Fund. Later in 2000, Rural Microfinance Development Centre (RMDC), in support of Asian Development Bank was established with the aim of providing

wholesale fund at competitive rate. Recent development is the policy formulation which is yet to be approved. (Annual report of RMDC 2009/010)

Dahal (2006) has clarified the roles of microfinance to achieve MDG. According to him, first of all potential characters (Women poor back warded communities) are involved in group to fight against the poverty through MFSs. In the second step various employment, self reliance related, skills are presented to the group to create capacity for the betterment of own self. In third step, they are provided micro capital to utilize their capacity and to generate income. After completing this first step of three Cs, microfinance adopted group are passed through next five steps of second phase which are information, participation, partnership, ownership, agreement.

Using the Robust Maximum Likelihood (RML) method Bali & Yang (2007) studied self-help microfinance groups in India and found that the level of empowerment among self-help group members and credit users was higher than that of the control group.

However, they found a variation in empowerment degrees and were unable to point out as to which factors were mainly responsible for increased level of empowerment. They conclude:

- It is difficult to say which factors are more important for empowering women.
- The differences in pace of empowerment might be a result of various factors. Household and village characteristics, cultural and religious norms within the society, behavioral differences between the respondents and their family members, the kind of training and awareness programs that the women have been exposed to. All these factors together are responsible for the empowerment process. Bali & Yang (2007:22.)

Keller and Mbweve (1991) view empowerment as a process whereby women develop the ability to organize themselves in retaining their rights to make choices and control resources in order to challenge their subordinate position. For Batliwala (1995), empowerment is the process that “tackles both the condition and position of women”; that is, although attainment of women’s practical need (improving women’s concrete conditions) is necessary, more critical is the alteration of women’s inferior position that is entangled in power relations. Batliwala argues that the process of empowerment lies within the attainment of women’s strategic needs (to achieve gender equality). While “strategic needs” refers to women’s enhanced agency, through which women gain equal access to and control over resources, equal decision-making power, and equal position, “practical needs” refers to the fulfilment of basic needs such as food, shelter, water, credit, income, health care and physical/mental wellbeing. (Moser 1989). Meeting women’s practical needs means improving women’s immediate conditions while meeting strategic need means improvement in women’s position whereby the unequal gender division of labour is challenged and equal transformation takes place. For Mayoux (2001), access to microcredit and income from women’s micro-business creation plays an important role in the process of women’s empowerment. However, Mayoux is sceptical about whether women can gain both their strategic needs, such as equal decision-making power to men and control over their

credit/income through micro-business experiences, and their practical needs, such as proper diet and nutritious food for their own health and well-being.

Cheston and Kuhn (2002) stated that microfinance programs have been potential to transform poor relation and to empower women especially by using case study of Sinapi Aba Trust. Although women access to financial resources has substantially increased yet loans given to women differ in sizes. In spite of this, just financial help not enough to empower women and improve well being but if they are properly designed then they make important contribution to women empowerment. The writer explains empowerment indicators and measurement techniques. The contribution of micro insurance, saving to empowerment, technology transfer through microfinance institutions, the relationship between microfinance program, empowerment, family planning and cultural norms are exist. He describes different theories of targeting women. Microfinance plays a major role in gender and development strategies because of its direct relationships to both poverty alleviation and women.

As women are the poorest of the poor so greater financial security allows the women to become more empower in household and community affairs. As women spend most of their income on their family needs particularly children's education, diet, health care and clothing. Proponents of targeting women argue that women repayment record is good and their behaviour is more cooperative than men. Access to financial resources does not alone empower women but also access to material (credit, property, and money), human and social resources (education, business). Empowerment is culturally relative term; it is itself not a western concept. Microfinance affect women's ability or decision making and self confidence which is closely linked with knowledge, women's status and gender relations at home. Microfinance program strengthen women's economic autonomy and gives them means to pursue non-traditional activities. Through these programs women escaped from abusive relationship.

Microfinance(MF) is the provision of a broad range of financial services to poor and low income households such as micro savings, loans, payment or money transfer services and micro insurance. It also includes loans to micro enterprises. The main objective of microfinance is to help alleviate poverty by providing sustainable access to finance services to poor and low income household through micro credit. As per definition and objective we can easily analyze that microfinance has become a key tool for poverty alleviation and economic empowerment the poor. Even though microfinance is an important and relevant financial service to poor, other approaches including measures to promote human development such as education, health and other minimum infrastructures are required to enhance broad financial activities in rural area. The major strength of MFI that provides microfinance services to poor people and helps them to improve their economic and social condition. The increased number of microfinance practitioners around the globe is an indication that micro finance sector can play an important role not only to help attain the government's policies on poverty reduction but also to help increase the income level and self employment of poor people through various types of income generating activities. The

World Bank (WB) estimated that about 1.2 billion people live in absolute poverty and the dimension of the Asian poverty is much more diverse from the poverty status of developed country. Thus poverty alleviation strategy should be major task and objective of the Asian Countries (ACs). WB defines micro finance as "the provision of financial services to low income clients including the self employed.

It includes both financial and social inter mediation. It is not simply banking. It is a development tool: similarly the founder of GB in Bangladesh Dr. Mohammad Yunus advocated for MF as, "We will have no other option but to establish credit as a human right".

In the case of Nepal, NRB has stated (1919) in its regulation that a loan up to Rs 15,00,000 provided by MFIs is considered as micro credit and saving mobilized by the groups of MFIs are considered as micro saving. In this way, efforts have been made to define and set the borderline of Micro-credit. The most important thing to note in above definitions is that all have tried to establish the linkage of Micro-credit with poverty alleviation and back warded communities' empowerment.

Micro-credit has successfully been experimented and implemented in Nepal since 1974, from small sector credit program, commercial banks to GB (1991), Micro-credit remains as the important financial tool to focus the rural poverty. Poverty situation in Nepal is alarming and to reduce this to reasonable level is also a major concern of the government plans and programs. The current 15th plan (2019-2023) has also incorporated micro finance as a major financial tool to overcome its single objective poverty reduction. To attain this objective, the five year plan has set out a number of policies and strategies along with various credit programs the plan has set target of Rs 101 billion rural credit to be disbursed during the plan period. It is believed that organized sector MFIs in Nepal have outreached more than 700 thousand families during the last two decades. Out of this five regional GB and four Grameen replicating banks have provided MF services to more than 331 thousand women clients and disbursed to total loan of Rs 19.53 billion during the past 12years and also collected Rs 16.91 billion. Likewise, they have collected Rs 569 million as group saving over the period.

In ADB's view poverty is a deprivation of essential assets and opportunities to which every human is entitled (ADB, 1996). The essential asset may not be available to poor due to diverse nature of poverty and lack of political will, inadequate governance and inappropriate public policies and programs. In this context, ADB perceives sustainable economic growth and social development as the key components for reducing poverty and women empowerment. Therefore, the investment in MF stimulates economic growth which can reduce poverty by generating employment and incomes (ADB, 1996). According to Koirala(2008) the ADB has recognized micro finance as powerful tool to promote economic growth, reduce poverty, support human development and improve the status of women. Furthermore, presents the evidence of test result of micro finance practitioners around the world as access of credit to rural poor has been found to be very effective tool for helping

poverty reduction. It is because MC to the poor creates small business opportunities that help to improve the socioeconomic condition of deprived communities. (Payakural 2008:17)

MF is a powerful instrument for poverty alleviation. It enables the poor to take advantage of existing opportunities, build-up their assets generate self-employment develops micro enterprises raise income level build-up self-confidence, and self-esteem improves purchasing power, empowers women and enhances overall economic growth, enhances domestic saving and provides escape route from poverty (Shrestha, 2006).

In Nepalese context, even MF has been proven as effective and efficient mechanism in poverty reduction, endeavor, most of MFIs have become unable to reach the ultra-poor due to inability to identify and measure them on the other hand improving access to financial services has been commonly viewed as strong tool to fight against poverty, however the outreach of Formal Sector Credit Institutions (FSCI) has been concentrated due to high cost of their services delivery. Nevertheless, MFIs pursue the activities to promote the interest of the poor by providing basic services and contribute to increase in outreach sustainability and effectiveness. (Upadhaya, 2007)

## **2. Objectives**

The overall objective of this study is to make an assessment of the effectiveness of microfinance program in Tarakeswar Municipality, Ward NO. 2 of Kathmandu District. Similarly, the specific objective of the study is to identify the role of microfinance in poverty reduction and women empowerment.

## **3. Methodology**

This article is prepared by using primary data, collected from interview schedule and secondary data were taken from previous studies, published books and other related literature.

## **4. Sampling procedure**

MahilaSahayogiSahakariBachatTathaRinSahakariSanstha has been conducting microfinance since 15 years at Tarakeswar Municipality ward no. 2. There are 10 centers with 260 women members of the ward. Total group members of the ward are the population and 60 members has been selected for the study. Among them 50 members were selected through simple random sampling and 10 members has been taken from quota sampling method for the study.

## **5. Discussion and Analysis of the study**

### ***Effect of Microfinance***

### 5.1 Income Before Involving in Microfinance

The income of respondents before joining the microfinance program is presented in the following table;

Table no. 1: Income of the respondents before involving in microfinance

Particular	No of Respondents	Percentages
Below 10,000	2	3.33
10,000 to 50000	8	13.33
50000 to 100000	10	16.67
Above 100000	25	41.67
No Response	17	28.33
Total	60	100.00

Source: Field survey,2022

Above table shows that before joining the microfinance program 3.33 % respondents earn below 10,000 yearly, 13.33% of respondents who earn NRS 10,000 to 50,000 yearly, 16.67% respondents earn NRS 50,000 to 100,000 yearly and only 41.67% respondents earn more than NRS 1,00,000 yearly.

### 5.2 Income after Involving in Microfinance

Income status of respondents after involving microfinance program were also observed during the study is presented in the table no 2.

Table no. 2 Income of the respondents after involving in microfinance

Particular	No of Respondents	Percentages
Below 10,000	0	0.00
10,000 to 50000	1	1.67
50000 to 100000	3	5.00
Above 100000	48	80.00
No Response	8	13.33
Total	60	100.00

Source:FieldSurvey,2022

Above table shows that after involving in microfinance program (at least three year) 1.67% of respondents who earn NRS 10,000 to 50,000 yearly, 5% respondents earn NRS 50,000 to

1,00,000 yearly, 80% respondents earn more than NRS 1,00,000 yearly. This shows there is significant improvement in their income by involving in microfinance program.

### 5.3 Difficulties in Installment Repayment

During my field survey to study the impact of microfinance in loan repayment ability of the respondents was also observed and the information collected is presented in the table no 3.

*Table no. 3 Difficulties in installment repayment*

Particular	No of Respondents	Percentage
No	51	85.00
Yes	6	10.00
No Response	3	5.00
Total	60	100.00

Source: Field survey,2022

Above table shows that 85 % respondents have not difficulties in repayment of loan installment. It means clients of MahilaSahayogi have able to pay their loan with their income. Only 10 % clients have difficulties in installment repayment. It shows that clients have increase their income involving in microfinance program of MahilaSahayogi.

### 5.4 Loan Utilization Sectors

Loan utilization sector of respondents was observed to see their current profession is presented in the following table;

*Table no. 4: Sectors of loan utilization of the respondents*

Particular	No of Respondents	Percentage
Agriculture	15	25.00
Animal husbandry	18	30.00
Other Business	25	41.67
No Response	2	3.33
Total	60	100.00

Source: Field survey,2022

Above table shows that 25% respondents used their loan in agricultural productions, 30% respondents used their loan in animal husbandry and 41.67% respondents have used for other business rather than agriculture and animal husbandry. It shows microfinance program



has added capital in their profession which they have been doing. Similarly it has also given the opportunities for other business if they do not prefer their old professions.

### 5.5 Savings Source

As the client of microfinance usually do saving, researcher wanted to see the saving source collected data of respondents is presented in the following table;

*Table no. 5 Sources of savings of the respondents*

Particular	No Respondents	of	Percent
Agriculture and Animal Husbandry	38		63.33
Business	15		25.00
Others	6		10.00
No Response	1		1.67
Total	60		100.00

Source: Field survey,2022

Above table shows that 63.33 % respondents do savings from agriculture and animal husbandry, 25 % respondents do savings from their business and 10% respondents do savings from other sources. This shows more client of microfinance of selected area are doing savings from agriculture and animal husbandry as these areas are basics for their livelihood.

### 5.6 Loan from other Micro-finance

During the field survey respondents were asked whether they borrowed loan from other microfinance or not. And the respondents replied in the following way.

*Table No. 6: Loan from other microfinance*

Particular	No Respondents	of	Percent
No	35		58.33
Yes	18		30.00
No Response	7		11.67
Total	60		100.00

Source: Field survey, 2022

Above table shows that 58.33 % respondents' have not taken loan from other microfinance institution and 30 % respondents' have taken loan from other financial institutions. Therefore MahilaSahayogi must revise the loan size as member take loan due to smaller loan size.

### 5.7 Participation in Training

Respondents' participations in the skill training was collected during the study to measure professional development is presented in the following table;

Table No. 7 Participation in training by the respondents

Particular	No Respondents	of	Percentage
Yes	33		55.00
No	27		45.00
Total	60		100.00

Source: Field survey, 2022

Table no 7 shows that 55 % respondents' received skill training and 45 % respondents' have not received the skill training. The skill training include training in agriculture, animal husbandry and other small scale business like beauty parlor, tailoring, achar making etc. Therefore, the role of MahilaSahayogito increase income by skill training was satisfactory.

### 5.8 Expansion of Business by taking Loan

Entrepreneurship of the respondents was observed during the study through collecting the information about expansion of business by taking loan is presented in the following table;

Table no. 8: Expansion of business by respondents

Particular	No Respondents	of	Percentage
Yes	48		80.00
No	9		15.00
No Response	3		5.00
Total	60		100.00

Source: Field survey,2022

Table 8 shows that 80% respondents' business has been expanded by talking loan and only 15 % respondents' business has not been expanded. It shows that clients have benefited for expansion of their business and get income accordingly.

### 5.9 Increase in Assets

Increase in assets by involving in microfinance program were collected during the study which is presented in the table 9;

Table No. 9: Increase assets by respondents

Particular	No of Respondents	Percentage
Yes	18	30.00
No	35	58.33
No Response	7	11.67
Total	60	100.00

Source: Field survey,2022

Table 9 shows that 30% respondents' have purchased fixed assets as their purchasing capacity increased and 58.33 % respondents' have not purchased fixed assets.

### 5.10 Satisfaction of Client with MahilaSahayogi

Overall satisfaction of the respondents with the microfinance program was observed by checking satisfaction of clients with Mahilasahayogiis presented in the following table;

Table no. 10: Satisfaction of respondents with MahilaSahayogi

Particular	No of Respondents	Percentage
Maximum	10	16.67
Moderate	49	81.67
Less	1	1.67
Total	60	100.00

Source: Field survey,2022

Table 10 shows satisfaction of client with MahilaSahayogi in which 16.67 % respondents' stand with maximum satisfaction, 81.67% respondents stand at moderate satisfaction and only 1.67% respondents stand at less satisfaction with MahilaSahayogi. It is seen that clients are satisfied with microfinance program of MahilaSahayogi.

### 5.11 Improvement in Livelihood

Improvement in livelihood after the involvement in MahilaSahayogy was studied during study and the information is presented in the table;

Table No. 11 Improvement in livelihood of the respondents

Particular	No Respondents	of	Percentage
Yes	58		96.67
No	2		3.33
Total	60		100

Source: Field survey,2022

Above table shows the improvement in clients' livelihood in which 96.67% respondents' livelihood has been improved with microfinance program. It shows the positive impact of microfinance program to improve their livelihood. There are different aspects of livelihood improvement like increment in their income, their personal role in family and society, improvement in education of their children, improvement in health and sanitation, increment in consumption, increment in assets and increment in savings etc. The respondents have improved in these aspects which shows the positive impact on the clients microfinance program operated by Mahila Sahayogi Tarakeshwar Municipality ward No. 2 (Earlier Kavresthali VDC) of Kathmandu district.

### Conclusion

The study concludes there has been positive role of Mahila Sahayogi Sahakari Bachat Tatha Rin Sahakari Sansthain the poverty reduction and women empowerment as majority of the respondents agreed with change in their economic status and involvement in skill training program. Similarly, the study studied about the expansion on business by taking loan from Mahila Sahayogi Sahakari Bachat Tatha Rin Sahakari Sanstha and evidenced that majority (80 Percent) of the women had taking loan. Further, the study concludes there has been Improvement in livelihood after the involvement in Mahila Sahayogi Sahakari Bachat Tatha RinSahakari Sanstha.

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