

# The Many faces of micro-credit

*There is a distinction between micro-credit and credit-for-empowerment*

**By Prema Gopalan**

Micro-credit or micro-finance<sup>1</sup> for the poor/women has received extensive recognition as a strategy for poverty reduction and for economic empowerment. There are equal numbers of critiques as enthusiasts. However, increasingly in the last five years, there is a questioning of whether micro-credit is the most effective approach to economic empowerment of the poorest and, among them, women in particular.

Development practitioners in India and developing countries argue that the exaggerated focus on micro-credit as a panacea for the poor has led to neglect by the State and public institutions in addressing employment and livelihood needs of the poor. With the onset of structural adjustment programs in the early nineties, there was a public debate around reduced State spending on social sectors. However, programs in this respect have neither been sincere or scaled up. What does 'safety net' really mean to the poor? In a country like India, economic uncertainties, loss of livelihood, inflation, erosion of access to natural resources, shrinking employment, increasing social/ethnic unrest, "natural" disasters, drought, floods, earthquakes, etc. make the poor extremely vulnerable. Given their asset base, they barely recover from one shock (natural or human-made) before another overtakes them. What inputs would be necessary to ensure that the poor are empowered to access development resources and use it to their best advantage? People's existential reality and their efforts to overcome poverty depend a great deal on their ability to seize opportunities and turn them to their advantage.

This article argue that discerning policy-makers, researches and practitioners while critiquing micro-credit

<sup>1</sup> Micro finance includes savings, credit, insurance and other financial services for the poor/informal sector communities, whereas micro credit refers to a credit-only approach. In this article, the two are used alternatively.

programs need to recognise the plurality in micro-credit approaches. The continuum begins with pure micro-credit (with savings and credit or self-help groups) on one hand, and extends to credit-for-empowerment approaches. Even though they are fairly distinct and different in terms of goals and process, mainstream financial institutions and policy makers prefer not to make any distinction. The differences, we would argue, are very fundamental and are linked to questions of who owns funds, who manages and who decides.



Brainstorming: Mahakalassam federation leaders meeting SHG leaders

Given the importance of financial service to the poor and enormity of the challenge set the Micro-credit Summit and other world conferences, followed by the mainstreaming of micro-credit is delivered? What are the social, political processes that sustain this approach? What is the range of economic/financial institutions emerging in the people's sector? Do these institutions enhance participation of the poor in development processes? Do they, for instance, seek to built economic/financial institutions managed by the poor? Or is this a credit-only strategy? Do they seek to address women's social and economic needs beyond credit? Finally, do they empower women's collectives? Credit for empowerment is about meeting daily consumption needs of the poorest. It entails trying to build capacities of a large number of individuals, usually

collectives, to increase credit absorption and undertake sustainable livelihoods. The credit for empowerment strategy, in this case usually goes

and renegotiate gender relations within households and communities.

Micro-credit vs. Credit-for-empowerment	
Micro-credit	Credit for empowerment
<p><b>Objectives</b></p> <ul style="list-style-type: none"> <li>Micro-credit is about providing services/delivering credit to low-income clients. It is a women's collectives, niche market that the formal sector seems to have left out.</li> </ul>	<p><b>Objectives</b></p> <ul style="list-style-type: none"> <li>Credit for empowerment is about organizing people, particularly around credit and building capacities to manage money</li> </ul>
<p><b>Focus</b></p> <ul style="list-style-type: none"> <li>The focus is on delivering financial services in the most efficient way possible</li> <li>It is in the business of ensuring greater access to credit</li> </ul>	<p><b>Focus</b></p> <ul style="list-style-type: none"> <li>The focus is on getting the poor to mobilize their own funds, building their capacities and empowering them to leverage external credit.</li> </ul>
<p><b>Perception of women</b></p> <ul style="list-style-type: none"> <li>Women's groups are vehicles of credit delivery because they ensure good repayments.</li> </ul>	<p><b>Perception of women</b></p> <ul style="list-style-type: none"> <li>Learning to manage money and rotate funds builds women's capacities and confidence to intervene in local development and local governance.</li> </ul>

beyond the limited goals of ensuring access to credit. It looks at 'how' savings and credit can be delivered through a collective approach. Further, it combines the goals of financial sustainability with that of creating community owned institutions.

The experiences of grassroots women's organisation like Swayam Shikshan Prayog in Maharashtra, Covenant Centre for Development in Tamil Nadu and several others reveal a positive impact when savings, credit and enterprise are used as a tool for mobilising and building capacities of grassroots women's collectives--to meet their own credit needs, negotiate market, obtain institutional credit, it leads to empowerment of women involved.

**MACRO IMPLICATIONS**

**Address inequalities in access to resources, services and asset distribution**  
 Women's economic vulnerability is at the centre of their secondary status. To change this status quo, especially among poor women, meeting economic needs can address practical needs while building strategic capacities of women to obtain credit, negotiate markets

**Women's collectives have emerged as an organised force with an economic, social and political identity**  
 As the collectives of groups access larger and larger credit, they need to build their capacities to manage credit and pool their experiential, material, knowledge, resources. These collectives and community-owned institutions/federations begin to act as alternate social mechanisms. They are not only able to address multiple development issues, but gain confidence to intervene in local development and governance

**Participation in collectives enhances women's confidence, builds their capabilities and information base, increases connectivity to institutions**  
 We Strongly believe that savings & credit groups provide a base for poor women to organise themselves, expand options for livelihoods and to participate actively in development. The learning and exchange between women's groups is crucial for enhancing participation, while linkages with banks and institutions is crucial to accessing resources

**A mutual support groups, to address women's gender issues**  
 A savings and credit is an entry point for women's participation in the public sphere from which broad-based social change can be initiated. The group or the collective provides the first space for poor and low caste women to interact, organise themselves, build their capacities to manage money, address social issues and highlight concerns of poor communities in local planning and development processes

**Creates space for alternative women's leadership**  
 The 'critical mass' of women's groups acts as a springboard for establishing credit federations. The savings and credit groups build these institutions through equity participation. They play an effective bridge between informal SHGs and financial institutions.

**Assists in improved access to public resources and leveraging larger amounts of credit and improved negotiation with financial institutions, government, etc.**  
 Central participation of poor women in planning, designing and finally owning micro-finance services is the process of building federations. Federations allow women's groups to pool their equity/savings and test their credit worthiness in the face of credit institutions. They help women's groups to access funds, and at the

same time allow them to explore community enterprises based on the combined strength of groups. In a sense federations when community owned, reverse the criticism of micro-credit methods which promote efficient structures without involvement of members/groups.

▪ **Open up informal and formal spaces for participation of women in local planning**

The capacities to manage financial resources and the confidence acquired through such activities become the basis for women's participation in numerous village development activities. Groups in the two districts where Swayam Shikshan Prayog works have taken on public roles in local development. They voice priorities in village assembly meetings, participate in village committees and monitor delivery of public services such as health centers, schools, civil supplies. Women's network have the potential to hold the government and other institutions accountable on budget and planning issues.

▪ **Increase opportunities for community-State partnership – through community initiatives, etc.**

A process of federating groups to form a new institutional structure that will be owned by women's groups is now underway. The Sakhi Mahasangh or women's credit federation is a three-tiered structure with around 100-150 member groups. On one hand, the federation liases with credit institutions and on the other, it allows member groups to access large amounts of credit for economic activities. In the last year, five federations promoted by Swayam Shikshan Prayog have become functional. They also provide the opportunity for women to explore group and community enterprises.

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Fund process: Bank officials in conversation with members of the group

*Swayam Shikshan Prayog (SSP) stands for self-education for empowerment. The organization is located in Mumbai and primarily works with women and community groups at the grassroots across five districts of Maharashtra, and partners with organizations and the government in three states on credit, community enterprise, local self-governance and post disaster reconstruction and development. In addition to capacity building, SSP plays a facilitating role in strengthening decentralized community institutions.*

*SSP has developed a two-pronged strategy on empowering women through the savings and credit groups on one hand and on the other, through the creation of a 'critical mass' of women's collectives supported by strategies such as access to basic services, right to information and participation in local panchayats.*

*The organizations understanding is that savings and credit groups are at the foundation of the social empowerment processes for women in poor communities. In 1997-1998, it initiated the formation of groups and today, this base has grown from a new hundred groups in two districts to over 600 savings and credit groups across 450 villages in three districts of Latur, Osmanabad and Solapur in Maharashtra.*

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