

Micro Finance for Women Empowerment- Role of Banking Sector in Karnataka

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Abstract

In India, the emergence of liberalization and globalization in early 1990's aggravated the problem of women workers in unorganized sectors from bad to worse as most of the women who were engaged in various self employment activities have lost their livelihood. Despite in substantial contribution of women to both household and national economy, their work is considered just an extension of household domain and remains non-monetized. In India, Microfinance scene is dominated by Self Help Group (SHGs) as an effective mechanism for providing financial services to the "Unreached Poor", and also in strengthening their collective self help capacities leading to their empowerment.

Rapid progress in SHG formation has now turned into an empowerment movement among women across the country. Micro finance is necessary to overcome exploitation, create confidence for economic self reliance of the rural poor, particularly among rural women. Although no 'magic bullet', they are potentially a very significant contribution to gender equality and women's empowerment. Through their contribution to women's ability to earn an income, these programmes have potential to initiate a series of 'virtuous spirals' of economic empowerment, and wider social and political empowerment. The results from these self-help groups (SHGs) are promising and have become a focus of intense examination as it is proving to be an effective method of poverty reduction and economic empowerment. Mainly on the basis of secondary data analysis, this paper attempts to highlight the role of Microfinance and SHGs in the empowerment of women in Karnataka.

Also the Indian subcontinent was the first place where modern microfinance, at the time called "micro credit," really became a phenomenon. Whilst small scale lending has been going on for centuries, it was in the 1970s that Muhammad Yunus began to put together ideas which eventually led to the Grameen Bank being established in Bangladesh. The Bank, which provided small loans to extremely poor group borrowers, has been marked out by its success (leading eventually to it being awarded the Nobel Peace Prize in 2006, and by the fact that the vast majority of its borrowers (who are also its shareholders) are women.

Keywords: Microfinance, MFI's, Growth of Microfinance, Poverty.

Introduction

Micro finance through Self Help Group (SHG) has been recognized internationally as the modern tool to combat poverty and for rural development. Micro finance and SHGs are effective in reducing poverty, empowering women and creating awareness which finally results in sustainable development of the nation.

Women have been the most underprivileged and discriminated strata of the society not only in India but the world over. In spite of all Government and Non-Governments' efforts, they have been highly ignorant clients of the financial sector. In the recent times, microfinance has been emerging as a powerful instrument for empowering women particularly, the rural women. Apart from the informal sector of finance the formal and semi formal sectors like commercial banks, NGOs etc. are taking much interest in providing microfinance to women considering it to be a profitable commercial activity. Women are also participating in the microfinance movement by availing the microfinance services being provided by the various financial channels.

The main aim of microfinance is to empower women. Microfinance is the provision of financial services to low-income clients, including consumers and the self employed, who traditionally lack access to banking and related services. Microcredit, or microfinance, is banking the unbankables, bringing credit, savings and other essential financial services within the reach of millions of people who are too poor to be served by regular banks, in most cases because they are unable to offer sufficient collateral. Women make up a large proportion of microfinance beneficiaries. Traditionally, women (especially those in underdeveloped countries) have been unable to readily participate in economic activity. Microfinance provides women with the financial backing they need to start business ventures and actively participate in the economy. It gives them confidence, improves their status and makes them more active in decision making, thus encouraging gender equality. According to CGAP, long-standing MFIs even report a decline in violence towards women since the inception of microfinance.

The most of the microcredit institutions and agencies all over the world focuses on women in developing countries. Observations and experience shows that women are a small credit risk, repaying their loans and tend more often to benefit the whole family. In another aspect it's also viewed as a method giving the women more status in a socioeconomic way and changing the current conservative relationship between gender and class.

A recent World Bank report confirms that societies that discriminate on the basis of gender pay the cost of greater poverty, slower economic growth, weaker governance, and a lower living standard for all people. At a macro level, it is because 70 percent of the world's poor are women. Women have a higher unemployment rate than men in virtually every country and make up the majority of the informal sector of most economies. They constitute the bulk of those who need microfinance services. Giving women access to microcredit loans therefore generates a multiplier effect that increases the impact of a microfinance institution's activities, benefiting multiple generations.

The total loans to MFIs by banks decreased during 2016-17 by 7.2 per cent over the previous year. The loan outstanding against MFIs increased all the subsequent years. It increased by 13.7 per cent and 14.3 per cent in 2015-16 and 2016-17. It is further found that the business models of MFIs in India are becoming urban centric as is indicated by the fact that the share of rural client's base of different states/UTs in 2017 with 2016 has declined, except Assam, Arunachal Pradesh, Nagaland, Jammu & Kashmir and Andaman. The highest increase was in Andaman (267%) followed by Jammu & Kashmir (17 %). The proportion of income generation loan remained same during year 2015 and it increased up to 94 per cent in the year 2017. The indicators relating to overall financial structure such as Return on assets and Return on equity, capital adequacy ratio have increased over this period and found sharp decline in total assets of MFI's.

Objective:

This paper seeks

1. To study the MFI ecosystem in India and its impetus to growth
2. To enunciate the service lent by MFIs to help women in alleviating poverty

Concept of Empowerment

What do we mean by empowerment? Nobel Laureate Amartya Sen (1993) explains that the freedom to lead different types of life is reflected in the person's capability set. The capability of a person depends on a variety of factors, including personal characteristics and social

arrangements. However, the full accounting of individual freedom goes beyond the capabilities of personal living. For example, if we do not have the courage to choose to live in a particular way, even though we could live that way if we so chose, can it be said that we do have the freedom to live that way, i.e. the corresponding capability? Another important point made by Sen (1990) is that for measurement purposes one should focus on certain universally-valued functioning, which relate to the basic fundamentals of survival and well-being regardless of context. Taking the example of universally valued functioning like proper nourishment, good health and shelter, Sen asserts that if there are systematic gender differences in these very basic functioning achievements, they can be taken as an evidence of inequalities in underlying capabilities rather than differences in preferences.

Empowerment can range from personal empowerment that can exist within the existing social order. Thus this kind of empowerment would correspond to the right to make one's own choices, to increased autonomy and to control over economic resources. Empowerment signifies increased participation in decision-making and it is this process through which people feel themselves to be capable of making decisions and the right to do so (Kabeer, 2001).

Malhotra et. al (2002) constructed a list of the most commonly used dimensions of women's empowerment, drawing from the frameworks developed by various authors in different fields of social sciences. Allowing for overlap, these frameworks suggest that women's empowerment needs to occur along multiple dimensions including: economic, socio-cultural, familial/interpersonal, legal, political, and psychological. Since these dimensions cover a broad range of factors, women may be empowered within one of these sub-domains. They give the example of "socio-cultural" dimension which covers a range of empowerment sub-domains, from marriage systems to norms regarding women's physical mobility, to nonfamilial social support systems and networks available to women. The World Bank defines empowerment as "the process of increasing the capacity of individuals or groups to make choices and to transform those choices into desired actions and outcomes.

Table 1.1: MFIs in Karnataka (March 2009)

No of MFIs (HQ) in the State	21
No of MFIs (HQ & branches)	27
Client Outreach	3,229,378
Portfolio Outstanding (in lakh Rs)	2,148
Portfolio Outstanding(in US\$ millions)	457
Number of Districts Served	29 (all)
of which, number of Poorest Districts	10

Source: Sa-Dhan, 2009. Bharat Microfinance Report

Growth and vulnerability for MFIS in Karnataka

Growth and the associated vulnerability of microfinance institutions (MFIs) has become the essence of international microfinance over the past couple of years. Issues emerging from some of the major areas where the vulnerability of MFIs has become manifest have been documented by CGAP in a recently published paper.¹ The countries covered by the paper, Nicaragua, Morocco, Bosnia-Herzegovina and Pakistan have all experienced significant stress resulting from high growth rates and leading to local or national microfinance delinquency crises. To these areas experiencing stress on account of high rates of growth could be added many local delinquency crises (actual or potential) in India, Cambodia, Nepal and a number of other places afflicted by the ongoing "irrational exuberance" of the microfinance industry. This paper examines the delinquency crisis that affected microfinance in some southern districts of Karnataka state in south India in 2009. In common with some other states of India, microfinance in Karnataka has grown at a rapid pace.

With 64% growth in MFI clients during the financial year April 2008 to March 2009 (compared to the national average of 42%), Karnataka was the second fastest growing of the major microfinance states of India (second only to Maharashtra). The number of clients of the 27 MFIs operating in the state had reached 3.2 million by the end of the period. This was in addition to over 3 million members of some 232,000 self help groups (SHGs).² As elsewhere, this growth has not been spread evenly but has been largely concentrated in the more accessible, more densely populated and better developed southern districts of the state. As the CGAP Focus Note explains, MFIs follow other MFIs into local markets so that they can lend to the same borrower groups and benefit from the client acquisition processes undertaken by the early entrants. The CGAP note argues that while competition enables greater efficiency by lowering operating expenses, it undermines credit discipline by providing borrowers with alternatives and opportunities for multiple borrowing that enable them to juggle payments and skip between MFIs to avoid the restraints of rigid payment schedules, defaulting with one while retaining their relationship with another.

MFI's operating in Karnataka

Registered in...	Operating in...	Total	>50,000 clients
Karnataka	Karnataka only	11	2
	Karnataka + other states	8	5
Other states	Other states + Karnataka	8	6
	Total all types	27	13

High potential market for the services of MFIs, by end-2018 there were nine formal microfinance institutions operating in the state. These are

- 1 Asmitha Microfinance
- 2 Bharati Swamukthi Samsthe
- 3 Future Financial Services
- 4 Grameen Financial Services
- 5 Outreach
- 6 RORES Micro-entrepreneur Development Trust
- 7 Sanghamithra Financial Services
- 8 SKS Microfinance
- 9 Spandana Spoorthy Financial Services

Feedback from the benefices

- 1 They charge high rates of interest and deceive people by telling them the flat rate rather than the reducing balance rate of interest. According to him moneylenders charge only 18-24% which is still less than the MFIs' effective rate of interest.
- 2 MFIs lend without really assessing the creditworthiness of the borrowers
- 3 They have unsustainable levels of competition, thereby resulting in over-lending
- 4 MFIs should have agreed to ensure that no borrower has loans of over Rs50,000.

Microfinance and Women Empowerment

Micro-finance programmes not only give women and men access to savings and credit, but reach millions of people worldwide bringing them together regularly in organised groups. Although no 'magic bullet', they are potentially a very significant contribution to gender equality and women's empowerment, as well as pro-poor development and civil society strengthening. Through their contribution to women's ability to earn an income these programmes have potential to initiate a series of 'virtuous spirals' of economic empowerment, increased well-being for women and their families and wider social and political empowerment. Micro finance services and groups involving men also have potential to question and significantly change men's attitudes and behaviours as an essential component of achieving gender equality.

Yet microcredit and microfinance are much more significant than mere vote-pandering. It is a mistake to dismiss as political posturing, any serious attempt by a government to tackle the extreme urban-rural, and indeed gender based inequality. Across the globe, but especially in Asia, and particularly in areas where rural population density is relatively high, microfinance can be an extremely effective poverty reduction tool. Microfinance enterprises can also potentially be very profitable undertakings as excess urban capital is redirected to credit starved rural areas. Although traditional bankers who have become accustomed to talking millions or billions might doubt the impact a few hundred dollars can have, but the "bottom billion" effect makes this area one with huge potential.

Majority of microfinance programmes focus women with a view to empower them. There are varying underlying motivations for pursuing women empowerment. Some argue that women are amongst the poorest and the most vulnerable of the underprivileged and thus helping them should be a priority. A more feminist point of view stresses that an increased access to financial services represent an opening/opportunity for greater empowerment. Such organizations explicitly perceive microfinance as a tool in the fight for the women's rights and independence. Finally, keeping up with the objective of financial viability, an increasing number of microfinance institutions prefer women members as they believe that they are better and more reliable borrowers.

Self-help groups intermediated by microcredit have been shown to have positive effects on women, with some of these impacts being ripple effects. They have played valuable roles in reducing the vulnerability of the poor, through asset creation, income and consumption smoothing, provision of emergency assistance, and empowering and emboldening women by giving them control over assets and increased self-esteem and knowledge (Zaman 2001). Several recent assessment studies have also generally reported positive impacts (Simanowitz and Walker 2002).

Impact of Microfinance-Plus Services

Poverty has many dimensions and can be related to individuals, households, communities, regions and countries. It encompasses many areas, such as food insecurity, malnutrition, illiteracy, ill health, and the lack of entitlements and empowerment. The improvement (combating against poverty) in these aspects of life will lead to welfare of the household. A positive impact of microfinance may be a better education or nutritional status (human capital); accumulation of productive and consumptive assets (Physical capital); female empowerment, development and network with the local organizations, spatial mobility of the women, etc. (social capital). The economic impact of microfinance-plus services on the member households was assessed through the changes in economic variables like – household income, employment, assets, housing conditions and household expenditures, etc.

Conclusion

Microfinance is not a panacea to all problems of poverty. However, it is considered as a vital tool to break the vicious circle of poverty that characterized by low income, low savings and low investment. In order to generate higher incomes, savings and more investment, there is need to inject capital in the form of microfinance.

The empirical evidence in this study showed that ‘microfinanceplus’ services have positively correlated with the improving in household expenditure, income, assets and employment. Microfinance has contributed in improving the access to credit for consumption and productive purposes. Most (formal) institutions regarded low-income households as “too poor to save”. But microfinance programme nullifies the argument and proved that even vulnerable poor can save if he/she has the accessibility and reward from it (Hulme and Mosley, 1996). Generally, the life of poor is often hindered by many contingencies or risks. Insuring against these risks makes people to bear the large uncertain losses with certainty of small and regular payments. Thus, the microfinance-plus services of microfinance introduced the microinsurance services to reduce vulnerability (result of risk and uncertainty) of the poor. The microfinance-plus service of microfinance has tried to bring out the poor (women in particular) from below poverty line and fight against the poverty through deploying the financial and non-financial services. Various skill enhancement trainings and awareness programmes, networking with various institutions, etc, will make the welfare path soften towards poor. The microfinance-plus services of microfinance not only uplifted the poor from income related poverty but also from the knowledge poverty. Hence, easily

accessible and affordable “microfinance-plus services” should be provided to the vulnerable poor who are excluded socially and economically for a long period of time.

Ultimately, the degree of support of the district authorities has been critical in determining the extent to which the MFIs have been able to manage the crisis. In Sidlaghatta and Ramanagaram the MFIs have been able to make some, if slow, progress in managing the situation because of the support of the local authorities and because the lines of communication with local community leaders have been kept open ever since the crisis began. In Kolar, where the crisis first broke, the unsuccessful attempt to appeal directly to the district authorities created a negative impression amongst the community leaders and appears to have retarded attempts to resolve the crisis.

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