

# Issues and challenges of Micro finance and Women Empowerment in Karnataka: An Empirical study

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## Abstract

This paper attempts to study how **Microfinance** enables **women in Karnataka** to start businesses and act on ideas that they would not be able to achieve without a loan. Over the years governments, donors and NGOs have opened and executed programmes aimed at empowering women economically and socially. Microfinance is one such sector which is an impactful medium aimed at reducing poverty, empowering women, and helping them deal with socio-economic disappointments. Microfinance programs in Karnataka have enabled thousands of women to use small sums in creative and successful ways to develop livelihoods, improve their families' well-being, and build up savings. In the current prevailing circumstances of credit crunch, it has however become difficult for Women to access business loans at affordable rates. This is a roadblock for the women entrepreneurs to meaningfully make a difference to their lives.

The main factors that continue to create a roadblock to women entrepreneurs from finding access to funding and capital for their businesses are first, financial institutions. Product and process standardization has led to certainty for the lenders but is often proven that such an approach leads to credit which is inadequate to the livelihood activity. To meet the unmet demand, women tend to borrow from self-help groups, friends, and family or even money lenders. Multiple loans to support a single livelihood leads to defaults. The domestic microfinance sector witnessed a robust double-digit growth of 36 per cent during 12 months ended September 2019, ratings agency ICRA said in a research note. The overall microloan market was reported at Rs 2.9 lakh crore as of September last year on the back of good growth of banks, small finance banks (SFBs) and larger NBFC-MFIs that were relatively well placed on the liquidity front, according to the note. The microfinance sector has witnessed a healthy growth over the years and the industry has evolved over the last two decades, reaching over 25 per cent penetration level in the total addressable market in 2019. It is to note that the biggest target group involved in Karnataka is women in rural areas and account for 99 per cent of the beneficiaries of microfinance in the country. This has further helped bring financial inclusion to millions of rural families. The sector has also been serving a crucial purpose in the Indian economy, which has been driven by many factors. Meanwhile, the Govt of Karnataka and RBI has been closely examining the sector in order to protect borrowers and lenders as a high level of financial risks is involved.

*Key words: Karnataka, RBI, MFI, small finance banks, NBFC, borrowers*

## Introduction

Microfinance is a category of financial services targeting individuals and small businesses who lack access to conventional banking and related services. Microfinance includes microcredit, the provision of small loans to poor clients; savings and checking accounts; microinsurance; and payment systems, among other services. Microfinance services are designed to reach excluded customers, usually poorer population segments, possibly socially marginalized, or geographically more isolated, and to help them become self-sufficient.

Microfinance initially had a limited definition: the provision of microloans to poor entrepreneurs and small businesses lacking access to credit. The two main mechanisms for the delivery of financial services to such clients were: (1) relationship-based banking for individual entrepreneurs and small businesses; and (2) group-based models, where several entrepreneurs come together to apply for loans and other services as a group. Over time, microfinance has emerged as a larger movement whose object is: "a world in which as everyone, especially the poor and socially marginalized people and households have access to a wide range of affordable, high quality financial products and services, including not just credit but also savings, insurance, payment services, and fund transfers."

Proponents of microfinance often claim that such access will help poor people out of poverty, including participants in the Microcredit Summit Campaign. For many, microfinance is a way to promote economic development, employment and growth through the support of micro-entrepreneurs and small businesses; for others it is a way for the poor to manage their finances more effectively and take advantage of economic opportunities while managing the risks. Critics often point to some of the ills of micro-credit that can create indebtedness. Many studies have tried to assess its impacts.

New research in the area of microfinance call for better understanding of the microfinance ecosystem so that the microfinance institutions and other facilitators can formulate sustainable strategies that will help create social benefits through better service delivery to the low-income population . Microfinance Stipulations are through "Qualifying Asset" norm of RBI for the microfinance sector. In the microfinance sector, NBFC/NBFC MFIs and u/s 8 companies are qualified, by virtue of the definition of "credit institutions" of Credit Information Company (Regulation) Act to upload the borrower level data on Credit Information Bureau. Till this point, the industry seems very appropriate and apt. The devil is in the details. Indian microfinance is extremely complex. There are different legal forms active in the markets i.e. Banks (commercial, Cooperative Banks, RRBs, SFBs etc), NBFCs, NBFC MFIs, U/S 8 companies, societies,

trusts, cooperatives etc. NBFC and NBFC MFIs are "For Profit" segment and U/S 8 companies, societies, trusts, cooperatives are "Not-For-Profit" segment. There are diverse models, Self Help Groups, Joint Liability Groups, Individual, Limited Liability JLGs, etc. There is no uniform regulation for the microfinance sector, NBFC and NBFC MFIs are directly regulated for microfinance operations; u/s 8 companies are finance companies operate with the special dispensation of not to register with RBI; Societies, Trusts, Cooperatives Societies are guided by different acts as per their registration, however, follows all the norms meant for NBFC MFIs to access bank finance, especially Priority Sector Lending; banks are regulated but do not come under the direct regulation for microfinance operation i.e. do not have to follow the guidelines for NBFC and NBFC MFIs. Despite agencies with different legal forms having financial operations, only NBFCs NBFC MFIs and Banks (cooperative banks are not submitting microfinance portfolio) are entitled to upload borrower level data on CIBs. Point to be noted over here all these institutions are working in the same geographies and the poor people can be a member of all of these groups.

The microfinance industry's gross loan portfolio (GLP) stood at ₹1,87,386 crore at the end of March, up 38 per cent year-on-year, said a MFIN report. Today, Microfinance allows the provision of financial services to low-income clients or solidarity lending groups, including consumers and the self-employed, who lack convenient access to banking and related services. It not only helped out in eradicating poverty but also improving the standard of living. All Microfinance Institutions (MFIs) today either function as an NGO registered under societies or trusts, Section 25 companies and Non-Banking Financial Companies (NBFCs). Apart from these, the local political leaders are taking advantages of the non-inclusive nature of the policy framework. They are tweaking the information, misinforming the borrowers and influencing repayment in a substantially negative way. In recent times some of the areas of Assam, Tamil Nadu, Maharashtra, Uttar Pradesh and other this trend is ongoing and it is pernicious for the sector. As because there is no strong overarching policy architecture for microfinance industry the briefing to the other stakeholders and interested parties, on the industry, is not strong and incomplete. Over 3,300 microfinance institutions reached 133 million clients with a microloan in 2006. 93 million of the clients were among the poorest when they took their first loan. 85 percent of these poorest clients were women. Microcredit Summit Campaign Report 2007 Microcredit plays a critical role in empowering women, helps deliver newfound respect, independence, and participation for women in their communities and in their households. ILO Director-General Women workers throughout the world contribute to the economic growth and sustainable livelihoods of their families and communities. Microfinance helps empower women from poor households to make this contribution. Microfinance — the provision of financial services to the poor in a sustainable manner — utilizes credit, savings and other products such as microinsurance to help families take advantage of income-generating activities and better cope with risk. Women particularly benefit from microfinance as many microfinance institutions (MFIs) target female

clients. Microfinance services lead to women's empowerment by positively influencing women's decision-making power and enhancing their overall socio-economic status. By the end of 2006, microfinance services had reached over 79 million of the poorest women in the world .

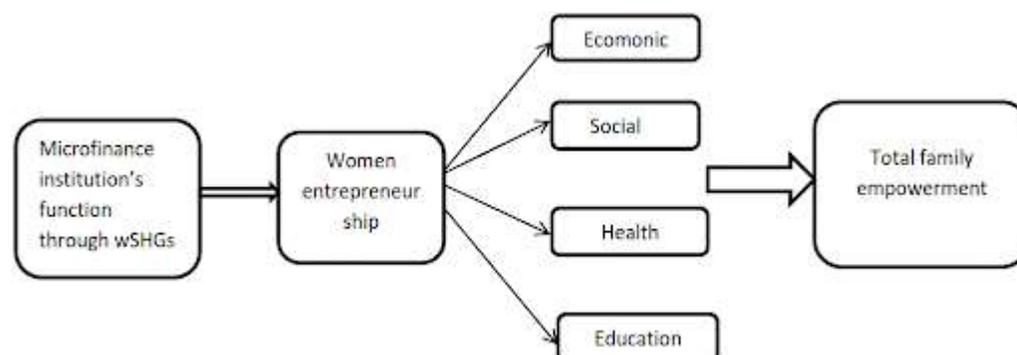
As such, microfinance has the potential to make a significant contribution to gender equality and promote sustainable livelihoods and better working conditions for women. Women's empowerment through microfinance is key for promoting the International Labour Organization's (ILOs) Decent Work Agenda, which acknowledges the central role of work in people's lives as a means for achieving equitable, inclusive and sustainable development. By increasing women's access to financial services, microfinance ultimately contributes to ILO core values of greater gender equality and nondiscrimination. In such scenarios, lenders often want to be "first in the line" to collect repayments. The microfinance industry in India, which has helped bring financial inclusion to millions of rural families and women, will need an additional capital of up to over Rs 5,000 crore to meet the target of 25-30 per cent growth per year for the next three years.

### Objective:

This paper intends to explore and analyze The **microfinance** revolution has transformed access to **financial instruments in Karnataka for women**; given the men's appropriation of women's loan and socio-cultural barriers, microfinance proves to be potent to empower women.

### Why Target Women: Reality of the MFI sector in Karnataka

The total number of microfinance accounts was 9.33 crore at the end of March 2019, showing a growth of 21.9 per cent, said Microfinance Institutions Network (MFIN), an RBI-recognised self-regulatory organisation and industry association of the microfinance industry. Non-Banking Finance Company-Microfinance Institutions (NBFC-MFIs) hold the largest share of portfolio in micro-credit with the total loan outstanding of ₹68,868 crore, which is 36.8 per cent of total micro-credit universe. As on March 31, 2019, aggregated GLP of NBFC-MFIs stood at ₹68,207 crore, 47 per cent year-on-year growth compared to March 2018, said MFIN. In 2018-19, microfinance in India showed rapid, regionally-balanced and resilient growth



Seventy percent of the world's poor are women. Yet traditionally women have been disadvantaged in access to credit and other financial services. Commercial banks often focus on men and formal businesses, neglecting the women who make up a large and growing segment of the informal economy. Microfinance on the other hand often targets women, in some cases exclusively. Female clients represent eighty-five percent of the poorest microfinance clients reached . Therefore, targeting women borrowers makes sense from a public policy standpoint. The business case for focusing on female clients is substantial, as women clients register higher repayment rates. They also contribute larger portions of their income to household consumption than their male counterparts. There is thus a strong business and public policy case for targeting female borrowers. Children of women microfinance borrowers also reap the benefits, as there is an increased likelihood of full-time school enrolment and lower drop-out rates. Studies show that new incomes generated from microenterprises are often first invested in children's education, particularly benefiting girls.

Households of microfinance clients appear to have better health practices and nutrition than other households . Positive environmental impact is also achievable as microfinance programmes may support green jobs and renewable energy systems . Microfinance therefore makes a strong contribution to the realisation of the Millennium Development Goals.

### **Avoiding Undesired Consequences**

Although the positive impact of microfinance on women's empowerment is evident, microfinance providers must also be cautious to avoid possible negative outcomes. Studies have shown that women sometimes have little or no control over their loan, with the husband or male family member making all decisions . Moreover, differences in literacy, property rights and social attitudes about women may limit impact outside of the immediate household. Residents of rural areas specifically continue to have difficulties in accessing microfinance. Women may also struggle with the heavier workload created by the responsibility for loan repayment. Changes in the access to finance influence the distribution of working time between men and women in the same household and between activities yielding different returns . Evidence suggests that up to a point microcredit increases the workload of women and girls, perhaps offset by more equality in household decision-making . From an institutional standpoint, MFIs may decrease the percentage of women clients as they move upmarket in search of better financial returns or even transform into commercial banks. The proven business case for targeting female borrowers must therefore be emphasized, while at the same time strengthening MFI strategies for reaching women.

### **Strategies for advancing gender equality through microfinance**

Strategies to facilitate positive impact on women form a basis for tailoring microfinance policies, practices and products to better address gender equality and promote women's empowerment. Internal MFI gender mainstreaming

♣ Crucial components of a proactive women's empowerment strategy include training on gender analysis for MFI staff members, the utilization of female loan officers and the provision of equal employment and management opportunities for women. MFIs should also incorporate empowerment indicators, such as the proportion of women clients in the loan and savings portfolio, into client monitoring and assessment processes. Adjusting financial services to better address women's needs

♣ Microfinance products generate different outcomes for men and women. MFIs should therefore tailor product specifications, such as loan amounts and repayment schedules, to diverse client needs. Individual loan products designed for women are also important for enabling enterprise growth.

♣ Savings products designed for women are a fundamental element of risk management. A diversified MFI product offer should also include other financial services that help reduce vulnerability, such as microinsurance.

♣ Adjusting collateral requirements and encouraging the registration of property in women's names are other essential components of gendered microfinance.

Non-financial services ♣ Non-financial services with conditionalities to credit access, such as carefully designed adult literacy and business training programmes, can facilitate women's access to better jobs and income-generating opportunities and are perhaps the most effective means of promoting gender equality. External marketing for community awareness

♣ Marketing campaigns directed at women can positively influence both men and women's attitudes on women's status and employment in the community by helping male community members to accept economic opportunities for women, by building women's self-confidence and by facilitating community approval of women's projects. Groups to strengthen women's networks

♣ MFI women's groups should be utilized to promote and strengthen women's networks and not merely as a means of lowering programme costs. Women's groups are useful vehicles for non-financial service delivery, such as literacy and health programmes.

Groups also encourage linkages between women and other active community associations and the larger civil society network as a whole. Women's empowerment through microfinance is an essential component of promoting the International Labour Organization's Decent Work Agenda. The Social Finance Programme (SFP) is the ILO's focal point for microfinance. Operating via a Social Finance Network across all sectors and regions, the SFP contributes to achieving gender equality and women's empowerment through the promotion of more inclusive financial systems. The SFP's Microfinance for Decent Work action research aims to reduce vulnerability, invest in job creation and strengthen social partners' capacity to improve access to financial services. The SFP also works in cooperation with the Gates Foundation to manage the Microinsurance Innovation Facility, an experimental programme

designed to improve men and women's ability to cope and mitigate risk through microinsurance. The ILO Bureau for Gender Equality supports policies and programmes throughout the organization that promote gender equality and lead to women's empowerment. The ILO STEP\* programme researches microinsurance schemes in an effort to develop social protection for the poor. The WEDGE\*\* team, part of ILO's Small Enterprise (SEED) programme, works to enhance economic opportunities for women by developing tools and strategies specific to the needs of women entrepreneurs and by working to ensure gender is mainstreamed throughout the programme.

### **Microfinance: Business Correspondence model for women**

Microfinance includes all the initiatives taken by different agencies irrespective of legal forms and models. MFIs and SHGs were there however recently banks are showing interest and mostly operates by Business Correspondence model partnering with MFIs. Other entrants are the P2P NBFCs. Unfortunately, due to the non-inclusive nature of CICR Act, and despite notification from RBI, around 15% of the SHG member level data is being uploaded on CIBs (personal communication), building up of exhaustive data set is a daunting task. Still, in order to understand the market, an effort is being made by pulling together the data from different sources on market share. The available data is on different time frame but has proximity; the data of Not For Profit MFIs is of March 2019; the SHG data is of October 2019 and rest August 2019. There is a challenge to understand the outreach, CIBs have the data on active accounts and in order to remove this challenge the loan outstanding has been taken for a better idea. First, possible over-lending by the banks as they, though catering the same poor population, but do not have to follow the guidelines of RBI for NBFC and NBFC MFIs. The Not For Profit MFIs are also not under direct regulations still considering the capacity of them, they do not have resources for a bigger amount and cross the limit. The question here is if the borrowers in RBI stipulated income category and by considering their repayment capacity the lending to them has been restricted, then why the banks (also other Non-NBFC MFIs) are kept open for investment in the same category of the population with a larger amount, which is defeating the RBI's effort to protect the poor borrowers from overconsumption. Second, because of the constraints emanating from Credit Information Company (Regulation) Act, only banks, NBFCs and NBFC MFIs are uploading data on CIBs, keeping societies, trusts, cooperative societies out. Eventually, there is no strong data on cooperative societies and which can eventually be huge in number. Personal discussion with CIBs revealed that only 15% of the SHG's member level data is uploaded by the banks on CIBs, despite clear instructions from RBI.

So till now, the information provided by CIBs on the indebtedness is not full proof. The question here is once again, why RBI is not notifying all the institutions providing loans to the stipulated income group for uploading data on CIBs. RBI may raise the issue on the authenticity of the data as the other NFP MFIs are not regulated by them; in this situation, they can always work with the SROs for NBFC MFIs for ensuring the authenticity of the data. Third, the genesis of the microfinance sector is through NFP MFIs

also its easy to establish. They have their major presence in the deeper geographies. Despite their positive side, they are not getting support from the banks because they are not regulated by RBI. The fall out of this is first, the NFP MFIs in order to cater to the need of the clients, are sourcing expensive funds from NBFCs resonating to the provisioning of costly credit to the borrowers. Secondly, the income over expenditure of these institutions goes back to the system, somehow the not for profit objective of the microfinance industry is receding. Thirdly setting up of NBFC MFI needs a considerable amount of finance and the predominant supportive condition is not conducive for operations of NFP MFIs, many social-minded entrepreneurs are being prohibited, so this condition is prohibiting new entrants and facilitating monopoly.

The question arises that why the government is not developing a regulatory framework for these institutions which are still out of direct regulation can be facilitated as the regulator of these segment. For example, Uganda has established a regulatory framework for other financial institutions and brought all the financial inclusion under regulation. From the above analysis, it is clear that the Indian microfinance sector is complex and it needs immediate attention of RBI to promulgate exhaustive policy framework primarily to protect the support for poor and financially marginalised people.

In RBI, FIDD is promulgating Priority Sector Lending which is the main source of fund for the microfinance sector, DNBR is regulating the NBFCs and NBFC MFIs which is the largest segment in the microfinance sector, DBR is regulating the banks who are coming as a major disruption in the market probably in a negative way. RBI needs to fix this jigsaw puzzle and put them together and institutionalise committee, as soon as possible, to work on with a major objective to create an apt and inclusive policy framework for the whole microfinance segment.

## **Conclusion**

Derisking has actually been abandoned by MFIs in Karnataka — some of these institutions, wanting to stay safe, stayed in one geography or were confined to one set of borrowers. If a financial, geopolitical or payment strike (as happened in Nicaragua) crisis did hit, many MFIs tended to go under quickly. Then, the cream of the clientele — that the upstarts proved were creditworthy — was taken over by surviving financial institutions. The rest of the clientele was ignored and so, social exclusion happened all over again. Without which, it warns, many MFIs globally could vanish. But the thirst for profit margins may not support experimentation, which is the basis for innovation. Raising interest rates for higher profit can be controversial. Social investors who can fund innovation attempts and who encourage iteration — attempts, failure, retrial. it would be simple to conclude that the most impactful influences that changed the way microfinance industry functions in India is the rapid rate of digitisations. Automotive lending management solutions and other software tools not only speed up the way microfinance is executed, but also leverage the internet penetration in the rural areas. Using tools that streamlines the process of loan

origination and evaluation and adds to the functionalities of the lending platform. Not only does it enhance the overall user experience for the borrower, but it also makes the process simpler for the lending partner as well

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