

# Aligning Micro-loans with Life Cycle Financial Needs of Women

Noopur<sup>1</sup>

Research scholar  
Central University of Karnataka  
Kalaburagi.

Dr.Sujatha Susanna Kumari<sup>D2</sup>

Assistant Professor,  
Central University of Karnataka  
Kalaburagi.

## Abstract

The Sustainable Development Goals 2030 of United Nations has made Gender Equality & Women Empowerment as one of its 17 goals; this shows the inequality faced by women and its significance in economic growth and development. Since independence, India has been continuously trying both at the policy and project implementation level to bring women in the formal financial system. Of many initiatives carried out, two programmes which pioneered financial and social inclusion - Reserve Bank of India's (RBI) initiative in 1992 to reach out to women through Self Help Group model and the recent Jan Dhan Yojana. Efforts of India in microfinance and financial inclusion have received appreciation from all corners. India has improved its financial inclusion position, has reduced its gender gap in financial inclusion to 6% (83% of the men and 77% of women have a bank account). Although, the progress has been positive yet lot needs to be done. Hence continuous innovation in financial products and services is needed to achieve the goals of financial inclusion and reducing the gender gap. This research paper has attempted to analyse one of the financial products - Micro-loan/Credit in the light of life cycle needs of women.

*Keywords: Micro finance, Financial Inclusion, Social Inclusion*

## Introduction

The history of Microfinance in India dates back to 1970s, since then it has undergone a phenomenal growth with more than 100 scheduled banks, 349 Districts Central Co-operative banks, around 45 Non-Banking Finance Companies and over 500 Non-Government Organizations'(NGO) are engaged in promoting Self Help Groups (SHG) for microfinance. The prime objective of government is to make financial products and services available to the unbanked/underbanked, accessible and affordable. Microfinance is defined as "Provision of thrift, credit and other financial services and products of very small amounts to the poor in rural and semi-urban areas for enabling them to raise their income levels and improve living standards." (RBI, 1999)

In the year 1992 RBI's initiative of bank-led microfinance through SHG model has been pioneering towards achieving the goal of financial inclusion. The Financial inclusion Index (of CRISIL) for fiscal 2016 shows financial inclusion has improved significantly in India, with the all-India score rising to 58.0 in the year 2016 from 50.1 of 2013. Though the data clearly shows progress, however there is room for improvement and innovation even after 30 years of microfinance movement in India.

The combined efforts of government, Micro Finance Institutions (MFI) and Non Government Organizations (NGO) have enabled to increase the access of financial services to the remotest area and under-served population. However, it is also evident that, there exists a gap of financial services' availability, accessibility and affordability to the most vulnerable section that is Women.

Over the years, main focus of MFIs has been Agriculture and Small and Medium Enterprises Sector. However, the poor and those in the unorganized sector are considered to be un-bankable and are hence neglected. Especially, women and youth coming from such backgrounds have not received the much-needed attention for fulfilling their credit needs. According to the 2011 census, women constitute about 570 million and youth nearly 331 million of the total population. The need of the hour is to take immediate steps to tap the potential of this huge population to foster economic growth and development of the country.

The unmet financial needs, low range of financial products, constraints in accessing has led to the formation of credit union - working for and by the women. Further it was felt that a bank by and for the women is essential to meet and understand the unique problems and requirement of this section.

Shri Mahila Sewa Sahakari Bank (SEWA) was the first women bank of its kind and also was start of the microfinance movement in India. Though the women banks are few in number, these banks have come up with innovative products and services to increase the outreach of financial access for the female gender. Comprehensive research has been done relating to microfinance, cooperative banks, financial inclusion, social inclusion involving questions such as its emergence, need, importance, influencing factors, measurable indicators. It is now time to research and design innovative financial products for the under-served especially women. This paper has attempted to analyze one of the most essential financial product - 'credit' in the light of the life cycle financial needs and changes in a girl and women's life, and why women banks will be most effective in achieving this objective.

## Objectives

1. To understand the financial needs of women at different stages of their life cycle.
2. Evaluate various types of micro-loans offered by financial institutions to women.
3. To study the significance of Women Banks.

## Literature Review

**Vijay Mahajan (2017)<sup>1</sup>** studied, "The Future of Rural Finance in India" and concluded that we could see a lot of old age poverty, as joint families and the support to the elderly is declining as a social norm. Unless we take some financial steps, we are going to see some unhappy situations 15-20 years from now. The assumption that government or charity will step in and cover everybody is not true. The traditional method

of family financing or government funding or occasional charitable scholarships will not be adequate. As costs go up, these needs will have to be financed through loans from banks and specialized bodies.

**Dr Ajit Kumar (2017)<sup>2</sup>** studied, “Cooperative and Social Innovation in Finance – A Case Study of Mann Deshi Mahila Sahkari Bank (MDMSB)”, found that in one of the product, that is, Cash Credit for Weekly Market Vendors by MDMSB, bank charges higher interest rate than other commercial banks but still the customers preferred their bank reasons being

- bad staff behavior
- delay in processing of loans
- clients opined that they did not believe commercial banks give this type of loan
- Some did not attribute any reason but they said that nobody from commercial bank ever approached them.

The findings of this report clearly suggest that people do not mind paying high interest but they do mind about how they are treated, responded, and provided product keeping in mind the client's convenience. It also highlights an important point that how people have no faith in the traditional commercial banking system.

### **Statement of the Problem**

The life cycle of women in India can be generally categorised into four stages, namely – School, Youth, Adulthood and Old. It has been observed that at every stage of life of women, decisions pertaining to finances (and also personal issues) are taken by the male members of the family. Major reasons for such a practice are – patriarchy, societal norms and financial dependence of women on the male members of the family. Over the years, patriarchy has internalised in our minds and thereby in our society leading to perpetuation of such a practice. This has affected the psyche of women in general leading to low self-esteem further trapping them into dependence on men. Women have been the sufferers. In this era where the issue of ‘Gender Equality’ is receiving the much needed attention it is time to rethink, defy the established norms and empower women. A supporting and encouraging environment for gaining financial independence of women is the need of the hour. Financial Institutions have an important role to play here. There is a need for providing innovative financial products and services with the objective of catering to specific needs of women at every stage of life and towards gaining financial independence. Hence, this study is an attempt towards the direction of making a financial product (Micro – loans) gender specific and accessible.

### **Research Methodology:**

Research design is briefly described as under

**Type of Research:** The present study is a descriptive research. This is an evaluative study to examine micro – loans offered by the financial institutions from the point of view of quality of the financial product and attainment of objectives.

**Population:** All the financial institutions providing microfinance.

**Sampling Method and Sample:** Based on the objective of research purposive sampling method has been adopted in selecting financial institutions. The four financial institutions have been selected for the study.

They are State Bank of India (SBI), Industrial Credit and Investment Corporation of India (ICICI), Bharat Financial Inclusion Ltd., and Shri Mahila Sewa Sahakari Bank (SEWA)

**Sources of Data:** The study entirely depends on secondary data. The data has been collected from the websites of financial institutions, research papers, articles and international reports.

Tables have been used for better representation, understanding and evaluation of secondary data.

### Findings and Discussion:

The choice of micro-loans options presents today mainly focuses on two areas 'Agriculture' and 'Medium and Small Enterprises (MSE)'. The micro-loans have a narrow focus and are not gender specific. Research has found that the life cycle pattern of men and women differ significantly. The financial needs of both the gender differ by magnitude and require evaluative attention to the specific financial need at each stage of women life cycle, specifically those coming from low financial strata, to make the credit not only available but accessible to them.

### Life Cycle Financial Needs of Women

Economic Life Cycle Stages of Women	General Characteristics	Financial Needs	Constraints (Finance/ Research)
<b>School (above 10yrs)</b>	The section of girls covered here are those coming with poor families/ without guardians	The amount of money required is low  The needs vary from basic necessities, school fees,  For a dropout, the amount might be required to start a small business	No customized range of financial products or services available.  No focused research has been done hence non-availability of data
<b>Youth (stepping into employment/marriage)</b>	The girls are of the age group from 21yrs-25rs  Possess logical thinking and reasoning abilities.  Risk takers and hard workers.	The credit requirement here is to improve the standard and quality of life.  Demand credit to invest in income generating assets such as MSME, farming, home	No financial literacy  Lack of motivation and confidence  Fear of taking financial decisions.

	Efforts to create the identity of their own.	construction Health insurance	Established societal norms.
<b>Adulthood(Employment/family life)</b>	Focus shifts from self to children and family well being  Intellectually sharp  Avoid taking risk	Education of children.  Children Marriage expenses  Improve the standard and quality of life  Family health and well being.	Do not get proper guidance on how to get started.  No proper knowledge about the accessibility of credit.
<b>Old (Increase in responsibilities/saving for old age)</b>	Focus on old age security.  Slow learners and risk-averse.	An uninterrupted regular flow of income.  Cremation expenses.  Saving money for the family.	Not enough research has been done  Non -availability of customised financial products

			and services
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**Source:** This table is based on findings and learning from various studies conducted by IFMR-LEAD on the subject of financial literacy.

### Micro - Loans Initiative and Approaches by financial institutions

#### State Bank of India (SBI)- Public Sector Bank

- The disbursement of microcredit is through SHGs' and Joint Liability Groups (JLG)
- At present 5,37,810 women SHGs' are served by SBI
- The Bank provides both Term Loans and Cash Credit limits to SHGs.
- The quantum of the loan depends on the saving corpus of the group. The first loan to a group should not exceed four times the corpus. In the case of repeat loans, higher need based loan can be sanctioned based on its rating score, credit absorption capacity, managerial ability and risk taking ability.
- The Bank provides Term Loan and Cash Credit facility to MFIs / NGOs/Business Associates for on-lending to SHGs / JLGs / Individuals.

(**Source:** SBI website)

#### Industrial Credit and Investment Corporation of India (ICICI) - Private Sector Bank

- The disbursement of microcredit is through SHGs
- Nature of facility: Demand Loan/ Term Loan
- Loan Ticket Size: Rs. 10,000 - Rs. 50,000
- Loan Tenure: Minimum 12 months and Maximum 24 months
- Rate of Interest:
  - Loan Amount - Rs. 15,000 and below - Rate of Interest 25.76%
  - Loan amount - Above Rs. 15,000 - Rate of interest 25.12%
  - Loans Post June 30, 2016 - Rate of interest 22.25% p.a.
- Processing Fees + Charges: No processing fee, foreclosure fee or renewal fee
- Security: No security/ collateral is required. (**Source:** ICICI website)

**Bharat Financial Inclusion Ltd. - Non- Banking Micro Financial Institution**

<b>Product</b>	<b>Features</b>	<b>Benefits</b>
Income Generation Loans (IGL) – Aarambh	<p>Loans range from Rs. 9,100 to Rs. 20,010 for the first loan; subsequent loan amounts determined by past credit history and increased each in set increments up to a maximum of Rs. 29,565</p> <p>Term of the loan is 50weeks with principal and interest payments due on a weekly basis</p> <p>19.75 % annual effective interest rate and processing fee of 1%</p>	Provides self-employed women financial assistance to support their business enterprises, such as raising livestock, running local retail shops called kirana stores, providing tailoring and other assorted trades and services
Mid-Term Loan (MTL) – Vriddhi	<p>Loans range from Rs. 9,100 to Rs. 15,010 for the first loan; subsequent loan amounts determined by past credit history and increased each in set increments up to a maximum of Rs. 15,010</p> <p>Available any time after the completion of 19th weeks &amp; till 46th weeks of an IGL cycle and till 96th week of LTL cycle.</p> <p>Term of the loan is 50 weeks with principal and interest payments due on a weekly basis</p> <p>19.75% annual effective interest rate and processing fee of 1%</p>	Provides self-employed women financial assistance to support their business enterprises, such as raising livestock, running local retail shops called kirana stores, providing tailoring and other assorted trades and services

Long Term Loan (LTL)	<p>Loans range from Rs. 30,915 to Rs. 38,635 for the first cycle loan; subsequent loan amounts determined by past credit history and increased each in set increments up to a maximum of Rs. 49,785</p> <p>Term of the loan is 2 Years 104 weeks with principal and interest payments due on a weekly basis</p> <p>Members must have completed 2 IGL Cycles</p> <p>19.75% annual effective interest rate and 1% processing fee of loan amount disbursed</p>	<p>Provides self-employed women financial assistance to support their business enterprises, such as raising livestock, running local retail shops called kirana stores, providing tailoring and other assorted trades and services</p> <p>To Increase Members Working Capital for their business</p>
Biomass Cook-stove Loan Solar Light Loan Water Purifier Loan Mobile Phone Loan Bicycle Loan Sewing Machine Loan	<p>Loan amount ranges from Rs. 1,799 to Rs. 5,290.</p> <p>Loan tenure is 25 weeks</p> <p>Annualized Interest rate ranges from 19.60 % to 19.70% depending on the product</p>	<p>Loans are offered to members for the purchase of products like cook-stove/ solar light/ water purifier/ mobile phone/ bicycle and sewing machine to enhance their productivity and income generation ability</p>

(Source: Bharat Financial Inclusion Ltd website)

### Shri Mahila Sewa Sahakari Bank (SEWA) - Mahila Bank

- The bank follows the methodology of Banshakti, to first understand the unique problems of each woman.



- It customize the loan depending upon the irregularity of income, unpaid debt installments, number of dependents in the family, number of children working at home, regularity in savings.
- She then notes areas where supplementary help can be provided to the women – access to crèche, to legal services, or to medical attention. Assessing the creditworthiness of a woman whose husband drinks or who is a widow without family support, for example, requires taking into consideration a lot of other factors and making certain allowances.
- A bank facilitator then follows up on the banksathi's recommendation and probes deeper into an applicant's business activities. She notes the level of competition in the business, the family's finances and their productive assets, the woman's entrepreneurial skills, and her overall participation in the Bank's savings programs.
- The other loans provided by the Women banks are housing loans, house repairing loans and Gold secured loans.

### Growth profile of SEWA

Particulars	2016-17	2015-16	2014-15
Number of Members	471653	450000	401322
Loans and Advances (Rs. in Lakhs)	14842	11438	9055.86
Profits (Rs in Lakhs)	366	200	180.79

(Source: SEWA website)

### Evaluation of Micro – loans offered by the financial institutions

The above data depicts the credit products made available by the banks though appear attractive is not accessible by the women. The reasons - no proper delivery channel and no thorough understanding of their peculiar financial needs. The commercial banking system has made efforts in microfinance but its focus has only been restricted to include only those who fit in their designed structure of the product. It has been evident from the research that there is a gap between availability and accessibility. The interest rate, amount availed, eligibility criteria, repayment period though look low, average, simple and feasible still the banking system has failed to diffuse a timely and accessible credit to women in all the corners of India.

Both microfinance institutions and women banks approach has been to first assess financial needs, understand conditions and background of the women and then design a viable product for them. The annual reports and growth of these institutions is an impetus to other financial institutions to bank on this unbanked population for its growth. The life cycle of women is a tool which would help the banks to design better products. Till date, the efforts have been to provide a financial product at a low cost, which needs to be shifted to design a customized financial product considering the life cycle needs.

Women Banks have been successful in recognizing the life cycle needs but not completely, it has not yet ventured into the school stage of life cycle. The banks do not have the products for Old Stage. But their performance in the other two stages has been commendable.

The stage I of the lifecycle covers young girls and children aged >10 years. The Reserve Bank of India permits girls aged >10 years to open bank accounts. But we often observe that usually, not much girls approach banks at this age. This stage also covers young population who does not have guardians to take care of, who both work and educate themselves to survive in this world. The government, researches, and financial institutions should cooperate and work together in designing financial products and an effective delivery channel for this section of the population. It should design programmes and coordinate with various NGOs' to reach out to such children and educate them about the financial services and their benefits. An educated and financially independent youth can take the development of a country to newer heights.

Stage IV of the life cycle covers population of senior citizens aged above 60 years. At this stage, people get dependent upon another person both financially and physically, so it is very important to pay attention to this stratum of the population to make them financially independent. Products should be designed to make sure there is a regular flow of cash in their old age. But for this one needs to start saving at an early age, which most of the people neglect and hence the institutions should be patient to not only design but also encourage and literate women about the financial products available.

The research has found that there is a gap between availability and accessibility. Almost all the banks provide micro-loans, but people are not aware of it. The onus here is on the banks to reach out to these people, as most of the women do not approach banks because of the nature of work they do, it is almost impossible for them to find time and get information about various financial products. It has been also observed that commercial bank officials are not friendly and behave badly with them, hence this highlights that bank management should sensitize its employees and give them proper training in this regard. The bank management should prioritize and work towards gaining trust from people by working towards the betterment of society

The other significant factors which require equivalent attention from the financial institutions are

- Financial Literacy
  - Active financial accounts
  - Saving pattern.
- (i) The learning abilities at the various stages should be kept in mind while designing the Financial Literacy programmes.
  - (ii) It has to understand that only having a financial account is not enough to measure financial inclusion, it needs to make constant efforts to keep these accounts active by timely collecting the relevant data and study the reasons for keeping accounts inactive.
  - (iii) The credit products cannot turn out beneficial to both the parties until its customers develop habit of saving and save it in the bank accounts.

## Conclusion

The financial needs of women at different stages of life keep changing. Hence, it essential to first understand the women financial needs, capabilities, and then design accessible and affordable products. The financial institutions should design a quality financial product and work towards optimum utilization of infrastructure and resources with a vision of inclusion of women in economic growth and development of the country. The onus here is on the banks to reach out to these people, as most of the women hesitate and do not approach banks for the financial support. The commercial banks should design an efficient delivery channel and study the life cycle of women to understand the unique financial needs so that new financial products could be designed and quality of the existing products can be enhanced. Emphasis is made on the role Women Banks in aligning microloans with life cycle needs of women, as reach of these banks to the women community is more than the commercial banks. The understanding of Women Banks about the financial needs of women is more accurate; as they timely collect data regarding financial products and its accessibility, specific to women. Hence their role is significant in this regard.

## Limitation of the study

- Only one bank from each category of financial institutions is taken under this study, considering the limited time period.
- The financial institutions are conveniently selected as it was found, data related to "Micro-loan Products" provided by the banks was either not available or no complete information was available on respective bank websites.
- The study has given more importance to rural women and women coming from the unorganized sector whereas reality is urban women also require similar attention.

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