GENDER AND ECONOMIC POLICY DISCUSSION FORUM

Report on Discussion Forum I: "Is Micro-finance at the crossroads in India? What does it mean for women's Livelihood concerns?"
28 March 2012, India Habitat Centre

The Gender and Economic Policy Discussion forum organized by the Institute of Social Studies Trust (ISST) in association with the Heinrich Böll Foundation, got off to a good start with the first discussion on, "Is Micro-finance at the crossroads in India? What does it mean for women's Livelihood concerns? '

The Director- India Office of Heinrich Böll Foundation, **Dr Axel Harneit-Sievers**, rightly commented on the historically obvious link between micro-finance and gender and the overall need to link the two worlds of gender and economic policy. The discussion saw some of the best theorists and practioners ranging from government to non-government sides of the Micro- Finance (MF) sector come to a common platform and put together their views and critiques for the sector. The panelists included- Ms Vijayalakshmi Das: Managing Director and Promoter Director of Ananya Finance for Inclusive Growth (P) Limited, Mr. Vijay Mahajan: CEO and Chairman of BASIX Group, Mr. Mathew Titus: Executive Director of Sa-Dhan and Mr Anand Sinha: Deputy Governor RBI. The key note address was given by Mr Jairam Ramesh, Minister Rural development, Drinking water and Sanitation.

Drawing on the historical formation of Micro-Finance and need for flexibility in micro-lending models, **Ms Vijayalakshmi Das**, the Managing Director and Promoter Director of Ananya Finance for Inclusive Growth (P) Limited, drew attention upon the need to design micro-finance products that will cater to the specific and timely needs of the women borrowers of the sector. The necessity to make women borrowers managers of financial services products rather than have the Micro-finance Institutions (MFI) dump a mono-product which would be of little use to them was recognized. Ms Das traced the growth of the MF sector, starting from an initial period of growth in most parts of the country, to commercialization of MF to the present crisis.

The importance of micro-finance in women's lives especially in terms of confidence building and leadership cannot be over-estimated. Assessing the impact of micro-finance on women's lives, Ms Das highlighted the positive and the negative features of the MF system. On the positive front, micro-financing had given women a larger say in financial management of households and raised their status within the family. By engaging in micro-finance activity women have been able to link their household to other financial services such as insurance and pension. Noting some of the disappointments from MF sector, Ms Das said MFIs started off as facilitators but they are now increasingly getting directly involved leading to reduced participation of the women borrowers in deciding the kind of financial services they need. She also noted that less money had been put in building knowledge-skill and participatory methods for the women borrowers. Ms Das opined that it would be wrong to assume that MF alone is responsible for empowering women; gender mainstreaming is beyond providing financial services or banking alone and such an attempt demands synergy of a lot of players from the development sector. For women borrowers who have specific, unconventional yet not static needs and most of the times are engaged in low profit making economic activity, this multi-level play is important.

Empirical evidence suggests only 20% to 30 % of women borrowers of micro-credit make it to the entrepreneur level; the remaining 70% to 80% still need access to financial services. Any micro-finance product that has to reach women will have to be a flexible one, designed by using imagination for situational reality of the borrower, so that the needs of women get effectively addressed such the products can help women borrowers move to having a sustainable livelihood for a comfortable life.

Mr Vijay Mahajan, CEO and Chairman of BASIX Group, highlighted the need to go beyond providing mere finance services to livelihood sustenance programme and, to customization of loan products to empower women. Expressing concern over poor availability of credit service and inappropriate loan products for- agriculture, animal husbandry, handicraft/household industry, small trading and local services, which are the most widely practiced economic activities by the rural women in India. Mr Mahajan critiqued the MF sector for its non-responsive attitude to the plight of the low-income earning credit borrowers.

The common practice in micro-finance lending of insisting on weekly or monthly repayments of loans is out of sync with the processes and time period taken for ready product in activities like agriculture and animal husbandry, which involves a major junk of rural and poor population, that have a longer product cycle. Mr Mahajan pointed that right from the beginning his MFI, BASIX designed products that would take into consideration the nature of repayment possible by a farmer. However, BASIX hardly accounts for 2% of the MF sector.

Talking on bank linked SHGs, Mr Mahajan explained that the linking of SHGs to banks has put pressure on SHGs, who ultimately lend the money to borrowers, to make repayments within the time period dictated by banks, while prior to this linkage SHGs followed a flexible and customized lending process. The difficulty in dealing with multiple loan products is another reason for the vanishing biodiversity of loan products from the MF sector. Petty trading activities, where most micro-credit practices are exercised, show a mismatch in the cash-flow and micro-credit cycle, pointing to the need to tailor micro-finance products to better suit the economic activity of the clients. Hence, not only the problem of shortage of credit needed to be looked into but also inappropriateness of the loan products and the channels needed the same. It was also suggested that if borrowers, especially the women borrowers who mostly engage in petty trade that yielding to low net income, were to be brought out of the poverty cycle then availability of lumpy credit was must. This must be incorporated as an option in the range of micro-credit loan options.

Thus, if the MF sector was serious about empowerment of women in the economic sense, then the concerned practioners had to confront the detailed flaws of whole micro-finance system in terms of products, processes and capital inadequacy. It must, however, be clarified that availability of credit alone does not promote livelihood, and if our interest is in ensuring women to have steadier income streams with low risk and high returns, then the MF sector has to go beyond the world of mere finance to a more development sector approach. These additional sector linkages under the development approach may include insurance services, technical expertise for quality and quantity improvement and market linkages etc for over all competence, which is way beyond the world of finance but very much within the world of livelihood creation and promotion.

Remarking on the poor quality of agriculture extension services in the country, Mr Mahajan spoke of the need to strengthen this service to help women agriculturists who is left behind in villages due to migration of male farmers and low attraction of young rural men towards agri-based work. He, based on findings of a study by Nirantar, argued that if household income has to rise, it is inevitable that women in that process of income generation will get over-burdened by additional economic activity besides their regular household chores.

Mr. Mathew Titus, Executive Director, Sa-Dhan, an Association of Community Development Finance Institutions, minced no words in saying MF sector is in the doldrums. Nonetheless he also urged for recognizing the contributions of the MF sector in increasing credit access and flow to the marginalized. In terms of its regional spread, MF is now slowly moving towards the east and the north from its original base in southern and western India. In fact the share of the West in micro-finance had come down considerably. While there are numerous entities working in the MF sector, such as those that come under Section 25 of the Companies Act, Trusts, Societies, local Banks and Cooperatives, the discourse on MF sector is dominated by for-profit entities.

Mr Titus highlighted the need to handle the increasing incidence of non-performing assets (NPA) in the MF sector. The new Priority Sector Report suggests 48% of the NPAs are from the priority sector even though the sector accounts for only 31% of banks' advances. If the NPA keep rising, then at some point the RBI will have to step-in, regardless of the origin of the NPAs. Mr Titus as well reiterated the inefficiency of single-model loan offered by MFIs on the grounds that in a country like India- with diverse economic practices and lifestyles required different and multiple kind of financial products. He emphasized the need to have a longer term plan for the MF sector saying the poor need systematic and professional solutions to the challenges that they face. People from the rural and poor economic background are increasingly saving in non-financial instruments and they need to be weaned away from such products to saving in financial instruments.

Deputy Governor RBI, **Mr Anand Sinha,** spoke of the Malegam Committee report and clarified that the need for Central bank regulation arose only because of the failure of MF sector's self-regulation. RBI's aim in regulating the MFIs is to ensure sustained financial stability to the crisis-hit sector. These regulations by definition will be restrictive in nature. While the geographical spread of the MF sector makes microscopic-supervision of the sector a difficult task for RBI, regulation of the sector is most crucial to bring stability in the present MF sector environment.

Touching upon the SHG-banks linkage, Mr Sinha noted that while SHG linked banks have been expanded and deepened in many regions of the country, delinquency levels in the MF sector have also increased affecting the recovery rate, in turn posing a problem to the banks that have been lending to MFIs. The past irrational exuberance of MFIs with a sole interest in rapid growth, high returns, aggressive loan recovery and not taking cognizance of the vulnerability of the borrowers cannot continue. In the past excessive competiveness in the MFI sector resulted in more than one MFI chasing the same borrower and luring them with attractive loans without thinking of the consequences on the repayment ability of the individual borrower.

Recognizing the plight of the MFIs due to the transition from the past self-regulatory model to the recent one envisaged by the Malegam committee, eg the guidelines on credit adequacy and capital adequacy of MFIs, Mr Sinha reassured the practioners that the RBI was looking into their concern. Along the with the newly introduced MFI guidelines, there is a growing need for a strong credit information bureau. These credit-information bureaus would remove the information asymmetry, which in the past, due to the absence of such companies, was creating a major gap in assessing the potential and problems of the sector. The availability of credit-information will help not only MFIs but will strengthen the financial system as a whole. Without individual identity it has been very difficult for credit-information companies to function. However, with the coming of Aadhaar/the Unique Identity (UID) card the problems of irregularities and documentation of individual's identity information will be resolved.

The Malegam Committee had curtailed the overall domino-effect of the Andhra Pradesh crisis. The MFI regulation and development Bill 2011 goes against some of the RBI's convictions but if the Parliament in its wisdom goes ahead with it, the Bank will fall in line. While role of MFI cannot be undermined, the sector must apply restraint and self-regulation with an overall objective of responsible finance services.

The poorer sections of the population require hand-holding through input supply, training, technical support, market support, and such services require us to go beyond financial services and regulations. There is a need to look into strengthening institutional development services, all of which would require a greater role for the Government.

Sustainable financial inclusion is achievable through mainstream financial institutions, i.e. banks, however, the penetration of banks has been low and they have not been able to reach a large number of villages in the country yet. The model that RBI has adopted for financial inclusion is bank-led and has three components, namely savings, small-loans with savings and remittance facilities. So institutions that spearhead financial inclusion should include all the three financial services. Since the RBI is averse to non-banks taking deposits, therefore, according to the current regulatory philosophy, true financial inclusion can be done only through banks. Nonetheless, this philosophy does not undermine the role of MFIs in providing services to vulnerable sections of the population; they have a complementary role to play in the financial system.

It is critical to analyze the role of micro-finance in livelihood creation and sustenance for women in the country as women have been the largest beneficiaries of the MF movement and form 85% of the SHGs in the country and 75.5% of SHG savings with banks. It is also well established that women's empowerment improves family welfare and results in overall development of society. The crisis which has resulted in low lending credit flow and widening of the credit availability gap, will affect these women borrowers directly. Over-burdened by loans and subsequent non-repayment, women are likely to get trapped, once again, in the cycle of debt under unorganized local money lenders charging unaffordable interest.

The introduction of regulatory guidelines is only a starting point in order to contain the present MFI crisis. Responding to the need of having customized loans, Mr Sinha said that customization of loans that are given by banks to SHGs for the individual SHG members is a difficult task, although customization of credit products, for the individual borrower, was possible under MFI lending to JSGs and individuals beyond JSGs. The rise of NPAs in SHGs is an indicator of trouble, and the reason for failure of such joint liability must be addressed. To tackle the concern of migrants' financial inclusion, know you customer (KYC) guidelines have been relaxed so as to enable migrant labourers to have a unique identity; Aadhaar may be the starting point for that.

Giving the key note address, **Mr Jairam Ramesh**, Minister for Rural Development, argued that SHGs and MFI are not competitive but complementary institutions. The advantage that MFIs have over bank-linked SHGs is that the MFIs have been able to tailor products depending on the need/the time required in repayment by a borrower. The bank linked SHGs, due to their inherent structure, have not been able to have the relative MFI flexibility even though it is desirable in bank-linked SHGs as well. On the other hand, SHGs are not mere JAGs; they are institutions of social capital building, especially in the case of women. SHGs have taken on functions which are beyond borrowing. In such a case it would be desirable to create an environment for convergence functioning of these two institutions.

The roll out of the Aadhaar initiative and availability of UID on a large scale will provide access to the formal banking network, for which MFI was seen earlier as an alternative. The availability of UID redraws the architecture of financial inclusion, and also other government schemes such MGNREGAs, pension etc., for which UID must be made available to all Indians without exclusion.

What the UID does to the traditional MFI model remains to be seen. The need for effective supervision is also relevant to build a more sound regulatory apparatus for the MFIs. Mr Ramesh added that the expansion of bank-linked-SHGs will depend upon the availability of funds with banks and also the banking sector infrastructure. The government has taken on the task of expansion of the bank-linked SHG movement. It is going for enrollment of around seven crore women with a view to enabling one women of every BPL household to be associated to bank-linked SHGs.

The government, Mr Ramesh added, is also mandating a federation structure for SHGs –at the village level, the block level and district level, in hope that this federation will build up scale as far as SHGs are concerned. There is a need to create anchors, especially economic anchors, for the SHGs to become self-sustaining organisations.

Key takeaways emerging from the Gender and Economic Policy Discussion Forum: 28 March 2012, India Habitat Centre

Is Micro-finance at the crossroads in India? What does it mean for women's Livelihood concerns?

- **Need to customize loan products that will suit the need and time required for repayment by the borrower.**
- **Need to go beyond the world of finance to other aspects of development in order promote overall well-being through sustainable livelihood of borrowers.**
- **Need to build supportive systems such as IT, UID for smooth functioning and expansion of micro-finance services in the country.**
- **Need to urgently address the issue of increasing number of NPAs in both MFIs and SHGs.**
- **Need to implement the Malegam Committee regulatory guidelines in order to restore credibility to the MF sector.**
- **Need to allow alternate models of delivery to achieve the aim of financial inclusion.**
- **Need to recognize that MFI-SHG models are complementary to each other.**
- **Given the high degree of participation by women's in SHGs, there is a need to make SHGs self-sustaining.**

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