Gender and Economic Policy Discussion Forum

Is Micro-Finance at the Crossroads in India? What does it mean for Women's Livelihood Concerns?[1]

FORUM I | 28 MARCH 2012 BRIEFING NOTE 1

HIGHLIGHTS/ KEY POINTS

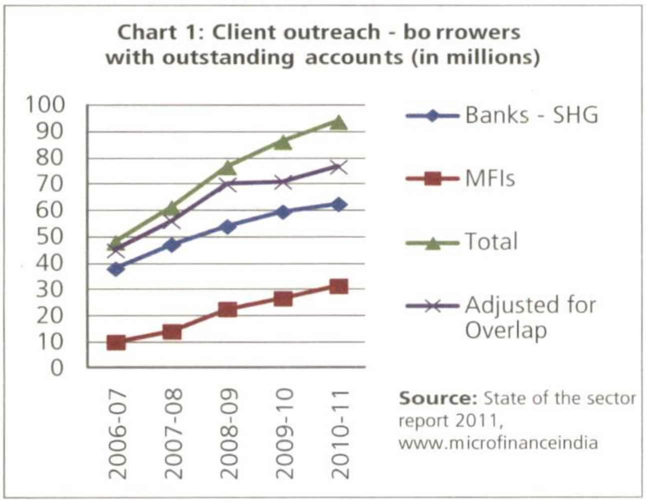
There is a need to

- Customize loan products that will suit the need and time required for repayment by the borrower.
- Go beyond the world of finance to other aspects of development in order to promote overall well-being through sustainable livelihood for borrowers.
- Build supportive systems such as IT, UID for smooth functioning and expansion of micro-finance services in the country.
- Urgently address the issue of increasing number of NPAs in both MFIs and SBLP.
- Implement the Malegam Committee regulatory guidelines in order to restore credibility to the MF sector.
- Allow alternate models of delivery to achieve the aim of financial inclusion.
- Recognize that MFI-SHG models are complementary to each other.
- Make SHGs self-sustaining given the high degree of participation by women in SHGs.

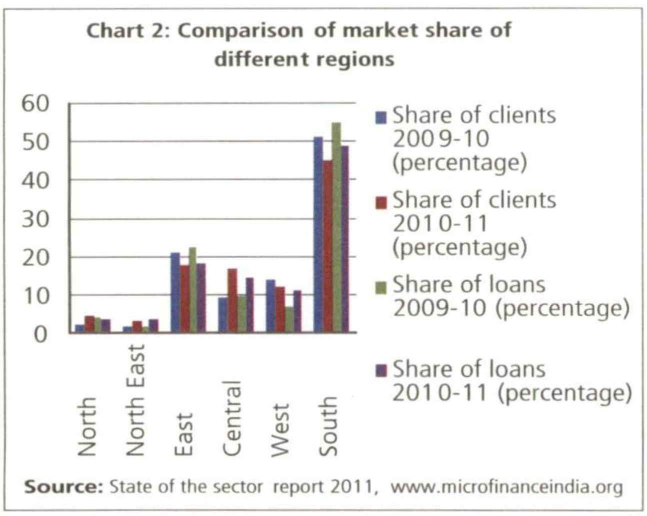
Microfinance and Women: a brief overview

In the 1980s, India witnessed an impressive growth in the microfinance sector. This growth was also marked by optimism as it was often advocated as the solution to India's enormous poverty related problems and a way to empower women. Micro finance institutes (MFIs) could provide access to the much needed financial services and support to a large section of poor, especially poor women, who for various social and economic reasons could not access formal financial services offered by banks. Microfinance activities are under taken by organizations that are registered under several legal forms, such as societies, public trust, non-profit companies, or for-profit MFIs like Non-Banking Financial Companies (NBFCs). MFIs often finance small scale economic activities and provide financial support to women through self help groups (SHGs) of women. Additionally, in 1992, with the initiative of National Bank for Agriculture and Rural Development (NABARD), the SHGs – bank linkage programme (SBLP) was launched, that further spread the outreach of financial services to poor women through formal banks. According to NABARD, this initiative has enabled about 97 million poor households, to access financial services from the banking system[2]. The NABARD report on the Status of Microfinance Sector 2011-12, adds that, "the institutional credit outstanding against the SHGs as at the end of March 2011 exceeded Rs. 31,200 crore – an experiment which has no parallel anywhere else in the world."[3] Thus, microfinance services have been reaching the poor in India, mainly through two ways, the MFIs and the SBLP.

The microfinance sector in India has been dominated by the SBLP. As can be seen from the chart 1 below, the client outreach of the SBLP was almost 80 percent in 2006-07 and maintained its dominance in the year 2010-11. However, the MFIs have been gradually increasing their share of client outreach, by posting a higher growth rate of 17.6% compared to 4.9% by SBLP. After the adjustment for overlap of clients between MFIs and SBLP, the overall increase in the client base has been 8.0%.



The microfinance sector has not spread evenly across India. As can be noted from the chart 2 below, microfinance mainly concentrates in the southern region with 48.9% of share of loans in 2010-11. The lowest share of loans in percentage was from the northern and north – eastern region of the country.



Microfinance and its Impact on Women

The stated objective of MFIs and the SBLP is, to benefit poor women by providing them access to credit and supporting income generating activities. In other words, availability of micro finance services is positively linked with promotion of women's empowerment. Several studies have been published, that have substantiated this link between the availability and access to finance, and empowerment of women. Hashemi et.al (1996) observed, that access to credit increased asset holdings of women, led to better purchasing power, improved women's political participation, and resulted in higher mobility. Holvoet (2005) found, that when microfinance is channeled through groups, it strengthened women's decision making powers and over a period of time, turned them into social change makers. However, the literature recognizes that the concept 'empowerment' involves multiple complexities[4], and cannot be achieved singularly with access to finance. Some studies also point out to the dangers involved in microfinance programmes, for instance, Mayoux (1997) shows that, women benefit from microfinance, but their increase in income may be accompanied with increased work pressure and stress of loan repayment. She further observes, that sometimes loans taken by women are utilized by men in the family to invest in enterprises, and in turn employ women as unpaid workers. Nonetheless, microfinance is an important enabling factor that often results in better opportunities and choices for women to exercise.

MFIs and SBLP have been supporting women in their micro income generating activities. These income generating activities range from, agricultural production, animal husbandry, household manufacturing, and trade. It is assumed that the SBLP, with its extensive outreach, has the potential to provide financial services to the hitherto unbanked population of the rural poor, particularly women. According to the NABARD report, 53.4 % of the total rural households are members of the SBLP, with a much higher percentage of outreach in the rural south. It can be observed from Table 1 below, that of the total SHGs, the percentage share of women SHGs as the recipient of SBPL largely dominates. However, one can see that there has been a decline in the bank loans disbursed to women SHGs by 2.77 percentage points in 2011 from that in 2010, presenting a negative growth. "Again it is observed from the data (NABARD) that, with regard to amount of saving with banks percentage of women SHGs has increased from 1.46 per cent in 2009-10 to 17.8 per cent in 2011. But as regards to the growth in amount of loan disbursement to SHGs, the data shows a continuous declining trend from 40.8 per cent in 2008-09 to 18.1 per cent in 2009-10 and 1.6 per cent in 2010-11."[5]

Table 1: Position of Womens SHGs (in Lakh)

Particulars	Year	Total SHGs	Women SHGs	% of Women SHGs to total SHGs
Saving Linked of SHGs	2010	69.53	53.1	76.37
	2011	74.62	60.98	81.72
	% Growth	(7.32)	(14.84)	
Bank Loans disbursed to SHGs	2010	15.87	12.94	81.54
	2011	11.69	10.17	85.03
	% Growth	(-24.64)	(-21.41)	
Bank Loans Outstanding with SHGs	2010	48.51	38.37	80.33
	2011	47.87	39.84	83.23
	% Growth	(-1.32)	(2.23)	

Source: NABARD

Although the microfinance sector in India is dominated by the SBLP, the MFIs are also an important medium of microfinance in the country. Most of the MFIs entered the field after the SBLP was well entrenched, but the growth of the former with their innovative techniques had been rapid and more aggressive (NABARD). Apart from their internal resources, MFIs raise funds from banks and other funding organizations to provide micro credit to the rural poor. However of late, MFIs have been facing strong criticisms for alleged imprudent practices and questionable loan recovery procedures. As a result, in late 2010, the Andhra Pradesh government enacted the AP Micro Finance Institutions (Regulation of Money Lending) Act, restricting the lending and loan recovery procedures of the MFIs. The Reserve Bank of India in October 2010 set up a Sub-Committee of its Central Board of Directors to study the issues and concerns in microfinance sector, under the Chairmanship of Y. H. Malegam. The sub- committee has made a number of recommendations to mitigate the problems of multiple-lending, over-borrowing, ghost-borrowers and coercive methods of recovery.

The decline of the MFIs, accompanied with the decline in the bank loan disbursement in the SBLP points to a worrisome picture and calls for an appraisal of the entire system, especially concerning proper regulation and supervision of the MFIs in the country. Again, it is of special importance to review the existing microfinance model in the country from a gender perspective. As noted earlier, MFIs and SBLP intentionally for various reasons, have primarily offered services to women, and as the data shows women SHGs are in fact major recipients of financial services from the sector. Thus, any crisis in the sector would be specifically harsh on women and other vulnerable sections of the poor. Studies have also found that any improvement in women's access to credit and other supportive services increases the well being of the entire family and communities. Particular attention is to be given to women specific needs, women occupations, and social or cultural constraints that women face in becoming economically active.

Key Issues and Implications in Brief[6]

I: The diverse need for financial services

Discussion

Besides household industries, services of various kinds, and petty trading, the economic activities that poor women are majorly involved in are agriculture or animal husbandry. The terms against which MFIs have been presently extending credit, for instance, the monthly or weekly repayment cycles, at best suit petty-trading, but are generally unsuitable for the underlying cash flow cycles associated with agriculture or animal husbandry. Furthermore, even in the case of petty trading, the equal and weekly/monthly installments do not take into account the seasonality associated with the activity. Income and cash flows in petty trading can change significantly depending on the season, celebration of festivals, or economic shocks to the household or the market. Additionally, the spread of the SBLP has resulted in emergence of regional specific needs with regards to the types of products available. However, the banks or MFIs have not been able to offer flexible products to match the changing needs of poor women according to their occupation and location.

Another important issue that demands attention is the inadequate credit that is presently being offered for income generating activities. To encourage poor women to step out of low income generating activities, access to lumpy credit is crucial. For example, a group of women leasing agricultural land would need a loan to lease the land and buy equipment such as pump, pipeline, seeds, etc; all these initial investments require access to lumpy credit.

With regards to access to financial services and micro credit, migrant workers and their families are the most excluded. Due to the shifting nature of their work place, they do not get easy access to financial services of different kinds and do not have any financial products designed keeping their specific needs in view. It is proposed, that a system of identification may help in solving the problem of lack of micro credit faced by migrant workers and their families.

Implications

- IIt is clear that the poor, particularly women, need different types of financial products, and not simply the standard kind of products or mono-products that are made available to them. Therefore, customization of products is important according to such considerations as, the cash flow cycles specific to the economic activity, emergency funds to meet different exigencies, and access to lumpier credit. Women´s need are not only region and occupation specific, but also continuously change with time, therefore the need to continuously innovate the financial products.
- Availability of micro credit is not enough, access to other services such as savings and insurance that might help women and poor households to meet their needs are equally important.

II: Gender mainstreaming is beyond financial services

Discussion

Issue 1 points out the need of confronting the flaws in micro finance in terms of products, processes and overall capital inadequacy, but gender mainstreaming demands services beyond the scope of micro finance. Access to financial resources is only an enabling factor in empowering women, women also need to be proficient in the use of these resources to meet their goals successfully. Women who are traditionally expected to behave passively, and not actively participate in important decision making processes, may lack the confidence for independently defining their goals and priorities. To be able to convert access to financial services into productive income generating activities, women need support to surpass hurdles related to personal abilities or situations, as well as external limitations linked to the physical or social environment that women face as a group. External limitations may include difficulty in accessing information, distance to the market and market linkages, lack of social networks, and other environmental constraints that can restrict women from exercising her optimal potential. Thus, to maximize the positive impact of financial services, provision of other supportive services are required including knowledge and skill development, support in market linkages, etc.

Implications

- Provision of credit to access technology is futile unless women have the technical expertise to efficiently carry out the economic activity they are involved in. Thus, continuous investments are needed in training and skill development of women for effective use of new technology. It also implies that investments are needed in women-friendly technology keeping in mind the gender-specific needs of women.
- Women also require support in market linkages, as women due to various social and cultural reasons are not as mobile as men.
- To empower women, confidence-building and leadership development is important. This can be done through participatory methods of designing micro finance products and greater role in decision- making.

III: Increasing NPAS[7] and regulation of the micro finance sector

Discussion

"The non-performing share in total bank loans is an important indicator of banking health. The NPA ratio in aggregate at country-level is of interest in the first instance, as a macro financial indicator. The high share of NPAs in the Indian banking sector in aggregate has been of concern for some time."[8] Furthermore, the increasing incidence of NPAs in the microfinance sector has been a major factor in recognizing the critical state of MF in India. The new priority sector report highlights that 48% of NPAs are from the priority sector, even though the sector accounts for only 31% of bank advances.[9] The problem of NPAs is crucial as it affects the profitability and net worth of banks due to large number of credit defaults, but more importantly it suggests that microfinance products are not appropriately benefiting the target population. NPAs in priority sector lending is related to such factors confronting the borrowers as cost-overruns, inappropriate technology, promotion of associate concerns, inefficient management and business failure. However, these problems facing the borrowers can be effectively curtailed with appropriately designed financial products, supportive services and proper regulation, including supervision.

The urgent need for proper regulation particularly emerged when in "the state of Andhra Pradesh microfinance institutions were accused of lending practices that adversely affected the lives of the poor- borrower. This has led to government intervention with an ordinance that effectively stopped collection of micro-debt and prohibited any new micro-loans in the state."[10] The crisis in Andhra Pradesh prompted the RBI to form the Malegam committee to review the microfinance sector and recommend a regulatory framework. Currently, only NBFCs are covered under the prudential regulation, with very little regulation for NGO-MFIs, co-operatives, section 25 companies, and MFIs operating under NBFCs. The committee submitted its recommendation in 2011. It decided that "all bank loans to MFIs, including nonbanking financial companies working as MFIs, would be treated as priority sector lending. The report has also suggested a cap on interest rates and supported the need for a nationwide regulatory regime in the sector." [11]

Implications

- To control the problem of NPAs, MFIs or the SBLP need to design micro credit products that adequately support the resource input requirements and suit the cash flows associated with the income generating activity undertaken. Such that, the access to credit in effect enables higher productivity and profit to be able to repay the loan.
- To curtail the problem of multiple providers chasing few borrowers, there is a strong

need to bring in the necessary infrastructure for the collection and dissemination of credit information. The creation of credit information bureaus will remove the absence or irregularities in information, strengthening not only the MFIs, but the financial system as a whole. In India, the identification of beneficiaries is a huge challenge. However, Aadhaar/Unique Identification Card has the potential of mitigating this problem, if not resolving it completely.

- The government needs to implement the Malegam committee recommendations on a priority basis

IV: Sustainable financial inclusion

Discussion

Making credit and financial services available and accessible to the large section of disadvantaged groups is denoted as financial inclusion. "At present, micro lending to the economically active poor - both urban and rural - is pegged at around Rs 7,000 crore in the Indian banks' credit outstanding. As against this, according to even the most conservative estimates, the total demand for credit requirements from this part of Indian society is somewhere around Rs.2,00,000 crore."[12] The microfinance sector according to this data has been able to cover only a minuscule portion of the actual credit requirement of poor, particularly women. However, it is emphasized that sustainable financial inclusion is achievable primarily through mainstream financial institutions, i.e. banks. The model that RBI has adopted for financial inclusion has three components, viz., savings, small-loans with savings, and remittance services. Since the RBI is averse to non-banks taking deposits, the only institutions that can include all the three financial services are banks. Thus, true financial inclusion can be achieved only through banks.

Implications

- There is a need to find ways of improvement within the existing SBLP for formal credit delivery. This model is an effective credit delivery channel, but there are groups among the poor women, such as migrant workers, who are excluded. A special space within the system is to be created for such groups.
- Lending to the poor or disadvantaged groups requires the adoption of a farmer and women-friendly approach or attitude by the bank. For example, the procedures needed to follow in granting of loans to small borrowers could be further simplified and relaxed.
- The regional imbalance in the bank-SHG model needs to be corrected.

V: Bank-linked SHGs and MFIs are complementary and not competitive

Discussion

SHGs and MFIs are not competitive but complementary institutions. Banks have a regional spread that the MFIs have not yet been able to match, and according to the regulatory philosophy they are the only entities that are allowed to provide all three components of financial inclusion, viz. saving, credit and remittance services. However, banks by nature cannot achieve the flexibility in providing services that MFIs can practice in the field. MFIs are competent in providing quick credit, in customizing the products as per the requirements of the individual's or group's economic activity, and also offer training and knowledge building programmes to women and other disadvantaged groups. Bank-linked SHGs have also been providing the much needed institutional support and other services beyond provision of credit to help livelihood promotion of the poor.

Implications

- Convergence of bank-linked SHGs and MFIs is desirable as their competencies will positively complement each other to be able to better help the poor.
- However, convergence of the two institutes needs to be accompanied with proper supervision of MFIs with a more sound regulatory apparatus.

Endnotes

[1]This was the topic of discussion during the first Gender and Economic Policy Discussion Forum, co-organized by Heinrich Boll Stiftung, New Delhi and Institute of Social Studies Trust (ISST), New Delhi. Representatives from the microfinance sector and the government participated to closely examine the reasons of the MF crisis in India, to highlight its impact on the marginalized sections of the country, especially women, and to contribute to the sector's review in terms of providing responsible finance aimed at reducing poverty. This paper presents the ideas and discussions that took place during the forum, and substantiates these ideas with some relevant data and research available. This paper is not meant to be a comprehensive and exhaustive presentation of the topic of microfinance and women's empowerment. It seeks to contribute to the body of research on the subject by presenting a mix of, academic, private and government experiences. This brief paper is mainly aimed to encourage further dialogue on the subject with a gender sensitive perspective.

[2]NABARD, Status of Microfinance in India 2010-11, pg 5

[3]Ibid

[4]For a literature review on the concept of 'empowerment' refer to, Swain, R B, & Wallentin F Y (2009)

[5]Das, L (2012)

[6]The key issues and implications are based on the presentations made by the speakers during the first Gender and 7Economic Policy Discussion Forum, 28. March 2012

[7]According to the RBI circular for commercial banks, July 2011, available at http://rbidocs.rbi.org.in/rdocs/notification/PDFs/66IRN300611F.pdf, "an asset, including a leased asset, becomes non performing when it ceases to generate income for the bank... Banks should, classify an account as NPA only if the interest due and charged during any quarter is not serviced fully within 90 days from the end of the quarter"

[8]Rajaraman, I, et al (1999)

[9]As shared by Mr. Titus, the Executive Director of Sa-dhan, during the first Gender and Economic Policy Discussion Forum, 28th March, 2012

[10]Sane, R and Thomas, S (2011)

[11]Hulme, D and Arun, T (2011), What's Wrong and Right with Microfinance

[12]Khandelwal, A K (2007)

References

Basu, P (2005): A Financial System for India's Poor. In Economic and Political Weekly, Vol. 40, No. 37 (Sep. 10-16, 2005), pp. 4008-4012

Bhavani, P, Veena, V.D. (2011): NPAS in Indian banking sector- trends and issues. In Journal of Banking Financial Services and Insurance Research, Vol. 1, Issue 9, 2011, Pp 67-84

Das, L (2012): Microfinance in India: Self Help Groups - Bank Linkage Model, MPRA paper no. 38755, posted on 12. May 2012. Available at http://mpra.ub.uni-muenchen.de/38755/

Hashemi S M, Schuler S R and Riley A P, 1996: 'Rural Credit Programmes and Women's Empowerment in Bangladesh', World Development, Vol. 24, No. 4, pp. 635-653.

Holvoet N, 2005: 'The Impact of Microfinance on Decision-Making Agency: Evidence from South India', Development and Change, vol. 36 (1).

Hulme, D and Arun, T (2011): What's Wrong and Right with Microfinance. In Economic and Political Weekly, Vol. 46, No. 48, November 26, 2011

Imai, K S, et al (2010): Microfinance and Household Poverty Reduction: New Evidence from India. In World Development Vol. 38, No. 12, pp. 1760–1774, 2010

Khandelwal, A K (2007): Microfinance Development Strategy for India. In Economic and Political Weekly, Vol. 42, No. 13, Money, Banking and Finance (Mar. 31- Apr. 6, 2007), pp. 1127-1129+1131+1133+1135

Leach, F, Sitaram, S (2002): Microfinance and women's empowerment: A lesson from India. In Development in Practice, Vol.12, Iss. 5, 2002

Mayoux L., 1997: The Magic Ingredient? Microfinance and Women's Empowerment, A Briefing Paper prepared for the Micro Credit Summit, Washington. Available at http://www.gdrc.org/icm/wind/magic.html

NABARD: Status of Microfinance in India 2010-11. Available at http://www.nabard.org/departments/pdf/Micro%20Finance%202010-11.pdf

Rajaraman, I, et al (1999): NPA Variations across Indian Commercial Banks: Some Findings. In Economic and Political Weekly, Vol. 34, No. 3/4, Money, Banking and Finance (Jan.16-29, 1999), pp. 161-163+165-168

Sane, R and Thomas, S (2011): A Policy Response to the Indian Microfinance Crisis. By Indira Gandhi Institute of Development Research, March 2011, available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1842926

Swain, R B & Wallentin, F Y (2009): Does microfinance empower women? Evidence from self-help groups in India. In International Review of Applied Economics, Vol. 23, Iss. 5, 2009

Speakers at the Forum

Keynote speaker

Mr. Jairam Ramesh, Minister Rural Development, Drinking Water and Sanitation, Government of India

Panel

Ms. Vijayalakshmi Das, Managing Director and Promoter Director of Ananya Finance for Inclusive Growth (P) Limited, Ahmedabad

Mr. Vijay Mahajan, CEO and Chairman of BASIX Group, Hyderabad

Mr. Mathew Titus, Executive Director of Sa-Dhan, New Delhi

Mr. Anand Sinha, Deputy Governor, Reserve Bank of India

Gender and Economic Policy Discussion Forum

presented by

ISST
INSTITUTE OF SOCIAL STUDIES TRUST
Core 6 A, UG Floor, India Habitat Centre, Lodhi Road, New Delhi - 110003
Phone: +91-11-4768 2222 Website: www.isst-india.org

in association with

HEINRICH BÖLL STIFTUNG
INDIA
C-20, Qutab Institutional Area, New Delhi - 110 016
Phone: +91 11 26854405, 26516695 Website: http://in.boell.org