Micro Finance and Women Empowerment in Karnataka: An Empirical study in Davangere district

***Girish.D.H.** **Asst Professor and Research Scholar, Dept of Studies in Economics, Davanagere University, Davanagere.**

****Dr.Veerabhadrappa.B.P. Vice Chancellor, Kuvempu University, Shivamogga.**

Abstract

This paper looks at microfinance as a type of banking service especially to women in Davangere district empowering those who have difficulty in accessing formal financial services. Microfinance portfolios in Karnataka have grown at a compound annual growth rate of 48% over the last half a decade, driven by favourable policy changes and increased involvement from various financial institutions. This is according to recent analysis by Big Four accounting and advisory firm KPMG. Microfinance in Karnataka is more than just an economic tool, often representing the empowerment of historically marginalised and financially dependent communities. KPMG contextualises the evolution of India's microfinance sector, starting with the government's decision to boost the sector back in 1992. To break financial shackles, marginalised groups in rural areas traditionally formed self-help groups, where resources were pooled and distributed to those in need. The government of Karnataka made the decision to link these groups to banks and other financial institutions, a scheme that was developed by the National Bank for Agriculture and Rural Development. Under the scheme, small, easy-access loans are provided to segments that are conventionally deemed ineligible for credit. This was seen as a desirable alternative to other financing means such as the spread of commercial banks to rural areas and the simplification of lending procedures for rural financial institutions. Since 1992, Davangere District has grown in that the MFI been tremendous. "This industry has evolved over the last two decades and reached over 25% penetration level in the total addressable market in 2019," said the report. In their modern form, the self-help group collaboration with banking institutions have come to be known as Joint Liability Groups (JLGs). The biggest target group involved in the world of microfinance is women in rural areas, who are otherwise oppressed. The firm reports that a staggering 99% of the beneficiaries of microfinance are women in India. This has helped bring financial inclusion to millions of rural families.

Women in Microfinance in this regard have proven an important aspect for achieving something that several public and private agencies alike have been attempting for a number of years now – bringing women into the financial arena. Reports have suggested that India's economy could benefit significantly from better inclusion, and many have been involved in promoting this scenario. Global management consultancy Accenture, for instance, set up a learning centre for rural girls in 2016, equipped with state-of-the-art educational facilities. In February last year, Big Four accounting and advisory firm Deloitte launched the WorldClass programme, aimed at training as many as 10 million women in Karnataka over the next decade.

Key words: Microfinance, Global management, Joint Liability Groups, women, Davangere, Karnataka

Introduction

Microfinance appears to be serving a crucial purpose in the Indian economy, which has been driven by a variety of actors. The Reserve Bank of Karnataka has kept a watchful eye on the sector, with the intention of protecting borrowers and lenders alike, given the high levels of financial risk involved. On the financial side, the biggest source of credit are the Microfinance Institutions attached to non-banking financial corporations (NBFC-MFIs). Given their increasingly central economic role, NBFCs across Karnataka are being urged to modernise their operations, to help cope with burgeoning demand. NBFCs without attached MFIs are the second largest lenders, followed by banking corporations and small finance banks. KPMG reports that a number of NBFC-MFIs are currently undergoing a transition to small finance banks, which might alter the dynamics in the sector.

The primary objective of the SHG-Bank Linkage Programme (SBLP) of NABARD is to expand the outreach of the formal banking system to the un-reached rural poor on a sustainable basis (see Suran, 2007). In addition, the following objectives were formulated for advancement of the groups. Providence of hassle free access to the financial services and products through formal sector with low rate of interest itself has a number of benefits for the poor. In addition, the programme fulfills several other objectives. First, it provides consumption as well as production loan without any collateral. Secondly, it enables SHG members to reap economic benefit out of mutual help, solidarity and joint responsibility. The programme also ensures long-term help from a promoting institution for a number of activities most notably the income generating activities As SHGs are formed by economically poorer women with low level of capabilities to deal with banks, Self-Help Group Promoting Institutions (SHPI) play a critical role in the formation of SHGs and their operations in the initial stages.

Hence whilst it may not be guaranteed that Finance Minister’s suggested institution will become a success and other microcredit ventures have hit difficulties, it is wrong to dismiss the attempt as a political maneuver. In a country like India, where vast portions of the population remain trapped in rural poverty, the government should at least be trying innovative ideas to alleviate the situation. Modern microcredit is a relatively new phenomenon and as such some growing pains should be expected. Still, this budding industry’s potential is too great for it be criticized or discarded so easily.

Objective:

This paper intends to explore Micro finance and it’s role in Women Empowerment in Davangere district, also it studies microfinance sector its growth, accessibility in Karnataka, targeted at the low-income and unemployed fraction of the population

Growth Small scale microcredit for women

For really small scale microcredit to work, some of the traditional tools of finance, such as credit history checks and requirements for collateral, have to be discarded. This naturally makes many bankers weary, and yet there are cases such as those highlighted above where genuine benefits can be achieved without the system collapsing into "charity disguised as something else." Problems with credit history for example, (in the case of Grameen Bank), were dealt with by the institution adopting a "group lending" approach, capitalizing on the close sense of community in small rural villages.

Key Benefits

The part that microfinance plays in economic development is noteworthy. Some of the key benefits of MFIs include the following:

- It enables people expand their present opportunities – The income accumulation of poor households has improved due to the presence of microfinance institutions that offer funds for their businesses.
- It provides easy access to credit – Microfinance opportunities provide people credit when it is needed the most. Banks do not usually offer small loans to customers; MFIs providing microloans bridge this gap.
- It makes future investments possible– Microfinance makes more money available to the poor sections of the economy. So, apart from financing the basic needs of these families, MFIs also provide them with credit for constructing better houses, improving their healthcare facilities, and exploring better business opportunities.
- It serves the under-financed section of the society – Majority of the microfinance loans provided by MFIs are offered to women. Unemployed people and those with disabilities are also beneficiaries of microfinance. These financing options help people take control of their lives through the betterment of their living conditions.
- It helps in the generation of employment opportunities – Microfinance institutions help create jobs in the impoverished communities.

- It inculcates the discipline of saving – When the basic needs of people are met, they are more inclined to start saving for the future. It is good for people living in backward areas to inculcate the habit of saving.
- It brings about significant economic gains – When people participate in microfinance activities, they are more likely to receive better levels of consumption and improved nutrition. This eventually leads to the growth of the community in terms of economic value.
- It results in better credit management practices – Microloans are mostly taken by women borrowers. Statistics prove that female borrowers are less likely to default on loans. Apart from providing empowerment, microloans also have better repayment rates as women pose lesser risk to borrowers. This improves the credit management practices of the community.
- It results in better education – It has been noted that families benefiting from microloans are more likely to provide better and continued education for their children. Improvement in the family finances imply that children may not be pulled out of school for monetary reasons.

Groups Organised by Microfinance Institutions in Karnataka

There are several types of groups organised by microfinance institutions for offering credit, insurance, and financial training to the rural population in Karnataka:

1. Joint Liability Group (JLG)

This is usually an informal group that consists of 4-10 individuals who seek loans against mutual guarantee. The loans are usually taken for agricultural purposes or associated activities. Farmers, rural workers, and tenants fall into this category of borrowers. Each individual in a JLG is equally responsible for the loan repayment in a timely manner. This institution does not need any financial administration, as it is simple in nature.

2. Self Help Group (SHG)

A Self Help Group is a group of individuals with similar socio-economic backgrounds. These small entrepreneurs come together for a short duration and create a common fund for their business needs. These groups are classified as non-profit organisations. The group takes care of the debt recovery. There is no requirement of a collateral in this kind of group lending. The interest rates are generally low as well. Several banks have had tie-ups with SHGs with a vision to improve financial inclusion in the rural parts of the country.

The NABARD SHG linkage programme is noteworthy in this regard, as several Self Help Groups are able to borrow money from banks if they are able to present a track record of diligent repayments.

3. Grameen Model Bank

The Grameen Model was the brainchild of Nobel Laureate Prof. Muhammad Yunus in Bangladesh in the 1970s. It has inspired the creation of Regional Rural Banks (RRBs) in Karnataka. The primary motive of this system is the end-to-end development of the rural economy. However, in Karnataka, SHGs have been more successful as MFIs when compared to Grameen Banks.

4. Rural Cooperatives

Rural Cooperatives were established in Karnataka at the time of Karnatakan independence. The resources of poor people were pooled in and financial services were provided from this fund. However, this system had complex monitoring structures and were beneficial only to the creditworthy borrowers in rural Karnataka. Hence, this system did not find the success that it sought initially.

Difference between JLGs and SHGs

SHGs are units oriented to the communities when compared to JLGs. Members own and control SHGs and they decide all terms and conditions associated with the group's functioning. Banks and NGOs provide support to these units so that they can prosper.

SHGs have internal control, but this can lead to conflict among members. JGs are controlled externally by the institutions that promote them. The terms and conditions of the JLG are also determined by the promoting institution. The operations of JLGs are more standardised and easier to replicate, when compared to SHGs.

Under an SHG, the group members will be required to save before they are eligible for a loan. In a JLG model saving is not compulsory; groups need not build internal capital for inter-loaning. Most of the times, MFIs initiate the formation of JLGs by asking members to form such groups with the motive of getting a loan.

Donor agencies support SHGs in skill development and capacity building through NGOs. This process of internal capacity building makes the process of getting a bank loan more time-consuming for an SHG. Since JLGs are managed externally, there is very little focus on capacity building. Hence, these units may find it easier to procure loans. JLGs are hence, referred to as "fast growth models". SHGs are more decentralised and democratic than JLGs.

JLG model in Karnataka's Davangere district

SHGs in Davangere district are self-managed and self-reliant. Hence, an MFI representative has to spend very little time over the management of the group. This implies that several groups can be managed by a single representative, resulting in low cost management. In the JLG model, the MFI's employees are responsible for monitoring the routine operations of the group. This makes it an expensive model.

JLGs are more immune to internal and external threats as they have better protection from the supporting MFIs. However, they are less empowered in comparison to SHGs. The government's efforts to create micro credit institutions geared towards women are too important to dismiss.

Agency	New SHGs	Existing SHGs	Total	Loan Amount (₹ crore)
Commercial Banks	23440	14314	37754	659.91
Regional Rural Banks	13527	15090	28617	377.11
Cooperative Banks	12792	21261	34053	410.01
Total	49759	50665	100424	1447.03
Indirect Linkage through MFI/ NGO			44529	366.70

Source: Microfinance in Karnataka, 2010-11.

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

Hence when India's finance minister, announced his budget on the last day of February, one particular item stood out for those familiar with microcredit; that was the nearly $185 million appropriated to establish a small public bank for the poor run by and for women.

Some commentators have suggested that the move is entirely political, aimed at wooing women voters following the recent news coverage of the appalling crimes committed against women in the country. These suspicions were driven in part by the fact that Minister Finance Minister also announced new funding for women's safety that was named after one of the recent rape victims.

Sl. No.	Particulars	As on 31.03.10	During 2010-11	As on 31.03.11
1	No. of SHGs promoted	594117	62346	656463
2	No. of SHGs credit linked (new Groups)	530210	49759	579969
3	No. of SHGs financed (new and repeat groups) Indirect Linkage through MFIs		100424 44529	
4	Amount of Bank loan availed (₹ crore) Amount of MFI loans availed (₹ crore)	5257.51	1447.03 366.70	6704.54
5	No of families covered under the programme (lakh)	80.84	9.75	90.59
6	Percentage of women SHGs Over 90%			
7	Average loan per SHG (₹) during 2010-11		144092	
8	No of participating banks			73
9	No. of bank branches lending to SHGs (including PACS)			8372
10	No. of NGOs participating in the programme			350
11	Amount of NABARD Refinance (₹ crore)	1021.11	164.70	1185.89

Source: Microfinance in Karnataka, 2010-11.

Furthermore, India already has several institutions which perform a similar task to the one described by Finance Minister. The Mann Deshi Mahila Sahakari Bank is a rural cooperative bank specializing in microfinance loans to women. Others, such as the MahilaSewa (Self-employed Women's Association) Cooperative bank, perform similar functions. Some have argued that such co-op banks are more effective than public banks in performing such a role (lending to women, alleviating extreme poverty.). Members of weekly repayment groups had higher levels of social interaction than those of monthly repayment groups. Their score on the social contact index was, on average, 0.59 standard deviations higher.

First-time and repeat women borrowers in Davangere district

Social capital gains for clients in groups consisting entirely of returning borrowers were similar to the gains for clients in groups consisting entirely of new borrowers, suggesting that promoting social interaction can be beneficial even for individuals who already know each other. In earlier analyses of these interventions (Microfinance Repayment Schedules in West Bengal), researchers found that borrowers who repaid every month were no more likely to default or make late payments in the first loan cycle.

Those findings suggested that MFIs could save on transaction costs by switching to monthly repayment schedules. Results from these two interventions, which look beyond a single loan cycle, provide evidence in support of maintaining traditional weekly repayment schedules to promote social capital formation. Researchers are continuing to follow the social and business outcomes of these women. It is welcoming to note that commercial banks again topped in credit linkage as the loan amount stood 659 crores followed by RRBs, which accounted 377 crores whereas Cooperative banks provided loan of 410 crores. It is important to note that the commercial banks not only increased their credit linkage through adding new SHGs to the existing one. Furthermore, the agency-wise share of bank loan to SHGs during

2010-11 and the cumulative position as on 31 March 2011 is presented in Table-4.4, which shows that commercial banks are continued to dominate in promotion of SHGs.

Sl. No.	Agency	No. of SHG Accounts as on 31.03.2010	New SHG Accounts opened during 2010-11	Total No. of SHG Accounts as on 31.03.2011	Percentage of accounts held
1	Commercial Banks	261012	33252	294264	**45**
2	Regional Rural Banks	161230	9599	170829	**26**
3	Cooperative Banks	171875	19495	191370	**29**
	Total	**594117**	**62346**	**656463**	**100**

Source: Microfinance in Karnataka, 2010-11.

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

Conclusion

Researches have found that weekly microfinance group meetings by women generated higher levels of social interaction that endured after the loans were repaid. Members of weekly repayment groups had lower default rates on subsequent loans, but they did not exhibit higher levels of female empowerment.

In Davangere district Clients assigned to weekly repayment groups had higher levels of social contact with their group members outside of meetings and sustained this contact in the long run. In the short run, the average member of a weekly repayment group had a social contact index score that was three standard deviations higher than the average member of a monthly repayment group. The long run social contact index score was 0.19 standard deviations higher for members of weekly repayment groups. They were also 5.2 percentage points less likely (from a baseline of 7.2 percent) to default in the second loan cycle.

References

1. Adams, Dale W.; Graham, Douglas H.; Von Pischke, J. D. (1984). Undermining rural development with cheap credit. Boulder, Colorado and London: Westview Press. ISBN 9780865317680.
2. Armendáriz, Beatriz; Morduch, Jonathan (2010) [2005]. The economics of microfinance (2nd ed.). Cambridge, Massachusetts: MIT Press. ISBN 9780262513982.
3. Bateman, Milford (2010). Why doesn't microfinance work? The destructive rise of local neoliberalism. London: Zed Books. ISBN 9781848133327.
4. Branch, Brian; Klaehn, Janette (2002). Striking the Balance in Microfinance: A Practical Guide to Mobilizing Savings. Washington, DC: Published by Pact Publications for World Council of Credit Unions. ISBN 9781888753264.
5. De Mariz, Frederic; Reille, Xavier; Rozas, Daniel (July 2011). Discovering Limits. Global Microfinance Valuation Survey 2011, Washington DC: Consultative Group to Assist the Poor (CGAP) World Bank.
6. Dichter, Thomas; Harper, Malcolm (2007). What's wrong with microfinance. Rugby, Warwickshire, UK: Practical Action Publishing. ISBN 9781853396670.
7. Dowla, Asif; Barua, Dipal (2006). The Poor Always Pay Back: The Grameen II Story. Bloomfield, Connecticut: Kumarian Press Inc. ISBN 9781565492318.
8. Floro, Sagrario; Yotopoulos, Pan A. (1991). Informal Credit Markets and the New Institutional Economics: The Case of Philippine Agriculture. Boulder, Colorado: Westview Press. ISBN 9780813381367.
9. Gibbons, David S. (1994) [1992]. The Grameen reader. Dhaka, Bangladesh: Grameen Bank. OCLC 223123405.
10. Hirschland, Madeline (2005). Savings Services for the Poor: An Operational Guide. Bloomfield, Connecticut: Kumarian Press. ISBN 9781565492097.
11. Jafree, Sara Rizvi; Ahmad, Khalil (December 2013). "Women microfinance users and their association with improvement in quality of life: Evidence from Pakistan". Asian Women. 29 (4): 73–105. doi:10.14431/aw.2013.12.29.4.73.
12. Khandker, Shahidur R. (1999). Fighting Poverty with Microcredit: Experience in Bangladesh. Dhaka, Bangladesh: The University Press Ltd. ISBN 9789840514687.
13. Krishna, Sridhar (2008). Micro-enterprises: Perspectives and Experiences. Hyderabad, India: ICFAI University Press. OCLC 294882711.
14. Ledgerwood, Joanna; White, Victoria (2006). Transforming microfinance institutions providing full financial services to the poor. Washington, DC Stockholm: World Bank MicroFinance Network Sida. ISBN 9780821366158.

15. Mas, Ignacio; Kumar, Kabir (July 2008). Banking on mobiles: Why, how, for whom? (Report). Washington, DC: Consultative Group to Assist the Poor (CGAP), World Bank. SSRN 1655282. CGAP Focus Note, No. 48 PDF.
16. O'Donohoe, Nick; De Mariz, Frederic; Littlefield, Elizabeth; Reille, Xavier; Kneiding, Christoph (February 2009). Shedding Light on Microfinance Equity Valuation: Past and Present, Washington DC: Consultative Group to Assist the Poor (CGAP), World Bank.
17. Rai, Achintya; et al. (2012). Venture: A Collection of True Microfinance Stories. Zidisha Microfinance. (Kindle E-Book)
18. Raiffeisen, Friedrich Wilhelm (1970) [1866]. The credit unions (Die Darlehnskassen-Vereine). Translated by Engelmann, Konrad. Neuwied on the Rhine, Germany: The Raiffeisen Printing & Publishing Company. OCLC 223123405.
19. Robinson, Marguerite S. (2001). The microfinance revolution. Washington, D.C. New York: World Bank Open Society Institute. ISBN 9780821345245.
20. Roodman, David (2012). Due diligence an impertinent inquiry into microfinance. Washington DC: Center for Global Development. ISBN 9781933286488.
21. Seibel, Hans Dieter; Khadka, Shyam (2002). "SHG banking: A financial technology for very poor microentrepreneurs". Savings and Development. 26 (2): 133–150. JSTOR 25830790.
22. Sinclair, Hugh (2012). Confessions of a Microfinance Heretic: How Microlending Lost its Way and Betrayed the Poor. San Francisco, California: Berrett-Koehler Publishers. ISBN 9781609945183.
23. Rutherford, Stuart; Arora, Sukhwinder (2009). The Poor and Their Money: Microfinance from a Twenty-first Century Consumer's Perspective. Warwickshire, UK: Practical Action. ISBN 9781853396885.
24. Wolff, Henry W. (1910) [1893]. People's Banks: A Record of Social and Economic Success (4th ed.). London: P. S. King & Son. OCLC 504828329.
25. Sapovadia, Vrajlal K. (2006). "Micro finance: The pillars of a tool to socio-economic development". Development Gateway. SSRN 955062.
26. Sapovadia, Vrajlal K. (19 March 2007). "Capacity building, pillar of micro finance". Social Science Research Network. doi:10.2139/ssrn.975088.
27. Sapovadia, M. (May 2013). "Microfinance and women's empowerment: Contemporary issues and challenges". International Journal of Innovative Research & Studies (IJIRS). 2 (5): 590–606. PDF.
28. Maimbo, Samuel Munzele; Ratha, Dilip (2005). Remittances development impact and future prospects. Washington, DC: World Bank. ISBN 9780821357941.
29. Wright, Graham A. N. (2000). Microfinance Systems: Designing Quality Financial Services for the Poor. London New York Dhaka: Zed Books. ISBN 9781856497879.

30. United Nations Department of Economic and Social Affairs; United Nations Capital Development Fund (2006). Building inclusive financial sectors for development. New York, New York: United Nations. ISBN 9789211045611.
31. Yunus, Muhammad (2007). Creating a World Without Poverty: Social Business and the Future of Capitalism. New York: PublicAffairs. ISBN 9781586484934.
32. Yunus, Muhammad; Moingeon, Bertrand; Lehmann-Ortega, Laurence (April 2010). "Building social business models: Lessons from the Grameen experience". Long Range Planning. 43 (2–3): 308–325. doi:10.1016/j.lrp.2009.12.005. PDF.
33. Cooper, Logan (2015). "Small Loans, Big Promises, Unknown Impact: An Examination of Microfinance". The Apollonian Revolt. Archived from the original on 28 July 2015. Retrieved 31 July 2015.
34. Proceedings of the 50th Hawaii International Conference on System Sciences. "Collaborative Distance: Multi-level Analysis Framework for Recommending Collaboration Structure and Safeguards" (PDF).
35. "Informality and market governance in wood and charcoal value chains" (PDF).
36. "Trust and Tracing game".
37. "An organizational architecture of T-form: Silicon Valley clustering and its institutional coherence".
38. Baysinger, B. and Butler, H. 1985. The role of corporate law in the theory of the firm. The University of Chicago.
39. [permanent dead link], Amaeshi, K., Osuji, O., Doh., J. (undated) Corporate Social Responsibility as a Market Governance Mechanism: Any implications for Corporate Governance in Emerging Economies? University of Edinburgh.
40. Blackmore, Emma (May 2011). "Shaping Sustainable Markets: Research Prospectus" (PDF). International Institute for Environment and Development. Retrieved 2012-03-09