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Institutional Mechanism for Women's Upliftment Through Micro Finance in India

KEYWORDS

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INTRODUCTION

Microfinance continues its insane expansion. While the year 2005 has already been declared "Microcredit Year" by the United Nations, the G8 Member States have just reaffirmed the crucial importance of microfinance as a development tool. The 2004 action plan of the G8, adopted at Sea Island in June 2004, is entitled "applying the power of entrepreneurship to the eradication of poverty". To reinforce the private sector is thus a priority, and the development of financial markets and microfinance constitutes the heart of it. "Facilitating Remittances to Help Families and Small Businesses", "Improving the Business Climate for Entrepreneurs and Investors", "Providing Housing and Clean Water by Supporting the Development of Local Financial Markets" and "Expanding Access to Microfinance for Entrepreneurs" are the four strategies announced. The action plan also mentions that "*Sustainable microfinance can be a key component in creating sound financial market structures in the world's poorest countries*" and foresees that "[…] *with the support of the World Bank-based Consultative Group to Assist the Poor (CGAP), G8 countries will work to launch a global market-based microfinance initiative*".

This will to create "global market-based microfinance" echoes processes already well under way. Two recent publications, one of the International Monetary Fund (Littlefield and Rosenberg 2004), the other of the Asian Development Bank (Nimal 2004) also plead for a complete integration of microfinance in formal financial systems. In 1992, the transformation of the NGO Fundación para Promoción el Desarrollo of Microempresa into a financial institution (Bancosol) in Bolivia started the process of integration between microfinance and the formal financial system. Since then, the line between microfinance and the formal financial sector continues to fade. According to the study carried out by the International Monetary Fund, IMFs increasingly allow market forces to come into play, while basing themselves on the techniques and rules of commercial finance.

They invest in more sophisticated systems of management and information, apply international accountability standards, entrust the annual auditing of their accounts to traditional auditing organizations and subject themselves to the evaluation of commercial grading agencies (Littlefield and Rosenberg 2004). New technologies reduce the costs and the risks, thus making the provision of services to poor clients more profitable. The commercial success of certain IMFs started to attract new operators from the traditional sector. Financial information, evaluations and audits are today better and easier to compare, and national and international investors invest in this sector. For instance, in July 2004, the USA Grameen Foundation (GF-USA) announced the launching of the first significant micro-finance investment by the American capital market. This transaction, valued at $US 40 million, is regarded as the most important ever realized in the world of microfinance.

India does not escape this scenario. The entry of the banks into the microfinance sector happened first under pressure because of the guidelines of the Reserve Bank of India (RBI). Nevertheless more and more banks go beyond those guidelines and innovate in order to conquer new market shares in a sector which they regard now as lucrative. The ICICI Bank is probably the one which displays the most aggressive attitude. Apart from various specific products as well as partnerships with multiple IMFs, at the beginning of 2004 ICICI concluded two security deals with two leading IMFs: Bhartiya Samruddhi Finance Ltd of the BASIX group and SHARE Microfinance Ltd. If ICICI is the likely pioneer in this sector, others have followed. For example the Andhra Bank (District of Coimbatore, Tamil Nadu) has recently launched a credit card scheme for the SHGs, allowing them to withdraw up to Rs.200,000 in credit (*revolving* fund with an annual rate of 8%).

The credit card holders can also benefit from free insurance issued by the *Life Insurance Corporation of India* as well as scholarships for their children's studies. Obviously, the RBI guidelines are not the sole argument anymore: the "poor" truly are considered a new market niche. It should be noted that, if this "niche" is lucrative, it is because it relies on the famous concept of Self-Help Groups – the loans are not given individually but to groups – and that most of the time, an NGO takes on the role of social intermediary between the bank and the borrowers. We can then easily understand the enthusiasm of the banks for which the transaction costs and risks are greatly reduced. Anyway, the banks are very clear on this point: if they continue to invest in the microfinance sector, it is because the SHGs are "good clients"5. On the national level, NABARD estimates the reimbursement rate at 95%.

Should one rejoice or, on the contrary, be worried about this "commoditization" of microfinance? The massive engagement of the banking sector let us anticipate huge prospects in terms of growth of the microcredit supply and in terms of financial sustainability. In March 2004, the number of SHGs linked to the banks reached 1,079,091, that is to say approximately 17 million people and an increase of 50% compared to 2003 (Sa-Dhan 2004). Isn't it dangerous to be focused on quantitative objectives (number of clients, volume of disbursed loans, etc.), when one

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knows that the success of microfinance depends on many other conditions? Doesn't this depend on other priorities, in particular the sustainability of the clients themselves or on their empowerment? The objective of this book consists precisely of underlining the complexity of the links between microfinance and empowerment. As the promoters of the Sa-Dhan network6, inspired by the work of Linda Mayoux, indicate: "While women's empowerment is claimed as an important concern and outcome of their participation in modern microfinance, it does not figure in the debate on sustainability. This is because an increasing contribution to women's empowerment may generate conflict, requires change at many levels and is likely to entail costs. It is not 5therefore easily incorporated, especially into programmes based on the financial self-sustainability paradigm" (Sa Dhan 2003: 14-15).

Microfinance players are the first to question the justification of this increasing commercialization. Already in 2000, Mahajan Vijay and G. Nagasri, representatives of Basix, one of the Indian IMF leaders, worried about the incipient competition from the banking sector: "Even though the unmet demand is large, the emerging "competition" from mainstream banks can overwhelm IMFs, which are still in their nascent stage" (Mahajan and Nagasri 2000: 4). More recently, and where the banking presence is a current, well established fact, the question of interest rates causes a lot of controversy, even actual conflicts. That was the case particularly at the time of the "Microfinance India 2008", conference organized by CARE India and which was held in New Delhi in February 2004, where microfinance experts did not hesitate to accuse the bankers of unfair competition. Whereas the economic situation authorizes the banks to decrease their interest rates considerably, how can IMFs, subjected to economies of a smaller scale and especially to a role of social intermediary that the banks seldom assume, preserve their competitiveness? The recent interest expressed by the banking environment in microfinance also deserves to be relativised in comparison with the super-elitist policies which prevailed during the previous ten years.

A massive study of the Indian banking sector from 1972 to 2003, undertaken by the *Economic and Political Weekly Research Foundation*, shows alarming results. Whereas the share of farm credit reached 18% of the total credit disbursed at the end of the 80s, it accounted for little more than 10% in March 2003. In the same way, in the small-scale and village industries sector, the share of credit allocated fell from 14% at the beginning of the 90s to less than 6% in March 2003 (EPW Research Foundation 2004: 2072).

The authors of the study offer the following conclusion: "The increasing vacuum in the rural credit system, continuing neglect of underdeveloped areas, low levels of credit flow in favor of agriculture, small-scale industries and other informal sectors including small borrowers and reluctance of the banking industry to pass on the benefits of the reduced cost of funds to bank borrowers, have been some of the most glaring drawbacks in the functioning of scheduled commercial banks in the post-reform period" (*ibidem*). When it is known that 70% of the Indian population lives from griculture, this report is worrisome. In the same vein, other data show that the small borrowers have more and more been denied access to bank credit (Shetty 2004). Using data from the Reserve Bank of India, Shetty demonstrates that a distinct feature of the credit delivery record in the 1990s has been the persistent and drastic decline in the number of small loan accounts: the number of small borrower accounts with a credit limit of Rs 25,000 or less has reached 62.55 million in March 1992, but it was followed by a steep downward trend to reach 36.87 million – a loss of nearly 26 million accounts or 60% by March 2003 (Shetty 2004: 3265-3266). The author also notes strong inequalities from one state to another and one district to another, the more isolated and less economically dynamic districts being obviously much more neglected than the others. Is it really legitimate to rush into the microfinance sector, if it means abandoning even further other sections of marginalized clients, who have as much reason to be empowered as the others?7 Admittedly, to be interested in women is commendable – the last data available on the SHG movement in 2004 indicates that 90% of the members are women – but what about the small farmers, for example, whom one knows very well were the big losers of economic growth over the last ten years?8 At the same time, microfinance has probably never received so much support from the Indian public authorities. The commitments of the Common Minimum Program, whose main guidelines were announced by the *United Progressive Alliance* in June 2004, allowed the anticipation of strong support to the credit supply, in particular for the informal sector, small-scale industry and self-employment sector, and finally to rural credit, which is destined to be "reborn". It has to be seen how those promises will translate in practice. For the moment, let us content ourselves in reviewing the public policies of these past years. The recent expansion of the SHG movement and of the "banking-linkage model", is largely the result of a strong interventionist policy, with on the one hand, the massive support of diverse public financial institutions (namely NABARD, SIDBI or HUDCO) and on the other hand the establishment of specific public schemes. Now, this public interventionism has not always been approved of by the practitioners of microfinance. It is particularly the case of the SGSY *scheme* (*Swarnjayanti Gram Swarozgar Yojna*), begun in 19999. This programme of subsidized credit replaces the largest Indian poverty eradication program, the *Integrated Rural Development Programme* (IRDP). Started at the beginning of the 80s, the IRDP programme wanted to facilitate access by the poor to formal credit by relying on an individual approach. The failure of this programme has been unanimously acknowledged (bad selection of beneficiaries, cases of embezzlement) and has translated into a catastrophic reimbursement rate.

The SGSY assumes the same aims (subsidized credit for the poor) while modifying the method. Only the SHGs are now eligible10: social pressure and joint liability are supposed to correct the flaws of the previous program, that is to say, targeting the "good clients" and encouraging reimbursement. There is no doubt that a part of the objectives has been reached – the results are in any case much better than those of the IRDP, if only in terms of the repayment rate. On the other hand, numerous promoters of microfinance stress – here also – the unfair competition of programmes combining microfinance and subsidies, claiming, and rightly so, that this type of programme is more interested in clientelism and bank votes than in the genuine objective of long term and sustainable development11. How to make borrowers understand that credit has a cost, if at the same time there is a public programme which offers subsidized credit? As is pointed out by Mahajan and Nagasri, this type of public scheme necessarily has "*a great impact on the minds of the borrowers and has spoiled the repayment culture*" (Mahajan and Nagasri 2000: 15). In many villages, it is not uncommon to wit-

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ness ferocious competition between "governmental" and "non-governmental" SHGs, the latter accusing the former of benefiting from numerous privileges which the NGOs are not in a position to offer12. That the borrowers commit themselves to not benefiting from public schemes is sometimes a condition set by the IMFs. Do we not incur the risk of promoting the creation of artificial and short-lived groups, motivated only by the lure of subsidies? The very essence of the SHG, supposed to be a group giving aid on the basis of mutual reciprocity, is thus greatly jeopardized. To the point where certain NGOs have chosen to drop the term "SHG" which they consider hackneyed. It is the case, for example, of MYRADA (Karnataka), which now uses the term "Self-Help Affinity Groups" 13. It is equally the case of WWF in Tamil Nadu which uses the term "neighborhood solidarity groups "14. This galvanization of the SHG concept deserves some attention. The notion of *self-help*, popularized largely by Gandhian philosophy, certainly isn't new15. Nevertheless, it takes a new direction, which makes one wonder whether it has not been a little perverted by this vast SHG movement. The notion of self-help is very ambivalent and can be understood in many ways16. In the Gandhian tradition, the term appears in an implicit way in two of the concepts which forged the thought of Mahatma17. The first one is that of *Swadeshi*, which is usually translated in English by self-reliance, and which refers to the material concept of self-sufficiency (on the individual, family or even national level) as much as to the self esteem of the human being. As emphasized by Gandhi himself, Swadeshi also means "reliance on our own strength". The term "self" comes then in the notion of *swaraj*, and is translated in English by "self-rule". In the Gandhian spirit, to manage oneself aims especially at self emancipation from numerous forces of coercion, even of exploitation. In the context of the times, the notion of "self-rule" expressed as much a resistance to colonial power and foreign materialist imperialism, as to castes and dominant classes. To insist on the capacity of self-determination is also a gamble staked on the qualities and innate strength of each person, whatever he/she is, whether it is in relation to the body, the mind or even the soul. Finally, according to the Gandhian spirit, to be self-determining and self-managing is therefore not synonymous with individualization. Personal growth is conceived as a process indistinguishable from relationships of solidarity and co-operation. At the same time, and it is here that the self-help term becomes ambivalent, being self-reliant can also mean to count on oneself and nobody else, to affirm one's independence or to be condemned to lack of support from one's circle. The border between affirming self-control, freeing oneself from bonds of subordination and being isolated from the rest of the world is quickly crossed. If the notion of self-help has been very successful in the United States, it is because it falls under another tradition than the Indian Gandhian tradition18. It is much closer to the Calvinist heritage, according to which individuals themselves must realize their own salvation,

Conclusion

God helping only those who help themselves. Super-individualism overrides largely the will to develop the individual. Admittedly, self-help, American-style, is often put forward to explain the success stories of entrepreneurs having made fortunes starting from nothing, and to whom American society gave the freedom to take initiatives. But self-help, American style, is also, and more and more it seems, the millions of poor ordered to take care of themselves and be selfsufficient, because no one, neither their family, nor the State, can do anything more for them. By all evidence, super-individualism overrides the valorization of individual potentialities. With the rapid spread of poverty eradication programs, consisting of providing large-scale employment to the poorest, the concept of self-help has probably never been so popular in the United States. This plea for self-help goes hand in hand with an increasing atrophy of public expenditures and a generalized scarcity of employment contracts, permanent insecurity having become the so-called motive of personal ambitions and aspirations.

REFERENCE The complete text is available on the following website: http://www.g8usa.gov/d_060904a.htm | This commitment, which will finance IMFs in 9 developing countries, is guaranteed by the Overseas Private Investment Corporation (OPIC). | For nearly thirty years, rural banks have had to fulfill credit obligations in the socalled "priority sectors" and for the "weaker sections". Since the 90s, the banks have been encouraged to open accounts for the SHGs (RBI circular Ref. DBOD. 2, No. BC. 63/0: 01 PM: 08/92-93) but also to lend to them. Now these loans are considered part of the priority sector, thus allowing banks to keep to their quota. | The Hindu, 'Banks wooing SHGs with credit cards', Coimbatore, 4/2/04. |