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# A Study of Factors Influencing the Social Development of Women for Microfinance Borrowers

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***Abstract - A significant role is played by financial system in economic transformation of a nation. It acts as an intermediary between borrower and lender, provide various saving opportunity with different risk-return characteristics. It bridges that gap between the present and future and mobilizes the savings into productive channels of investment. Financial system comprises of financial institutions, stock market, pension fund, insurance sector etc. Developing countries give more importance to expansion of financial sector and its coverage in an effort to reduce poverty. For country's prosperity, its growth is at most important. Effective mobilization of savings, smooth payment system and efficient distribution of resources are key drivers for this sector. Financial system helps the financial market to expand over a period of time. It facilitates effective distribution of resources among productive and socially desirable purpose in an economical manner. Financial institutions such as banks are an essential element for a country's financial system. They play a pivotal role in progress of rural provinces of Indian economy. Finance is the key element in achieving the long-term prosperity of a country. It is an important requirement to meet the credit needs of every sector i.e. agriculture, manufacturing, trade and other services for smooth functioning of their day to day operations and for growth as well.***

***Keywords - financial system, Indian economy, prosperity, manufacturing, Effective mobilization***

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## INTRODUCTION

According to United Nations agenda, achieving sustainable development goals by 2030 are important to combat the environment, economic and political changes happening in the world. This can be done by reducing poverty and creating opportunities for local community in the emerging economies. These goals acknowledge the important role played by microfinance and financial inclusion in mitigating poverty and promoting development (economic & social). Provision of financial services for all especially women which results in their empowerment is an important parameter which needs to be further strengthened. In the recent years, the growth of microfinance services has led researchers to measure the level of empowerment among its beneficiaries. This study aims to determine empowerment among the borrowers who are self-managing their business and giving the loan amount to their family members. This study gathered data from Uttar Pradesh region of India. In this chapter, a brief functioning of banks, government policies, need for microfinance and its status in India is presented.

## ROLE OF RURAL BANKS

Rural banks had become an integral part of Indian financial market due to majority of people still living in rural areas. To promote rural development, rural cooperatives were formed in 1904 to provide rural finance. They were ineffective to fulfill the financial requirements of rural people due to the onset of green revolution in 1960. Private commercial banking performed very limited role in financing towards rural areas therefore, 14 commercial banks were nationalized to meet such requirement. Various initiatives were introduced having significant importance in rural markets. Firstly, under Regional Rural Bank Act, 1975 various rural banks have been set up with a view to provide continuous credit to the rural poor excluded so far. These resulted in improvement in access of bank credit among rural poor and broaden their operational and geographical reach among rural areas (Chavan&Ramakumar, 2002; Chavan, 2013). Secondly, "Integrated Rural Development Program (IRDP)", poverty reducing credit-based program was carried out by way of commercial banks for poor living under the poverty threshold. This initiative has reached millions of people but has been severely criticized owing to large quantum of non- performing assets. Loans given for cottageand agriculture purpose were usually waived mainly at the time of elections thus leading to subsequent non-repayment of loan even if they have the ability to pay (Mahajan et al., 1996). With a view to provide consistent rural credit, the “National Bank for Agriculture and Rural Development (NABARD)” was formed in 1982. It is an apex organization formed with an objective of formulating suitable policies for expanding rural credit, provide technical assistance to banks, refinancing facility to rural credit institutions and various developmental projects. Later on, it was realized that the available policies, procedures, systems and products do not fulfill the instant demand of rural poor. It was found that rural poor wanted better products and services than at a cheaper financial credit. Hence, there is a need for another policy, procedures, delivery system, deposit and loan products to satisfy the demand of the neediest especially the women members.

## GOVERNMENT POLICY INITIATIVES

There are various schemes initiated by Indian government for development of rural people. Few of them are as follows:

- The scheme, “Training Rural Youth for Self-Employment” was implemented in 1979 to impart technical expertise to young aged people of 18- 35 years living under poverty in rural areas. This initiative facilitates the poor to become self- employed in fields of agriculture, industry, business activities and service. This program is launched to remove the huge accumulation of unemployed and underemployed people among the rural youngsters.
- The program called “Food for Work Program” introduced by Janata government in 1977 to reduce unemployment, stabilize the price of food grains and creates a system to build rural canals and roads. The workers were provided food grains instead of money as wages for the work done by them. Later on, this scheme was criticized on account of its inadequacy to generate rural employment.
- With an aim to generate further opportunities of employment among rural community and offer enough food by way of establishing the required economic, social and community assets, a program named as “National Rural Employment Program” was introduced in 150disadvantageous areas of the country in November 2004. This is the modified program of food for work program. This Act provides unskilled manual work assurance of 100 days to every member of the household.
- The scheme, “Rural Landless Employment Guarantee Program” was inaugurated on 15th August, 1983. It was started with an objective of enhancing and improving the employment opportunities for rural people. It provides employment guarantee to minimum of 1 member of every household not availing the privileges of land ownership and living in chronic poverty for up to 100 days.
- On April 1, 1989, “JawaharRozgarYojana” become effective with the merge of two national employment programs- “National Rural Employment Program” and “Rural Landless Employment Guarantee Program”. It aimed at offering minimum employment for 90 to 100 days to every person primarily beneath the poverty line. The scheme also helped in providing sustained employment opportunities by building a strong rural economic assets and infrastructure benefitting the rural poor.
- On April 1, 1999, “Jawahar Gram SamridhiYojana” was introduced to enhance the living conditions of poor people. This scheme is the reconstructed and extensive form of former “JawaharRozgarYojana”. It intent to develop an infrastructure to provide sustainable opportunities of employment to people in rural areas. It is put into practice by village panchayat. Preparation of annual plans and its implementation is done at the level of village panchayat level. Under this scheme, 22.5 percent of the allotted funds are to be spend on schemes for the benefit of scheduled caste/ scheduled tribes and 3 percent of the annual funds will be used for setting up of infrastructure for disabled people.
- The present scheme, “PradhanMantri Gram SadakYojana” was put into operation in the year 2000 to strengthen the connectivity to rural areas. This will help the rural people to communicate with the wider world and combat poverty by providing accessibility to social and economic facilities. The program is intended to connect residents of plain areas having population exceeding 500 persons and surpassing 250 persons in hilly areas. Ministry of Rural Development is responsible for effective functioning of the scheme and after the suggestion of 14th Finance commission, state and central government are liable for effective implementation of this program.
- The scheme, “SampoornaGrameenRozgarYojana” came into operation on September 25, 2001 by combining the two former schemes of “Employment Assurance Scheme” and “Jawahar Gram SamridhiYojana”. This initiative of government was carried out in a phased manner. The first phase was carried out at district and panchayat level while the second level was executed at village panchayat level. The purpose of this scheme is to offer employment and food to rural people thereby improving their nutritional levels. It also aims to create substantial assets for the growth of rural facilities.
- In 2005, “Mahatma Gandhi National Rural Employment Guarantee Act” was introduced with the aim to increase the social protection of poor people through provision of 100 days

of employment to a household every year. Employment will be provided related to drought proofing, protection of work, water conservation, flood control and land development. The act also aims at tackling the issues of persistent poverty thus providing sustainable development in the rural areas. Employment will be given in reach of 5kms of the candidate residence and minimum wages will be paid. If the candidate fails to get employment in 15 days of submitting the application, then the candidate is authorized for unemployment allowance. Today MGNREGA address to all the districts of the country except those who have 100 percent urban population.

- In 2007, the scheme, "Rashtriya Krishi VikasYojana" was commenced for the inclusive growth of agriculture and allied sectors. Under this scheme, states are provided with independence and flexibility for planning, selection and implementation of projects in accordance to the requirement in provinces which need specific focus for enhancing productivity in the state. The scheme basically aims to reduce the yield gaps for important crops thus maximizing the returns to the farmers. Some of the areas covered under RKVY are: Agriculture Mechanization, crop and animal husbandry, fisheries, horticulture, organic and bio fertilizers, soil and water conservation etc.

## EVOLUTION OF MICROFINANCE

The idea of microfinance is present in society from the gothic ages in one way or another but eventually it obtained significant attention and acceptance as an apparatus to poverty reduction (Sengupta&Aubuchon, 2008). From the couple of decades, the concept of microfinance has developed substantially and is viewed as an effective mechanism to eliminate poverty and inequality existing in the society (Kanak&Iiguni, 2007). High incidence of poverty in thecountry weakens the social and political paradigms which leads to negative impact on its efficiency (Gurses, 2009). It has adverse impact on the development of legal and financial institutions. In developing countries such as India, institutions failed to provide credit, insurance, savings and remittances to a large segment of population especially the marginalized community (Samantaraya&Goswami, 2015). Availability of loan and savings are necessary for fulfilling the consumption needs and enhance the welfare of the poor people (Morduch et al., 2005; Sinha, et al., 2007). To include poor people as a part of mainstream formal institutions various measures were taken. Hence, they are forced to meet their credit requirements from informal sector by means of easy availability of loans. Informal credit which is identical to microfinance exist in urban and rural sector for centuries. The mechanism of credit and saving works from hundreds of years which comprise "tandas in Mexico", "susus in Ghana", "cheetu in Sri Lanka", "chit funds in India" and various others savings and credit societies across the globe. The origin of informal funding is loans taken from money lenders, friends and close relatives. Poor people usually borrow money from informal sources such as money lenders, relatives and friends. Due to high default risk moneylenders exploit the marginalized poor and charge exorbitant interest from them (Rallen&Ghazanfar, 2006). Also, moneylenders use very brutal methods of loan recovery in case of non-payment. According to Bhatt & Tang (2001), informal sector is not capable enough to fulfill the expansion needs of entrepreneurs because the high cost of loan does not leave anything with the poor to save. Further, there are other informal sources for the poor to borrow and save money in the developing countries such as "Rotating Saving and Credit Association (ROSCA)" In ROSCA, individuals make weekly or monthly contribution towards a common fund for a stipulated time period and one member keeps a record of all the contributions. Also, one member can withdraw lumpsum amount from the fund at the beginning of each period. This form of informal credit takes place in countries where there are limited financial institutions such as Africa, Asia and South America. It is risky affair wherein a member can withdraw his participation after taking all money from the fund. Moreover, the rules of ROSCA are rigid and does not help its member if they need money for emergency purpose. Hence, such informal financial institutions are notable to satisfy the need of people due to inflexibility of loan amount and time. Thus, there exists a need for financial institutions. Formal institutions are necessitous to fill the gap of access to credit for people surviving at fringes of society. They lack sufficient resources to gather meaningful information to determine the creditworthiness of potential customers due to absence of financial records and credit history. That is why, these institutions evade to provide loan to such impoverished people (Morduch et al., 2005). Hoff et al., (1990) identified that banks usually overcome this problem of asymmetric information by demanding collateral from the poor people. Gathering information about the creditworthiness of their potential rural clients involves huge transaction cost. Also, banks generally indulge in formal documentation with its borrowers and this raises the transaction cost of banks (Sriram, 2005). Banks charge for an inflated interest on loan if they are not able to obtain adequate information regarding the repay ability of their prospective clients. In some cases, the problem of moral hazard arises when such member takes loan on inflated interest rates and get abscond without repaying it (Morduch et al., 2005; Rallen et al., 2006). Such risky borrowers make less efforts to invest loan amount in a profitable project because they have no apprehension of seizing their property. As a result of which banks refrain themselves to finance these small businesses. Government in developing countries offer many rural financing programs to serve the poor but the subsidized loan could not reach poor people and benefitted rich households which thus makes all of their efforts go in vain (Goheer, 1999). To address these shortcomings, government has formed cooperatives to fulfill the requirements of poor people. To overcome the problems associated with formal and informal sector government need to prepare a well through program to fill the gap for offering credit facilities to small enterprises. Thus, microfinance is contemplated as a successful program in developing countries (Bhatt & Tang, 2001). Before the microfinance program, many efforts were taken to help under privileged people. As per Helms (2006), 15th century marked the beginning of microfinance program wherein a catholic church first created a pawn shop by replacing moneylenders.

## MICROFINANCE IN INDIA

Poverty is a serious area of concern for developing countries and many initiatives has been taken by government and institutions to overcome this problem. For many years, subsidize money was given to the poor because paying the interest on credit was seen as a major issue faced by the poor people. But it was realized that availability of credit is an important area of concern for the poor rather than payment for borrowed money (Srinivasan&Sriram, 2003). Hermes et al., (2007) mentioned that non- availability of credit and financial services is a major hurdle for well- being among the poor in emerging economies. In this context, the concept of microfinance emerged which provides both social and financial facilities to the disadvantaged and ignored segment of the society. The idea of microfinance formally come into existence in 1970s by Muhammad Yunus in Bangladesh to alleviate people from poverty (Daher&Saout, 2013). Microfinance act as a lifeline for the people who have not received any financial services from traditional financial institutions. This new initiative plays a significant role in financial and economic progress of the individual and society as a whole. Various studies state that microfinance is an answer to the need which banks could not fulfill. Because of the inability of formal financial sector, microfinance institutions succeeded (Vanroose et al., 2013). After the award of Noble Peace Price to Prof. Muhammad Yunus in 2006, microfinance is considered as a very attractive weapon to fight with poverty. Microfinance has evidenced as a powerful means to bring people out of poverty and make them an important part of the society. In Bangladesh, Dr. Yunus found Grameen Bank in 1976. In 1983, it got transformed into a bank to offer small credit to the desired people. He feels that access to small sum of money is enough to uplift these people out of poverty and it will also provide them an opportunity to start a microenterprise and realize their entrepreneurial potential. Microfinance services are particularly provided to women to facilitate gender equality and women empowerment. It provides various other benefits to society which include boost in incomelevel, enhance ability to make decisions, improvise their living standard, increase in employment opportunities (Brau&Woller, 2004). Indian Government took many efforts to upgrade health, education, basic sanitation facilities and other facilities to enhance the ability, capacity and conditions of the people. Since independence, government is focusing on accessibility of financial services to needy and disadvantaged poor. In 1969, once commercial banks became nationalized, they were instructed to provide priority sector loan at 40% concessional rate of interest. This sector covered agriculture and its related occupations. The programmes introduced by government of India to reduce poverty did not realize the intended objectives owing to poor execution and management of government authorities. Public funds aimed to alleviate poverty were misused or manipulated by local and corrupt people (Mehta & Shah, WP No.7). Although private sector has taken initiative to provide microfinance services in India, which can be spotted by the policies taken by Sahakari Bank, ShriMahila "Self Employed Women's Association" (SEWA) for offering financial services to the needy women engaged in unorganized sector in Gujarat. During the startup phase, many NGO- MFIs were dependent on donor funding by way of revolving capital and operating subsidies. "National Bank for Agriculture and Rural Development" (NABARD) in 1992 took the idea of Grameen Bank in Bangladesh and initiated the concept of Microfinance in India. Since, then the programme got push in India. There is a huge realm of possibility for microfinance to grow in rural India. Reserve bank of India has taken initiatives to encourage inclusive growth of the poor people for growth of the nation. Provision of financial services especially the credit facilitate means to make living. Therefore, financial inclusion holds an important mechanism to achieve inclusive growth. RBI promote financial inclusion where banks could not fulfill the expectation of the poor as providing finance to them will result in high cost of transaction who need small amount of credit at regular periods. Small borrowers in rural areas see banking as institution for rich people. They do not approach the bank due to the long distance and loss of income for not going to work and they are not certain whether they will receive the banking facility. The inconvenience caused to the people made banking as an unattainable option. Even banks view poor as an undesirable proposal due to high risk.

## CONCLUSION

The study contributes to the existing literature of women empowerment and family's wellbeing using microfinance loan for micro business. To achieve the objectives, a conceptual model has been developed to determine the factors affecting women empowerment in case of two categories of borrowers i.e. self- managed business and family- managed business. Quantitative and qualitative data are gathered from women borrowers engaged with income generating activity and are customer to microfinance institutions for at least 2 years. The results exhibit that microfinance program help its borrowers to achieve empowerment in case of both categories of women borrowers. Moreover, it is suggested that microfinance institutions should prefer to give loan to women engaged in their own business because borrowers engaged in self-managing enterprises are more empowered in terms of economic empowerment as compared to borrowers who are diverting the loan proceeds to their family business. Studies in literature have reported that economic development is essential to achieve social development and latter comes gradually in the long run. The interviews with women borrowers reveal that microfinance institutions do not help its clients to graduate their business to next level neither they provide any training to them. As a result of which, the business of microfinance borrowers has become stagnant which makes them ineligible for bank loan.

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