

## ROLE OF MICROFINANCE IN THE DEVELOPMENT OF INDIAN WOMEN ENTREPRENEURS

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### Abstract

In developing countries, generally, women are economically dependent on earning males in their families and lack resources which can otherwise help them grow and progress. Their larger concern remains achieving financial security. Predominantly, women in rural areas face greater difficulties in generating income for their livelihood without proper education, fiscal management, and assistance. Even, women entrepreneurs have been abutting bigger challenges than the people facing in services or others. A major investigation rises for questioning the potential of women in paying back their loans and male dominance in patriarchal society for controlling the financial structure in developing societies. India is not an exception to this. It is highly needed to scrutinize the aspects related to the financial security of women in developing economies, where microfinance has emerged as a harbinger for women entrepreneurship. In this context, present paper attempts to analyze how women are seeking this option of microfinance to support their social and economic development in developing countries in general and India in particular? And whether this contribution helping women or is it just an illusion to exhibit?

*Keywords-* Microfinance, rural women, Self-Help Groups, small business owners, social capital

### Introduction

In the modern financial systems, bank lending has always been a safe option for people who seek loans for their general or business purposes and reasonable interest rates in flexible repayment marked this option safer in every aspect. However, people from marginalized communities or poor communities still can't afford to submit their surety to the bank for sanctioning of loans. Or one can say that they do not have many assets to give to the bank to get the money for the desired amount they want for their fresh start. Many people, especially women, stated that they are willing to give everything to the organization to get the money for a fresh start, but they cannot give any guarantee that this world will get them a way to earn their assets back by achieving their goals and growth (Asian Development Bank, 2020). The market has tough competition and women face it in a much more crucial way as in patriarchal society men are always trusted more. After facing all these problems, and not getting any solution to get these bank services, there has emerged availability of loans through microfinance.

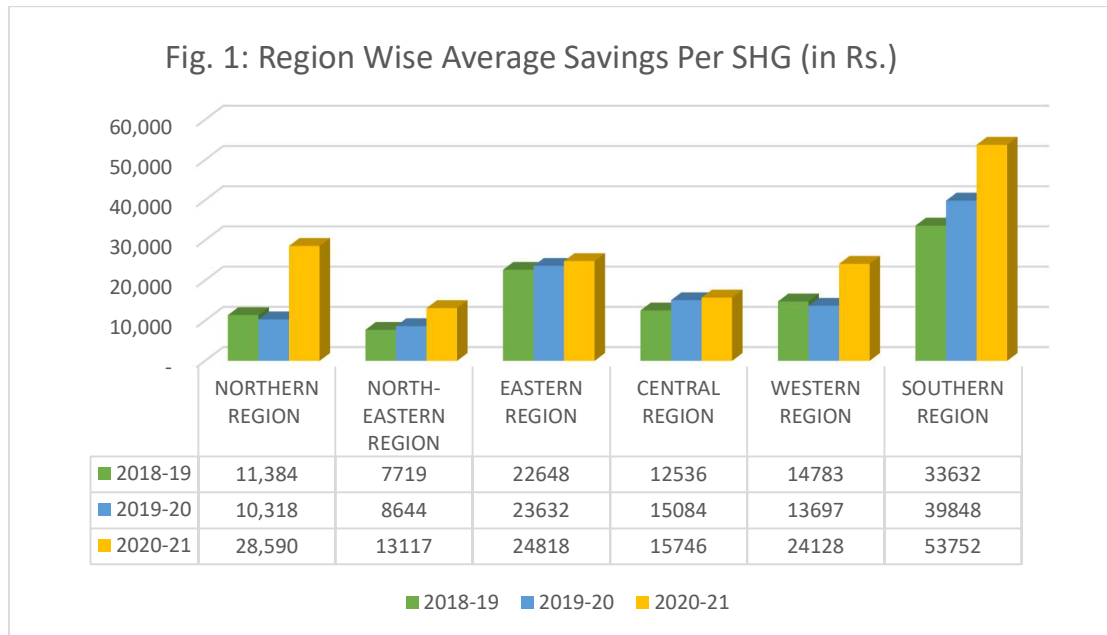
Microfinance is a provider service that is linked to a bank which specially provides a sum of money in the form of a loan, especially to the poor, unemployed or lower-income people and communities (Kundu and Singh, 2022). The idea behind this microfinance service is to provide loans to the people to whom the banks are inaccessible and to whom these banking services are unapproachable. Lending a loan through microfinance seems the same as the normal loan practice, however, it has a much more flexible and reasonable rate of interest that can be repaid accordingly. World bank (2020) data reveals that nearly 500 million people have availed this microfinance loan service successfully the world over. Majority of them being female entrepreneurs with low-income family backgrounds.

The idea of microfinance loan system is to help needy women in general by giving them small business loans as they have the potential but needs financial support. However, the question arises, if a person is ignorant about the banking system, how come it is safe to give her an amount in the form of a loan? To make it more suitable, under the microfinance loan terms, a person who seek a loan from the microfinance organization, first needs to take lessons in classes about interest, knowledge of cash progression, agreements, budgets and how to repay debts even if you do not have a lot of income. Once a person gets this education, they can apply for a loan accordingly. Just like a traditional loan process, everything gets approved and then sanctioned, however, the best part of this loan is that the amount is so low that a normal bank would not recommend or even think about giving a meagre amount to a person. The process starts with opening a savings account by the microfinance bank/organization in the name of the borrower and an interval period is decided by both the borrower and the bank in which a person would deposit the taken amount in the savings account. An applicant of microfinance generally does not have collateral to submit. This savings account works as both collateral and a future savings option for the person opting for microfinance loan. This small amount of microfinance can create a big difference in a person's life. The needy women require microfinance more than any other facility in today's time.

The beginning of micro-credit/finance was in the 18th century when Jonathan Swift started to take responsibility for improving the conditions of Irish society by giving them a loan funding system (Hollis and Sweetman, 2001). In the present times in South Asia, the emergence of microfinance can be seen in the starting of Grameen Bank by Muhammad Yunus in 1983, in Bangladesh (Grameen Foundation, 2008). Many other places have these microfinance banks officially and unofficially and most of these banks target women to go through the journey of development and self-reliance through the activities they are well-versed with (Asian Development Bank, 2020).

Although microfinance has no definite definition, but its meaning and usage gives an idea of how it works. It is a 'gender development program in which everyone is focused on women and their development in the area of small business and other economic activities' (Revenge and Shetty, 2012). One can find women barely self-sufficient financially in the patriarchal society (Shohel et al. 2021). Economic Census of India (2016) found women entrepreneurs playing significant role in country's economic growth with 3.09% industrial output employing

10% workers. However, India ranking third in gender gap among global entrepreneurs, noting only one third of the early-stage women entrepreneurs (GEM, 2014). Lack of financial access being the largest constraint among small and medium women enterprises in starting their businesses (IFC, n.d.). Fig. 1 depicts region wise average savings per self help groups, which is highest in southern region followed by eastern and western regions. However, northern region registered second highest per capita saving in 2020-21.



Source: Reserve Bank of India (2022).

**Women Entrepreneurs and Microfinance**

Most women entrepreneurs come from a family where education is not provided to them as a core value. Other than the difficulties usually being faced during the establishment of fresh venture, women need to overcome societal pressure, legal difficulties, illiteracy, family values, cultural barriers, and other personal problems (OECD, 2004). Women are always known for their saving capacities through informal forms of income. Apart from their saving cash, they have their personal belongings as collateral to get loans from personal relatives for a short period. This collateral can be jewelry, family antiques, services etc. (Kumar, 2022). In some cases, women make business partners and get the burden of sharing their income among too many people which can further burden them with the instability of fresh ventures. Even the market people are too harsh towards women and would not give them any credit supply without any payment. Owing to globalization, now people are investing more in women's projects as they find it more helpful and influential.

Microfinance creates a ground of possibilities, employment and risk-taking factors for women entrepreneurs by providing them with essential information, which further leads them to better opportunities, better strategies and poverty reduction. Microfinance institution helps women in the form of NGOs, Financial Institutions, SHGs etc. These institutions classify urban and rural

borrowers, and many microfinance institutions only take women entrepreneurs as they wish to enhance their economic objectives by giving them financial stability and poverty reduction (Ukanwa et al. 2018).

Another area in which microfinance institutions help women entrepreneurs, is the creation of 'social capital on the grounds of entrepreneurship. As most women entrepreneurs are from a lower education background, they lack the capacity and knowledge regarding the establishment of a new enterprise. As they are primarily weak in human and financial capital, microfinance institutions help them to achieve higher goals in social capital (OECD, 2004). As easy as this quality seems, it is much more important than the other aspects of ownership. Social capital primarily depends on the connection networking through which an owner can flourish and receive new opportunities in human and financial capital areas. People can create their structures and manage them through this networking capital. Women are always behind such kind of networking as people tend to focus on male entrepreneurs and their strategies rather than women. Undeniably women are more sufficient and successful in creating communication-based relationships in society, nevertheless, due to low self-esteem and lack of resources, they seem to focus on low-risk relationship building that would confine their social capital to certain people. Microfinance institutions focus on rebuilding women's self-reliance abilities and train them to focus on rebuilding social relationships with other people (Khursheed, 2022).

**Self-Help Groups and Microfinance**

The most apt example of a microfinance institution at a primary level SHG. In India, growth of SHGs were authorized by National Agricultural Bank for Rural Development in the late nineteen eighties, however, its earlier roots can be traced to 1947 in Bombay Presidency State (Maharashtra) when such a group was established by a few women in Amravati region to help women entrepreneurs (NABARD Report 2022). SHGs primarily work on women's empowerment and help cash flow among the poor who cannot access banking services and cannot understand bank-term loans due to illiteracy and unawareness. These people are from the same background as to whom they are helping. These group members work on small savings with banks and then sanction the amount to the people who want small loans for different startups. These loans are not limited to economic uses but for other purposes as well such as marriages and other home requirements etc. The most noticeable features of SHGs are-uniformity in society, savings, bank acclaim facilities, repayment guidance facilities, and promotion of social capital, especially among women entrepreneurs. (Bharathi and Masthani, 2014). Table 1 elaborates the status of microfinance among SHGs in India, where 88 percent of SHGs are exclusively women centered.

**Table 1: Status of Microfinance among Self Help Groups (SHGs) in India, 2022**

Sr. No.	Particulars	Total	
		Physical	Financial

		(No. in lakh)	(Rs in crore)
1	Total number of SHGs saving linked with banks as on 31 March 2022	118.93	47240.48
(i)	Out of total SHGs- exclusive Women SHGs	104.00	42104.77
(ii)	Out of total SHGs- under NRLM/SGSY	71.84	27576.94
(iii)	Out of total SHGs- under NULM/SJSRY	5.81	2600.19
2	Total number of SHGs credit linked during the year 2021-22	33.98	99729.22
(i)	Out of total SHGs- exclusive Women SHGs	31.50	93817.21
(ii)	Out of total SHGs- under NRLM/SGSY	22.91	63100.77
(iii)	Out of total SHGs- under NULM/SJSRY	1.84	5816.10
3	Total number of SHGs having loans outstanding as on 31 March 2022	67.40	151051.30
(i)	Out of total SHGs- exclusive Women SHGs	62.65	142288.61
(ii)	Out of total SHGs- under NRLM/SGSY	44.54	94231.52
(iii)	Out of total SHGs- under NULM/SJSRY	3.27	7608.57

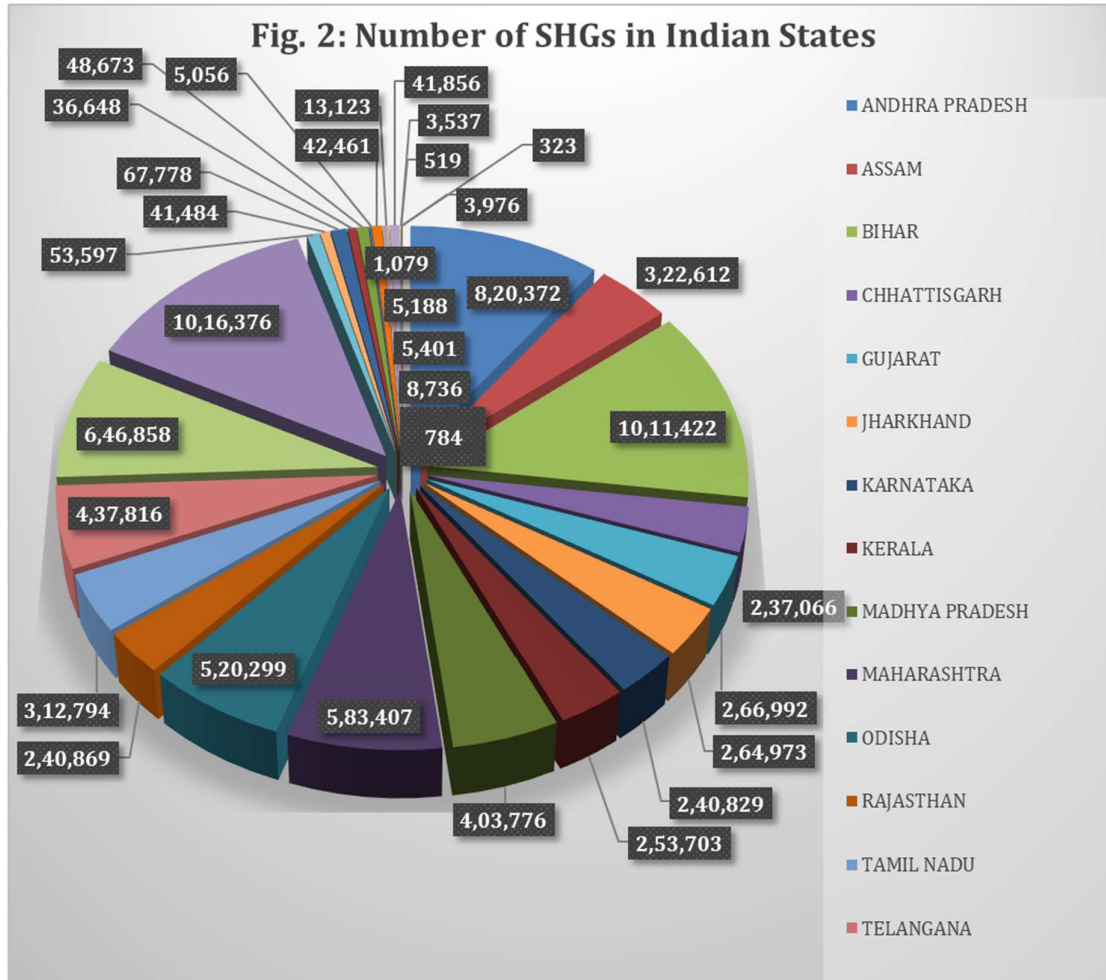
Source: NABARD, 2022. (NRLM: National Rural livelihood Mission; SGSY: Swarn Jyanti Gram Swarojgar Yojna, NULM: National Urban Livelihood Mission; SJSRY: Swarn Jyanti, Shahri Rojgar Yojna)

Many unemployed women in rural areas want to start their ventures but cannot do due to a lack of education and financial stability. In rural India, many women do agriculture labor as people find them 'worthless' in other sectors. Majority of rural women are in a vulnerable condition and lack financial stability. In such conditions, SHGs comes forward to create awareness among them. SHGs are generally monitored by the group leaders or the facilitators, which may be from government organizations, NGOs, Rural Banks, serving government staff, or any ex-employee of such bodies. The number of women animators are always in majority in these SHGs, as they further guide, train, and promote women empowerment in rural areas. These groups are registered with government organizations with unique IDs, and number of women in each SHG is usually below 20. Many a success stories of such SHGs include Kudumbashree in Kerala, Jeevika in Bihar, Mahila Arthik Vikas Mahila Mandal in Maharashtra, and recently, Looms of Ladakh (Govt. of India, 2023).

### Current scenario

India is one of the largest countries to practice and have access to microfinance facilities in the world. Global data for 2016-2021 reveals over a billion people are poor all over the world and still do not have formal financial access. Out of this more than 200 million people lives in India. This is the major reason why microfinance is much more prevalent in India rather than in any other country in the world (Ajaz and Sharma, 2014). The advancement of the microfinance sector broadly can be perceived as evolved through four major phases viz., cooperative movement (1900-1960s); sponsored social banking (1960-1990s); SHG & bank linking programs and the promotion of NGOs and microfinance institutions (1990-2000); and universalization of microfinance, year 2000 onwards. During the previous decade, in 2015, Government of India has introduced 'Pradhan Mantri MUDRA Yojana' to promote microfinance among the rural people. An online portal has also been launched, through which a person can apply to any of the institutions listed by the government to take any kind of financial assistance. Another facility created on the same online portal is assessing the amount required and status of the borrower, so that finance can be approved effectively, for categories including Shishu, Kishore and Tarun, providing financial assistance from micro to medium levels for the borrowers, covering financial assistances upto Rs. 50,000; Rs. 50,000 to Rs. 5 lakhs and Rs 5 to 10 lakhs respectively (Singh, 2022).

International Monetary Fund study (Mathew, 2019) reveals that women, entrepreneurs provide 17% of the GDP in India, which is less than half of the global average. Another research finds some 13.5 to 15.7 million enterprises in India, which is 20 percent of all small businesses owned by women (Bain & Company and Google, 2019). Over a period, the SHGs and microfinance credit initiates have been increasing in India. Moreover, government started to initiate much more funds into microfinance and bank services. Besides, under many policies of microfinance, after COVID-19, the government is encouraging rural women to use digital facilities so that their businesses will not get affected if any issues like the pandemic occur in future. This will also promote awareness, self-confidence, and consciousness towards the modern world. The number of SHGs and bank credit which were 255 and Rs. 29 lakhs respectively in 1992 have increased to 67.40 lakh SHGs with Rs. 1.51 lakh crore bank credit in 2022 (NABARD, 2022). Fig. 2 depicts the distribution of SHGs among Indian states, with West Bengal and Bihar constituting more than quarter of all SHGs in India.



Source- NABARD (2022).

As the microfinance sector generally and primarily deals with the population which hinders any higher education and financial understandings, it helps in promoting entrepreneur skills and financial aspects. Mobiles have changed the communication scenario in the world, and India is not an exception to this. With the easy availability of mobile phones in almost every household and a person who can operate these gadgets suitably, easy mobile apps are being introduced in rural areas to use microfinance services as well. Likewise, if someone lacks affinity with phones and apps, groups attached to microfinance and SHGs train people to learn their working, which is helpful in promoting women entrepreneurship and rural development (Swapna, 2017).

**Challenges:**

Every facility comes with a drawback. There is no formal body to oversee microfinance. Though the Reserve Bank of India regulates most financial bodies, some of the institutions need extra guidance and surveillance. People lack financial education, which causes a major barrier between institution and the borrower. Many SHGs are still struggling to find decent group members so that they can easily get approval for their related applications from the government. As per the government norms, if the records of group members are not generous

then the bigger loans or bigger amounts or any additional assistance is not approved for those groups. Some groups have members that migrate a lot from one group to another, which also leads to disregard by the government.

Another important major factor is the lack of transparent interests. People find it inappropriate in not knowing the actual cost when they are taking a loan from a microfinance institution. Many women entrepreneurs have testified that after getting a loan from one of the institutions they get to know that the amount of interest is relatively higher than what they expected on the amount they have taken as a loan. Due to this they further got over-debt and had to take another job because their venture was new and they cannot get a good amount of money in starting any small business (Singh and Singh, 2022). Also, it has been stated that many microfinance institutions are operating in areas where there are already enough institutions. They are not covering other rural areas where women need finance.

Another challenge is that many women are from the higher age group that cannot understand or educate themselves again digitally. For this people are urging the government to provide resources and assistance both manually as well as digitally, so that everyone may access the resources effectively. However, the fact cannot be denied that many NGOs are short on funds and they cannot hire that many people to operate things manually and digitally hand in hand. They are opting for options that are feasible and affordable to them. The majority of microfinance operations are conducted by NGOs in India (Singh and Singh, 2022). They are working as a link between bank services, microfinance services and borrowers. Also, people find it easy to connect with them as they are primarily from the region where they are living or the people from NGOs can easily understand the concerns of the rural people.

Many people argued around the world that lending money to these marginalized people individually as a microloan is not enough for them to be independent. The idea behind this statement is that they find it still a 'burden' to pay the interest, especially by women, that is being connected with the microloan. Many microfinance institutions are charging high rates of interest even greater than commercial banks. Other than these challenges microfinance institutions lack consistent data which hinders their level of investment in a better place. Major microfinance institutions are following SHG models for lending money, which are not at all scientific and based on random modelling. In these models, one cannot identify the eligible borrower and the amount of burden they can take sufficiently (Parthasarthy, 2018).

#### **Way forward:**

After the pandemic, all countries are facing an economical shock. The already vulnerable part of society i.e., women are facing much more inconvenience than at any other time. Due to the importance of microfinance institutions and their reliability Government of India has started much assistance in a form of various schemes. Some of them are Atma Nirbhar Bharat, Pradhan Mantri Garib Kalyan Yojana, Atmnirbhar Nidhi, Deendayal National Livelihood Mission, and Pradhan Mantri Jan-Dhan Yojana etc. (NABARD, 2022). In addition, the Government of India has started many other provisions in which they are giving other household necessities to the



poor, particularly to women, so that they would get free from the other financial burdens of daily consumption. During the pandemic, the government was unable to regulate the communication among borrowers and microfinance institutions which resulted in flawed info services. But now the government has provided additional volunteers to acquire more information to fetch to the loan officers so that they can understand people and their capabilities of applying for loans.

The government is providing women much more than the amount of money as a loan, but this amount also affects the other aspect of their life such as -health care, education, society's outlook towards women and whole well-being. Women's ability to save and to get the credit from market is being increased after the involvement of microfinance institutions in the mechanism. Microfinance institutions are working on getting different collateral which especially includes women's belongings. As women from vulnerable parts of society usually do not have access to a good amount of property in their hands. Setting up things easily and flexibly promotes schemes to the vehicle section of society because they find it easy to understand and connect (NABARD, 2022). Many women find it difficult to take the training programs as they also have household responsibilities and taking children's care. To resolve this issue many microfinance institutions started easy apps that can be accessible to all age groups of women.

Some States and especially the village areas have their lingual limitations that need a translator among different institutions. To resolve this issue the government is providing multilingual apps that can be accessible to all through easy-going technicalities. Other than these issues some people argued that by targeting poverty solely, people and the government are neglecting those women who do have skills and abilities but belong to the middle section of society. Accessibility should be divided equally for the consumption of loans in different sections of society (Kumar, 2022). Due to this, the government started the MUDRA Bank which is targeting different people with different abilities, skills, and requirements.

### **Conclusion:**

As per Reserve Bank of India, microfinance institutions are not just an instrument to reduce poverty in a particular country or state, but these also promote development among the marginalized people of the society. In a way microfinance institutions promote basic services to the poor, improve the economic conditions of their poor households, and promote women's participation which further supports gender equity and empowerment. It all suggests that the contemporary world is open for women entrepreneurs and coming up of microfinance and SHGs are instrumental in achieving gender equality and women empowerment.

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