

# Microfinance: More Than Just Credit

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Poverty is not only multidimensional but also gendered. In light of this reality, Microfinance has often been compared to a ‘magic bullet’ for poverty reduction and alleviation in the existing literature. It has been lauded for nurturing micro-entrepreneurship and women empowerment. However, some of the recent criticisms deem it as ineffectual on both the counts, if not exacerbating. The essay endeavors to make the case that microfinance holds manifold benefits apart from the intended economic spillovers (whose existence has mixed empirical evidence) for women.



Most microfinance institutions in South Asia target women. The motive behind this is to create gender equality by empowering women through economic assets. It is believed that possession of economic assets, such as microcredit, would grant women greater say in household matters in light of their increased contribution to household wages. Moreover, this microcredit is expected to enable them to undertake income-generating small-scale

entrepreneurial ventures which would lead to their upliftment.

Critics have faulted microfinance for failing in this core objective of empowering women. According to them, the patriarchal setup comes in the way of its goal. They cite anecdotal evidence which suggests that women after receiving the borrowed amount from microfinance institutions ultimately hand it over to their husbands. To them, women in this way were not getting empowered but merely manipulated. They further argued that women, owing to the unfair transfer of accountability, also had to face the social consequences and deal with the staff at the microfinance institutions in relation to the repayment of the loan over which they did not have much control in the first place. It has been pointed out that “when they seek access to bank credit, women’s groups are in a dependent relationship, and are subject to, and tarnished by, the institutional imperatives, systemic corruption and political compulsions that shape the behavior of rural development bureaucracies and banks” (Kalpana, 2008).

However, the claims pertaining to the improvements in the economic standing of women have been faced with mixed empirical evidence. While some argue that microfinance has had an empowering impact on women (Hulme & Arun, 2011) (Karmakar, 2009), other studies claim that the effect albeit positive is not significant or particularly transformative (Banerjee, Duflo,

Glennester, & Kinnon, 2010). However, one needs to look at empowerment beyond the economic sense. Microfinance has positive social spillovers for women as well.

Most commonly stated positive social impact is on health and education. It has been widely researched and revealed that women tend to spend more on the health and education of their children. However, the most crucial outcome of microfinance activities is towards increasing the physical mobility across public spaces of women (Hulme & Arun, 2011). Perhaps it might not be as 'transformative' as economic empowerment is thought to be but it is still significant for women who after having married and leaving their friends and family have little real support outside of their husband's home or even within it. Going to the meetings of groups created to avail microcredit gives them an opportunity to bond with other women going through a similar stage in life and share their experiences. The support system that these women forge during their meetings assuages not only psychological troubles but has also been reported to extend at the time of difficulties in repayment (Pande & Field, 2017). These groups also cultivate a sense of community by getting credit as a collective entity, something which could not have been got at the individual level. Thus, microfinance can enable women to generate income and livelihood options, bestow them with greater agency and say in financial decisions of the household, spend in the health and education of their children and forge a sense of community outside their marital homes. In this way, they can even overcome any mistreatment on part of the social and economic institutions by standing in support of each other. These positive externalities for women make microfinance a worthwhile option for empowering them.

A remarkable example of a successful microfinance undertaking that has resulted in the social and economic empowerment of women is Kudumbashree. Launched in 1998, Kudumbashree is a community network working alongside local self-government institutions towards poverty eradication and women empowerment. The Government of Kerala and the National Bank for Agriculture and Rural Development (NABARD) came together for this programme whose name in Malayalam language means 'prosperity of the family'. This programme evolved from a microfinance-led financial security model to focus on local economic development and encourage participation of women for empowering them. Kudumbashree works at three levels: Neighbourhood Groups (NHGs) at the grass-root level, Area Development Societies (ADS) at the middle level, and Community Development Societies (CDS) at the local government level. The NHG is the primary level and has groups constituting of 10-20 women, one from each household who meet weekly and contribute a stipulated savings amount (usually the amount capable of being saved by the weakest member). After three months of thrift collection, the group proceeds with internal lending and small loans are given on collectively decided interest rates to the neediest member, based on a majority voting. The decision regarding the various aspects of the repayment of this loan such as assistance in repayment, penalty or legal action is all in the hands of the group members. Such a system spurs the group members to evaluate choices individually, take decisions collectively and govern themselves independently. It brings out their potential to lead and run operations independently. Moreover, since the payments are collected by fellow group members only who are, as the name suggests, neighbours, there is little chance of

coercion as alleged in other microfinance institution projects. With the membership being limited to only one woman from the household, it also prevents from the multiplicity of borrowings per household. Following six months of the group's operations and favourable grading to qualify for bank linkage, it becomes eligible to apply for a loan at a bank. While microfinance is at the core of its operations, Kudumbashree also holds the objectives of improving the incomes of the self-identified poor through the provision of skill enhancement and vocational training; creation of venues for self and wage employment through setting up of micro-entrepreneurial ventures as diverse as plastic recycling, poultry farming, wellness centres and coir processing among many others; ensuring access to better health and nutrition for poor households; ensuring the provision of basic civic amenities such as safe drinking water, sanitation and shelter; promoting continual of education and rehabilitation of destitute. The holistic approach of Kudumbashree is cognizant with the multidimensional problem of poverty and focuses on its alleviation similarly. This, and especially the focus on saving, has made Kudumbashree by far the most successful microfinance experience in India (Ghosh, 2013). Kudumbashree's efforts in local economic development, social and women empowerment have led to the mobilisation of 43,06,976 members, 31,261 microenterprises, 1,78,898 NHGs linked to banks and a total thrift amount of 372.2 billion rupees (Home: Kudumbashree).

The immense success of the Kudumbashree model sets a definitive example of the potential achievements of microfinance. It exemplifies how microfinance can be used to create economic opportunities for women while also generating access with the

gradual erasure of restrictions on their social mobility. This reaffirms the belief that microfinance is more than just credit for women.

### Works Cited

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