

Microcredit: The Role of Small Finance Banks in Promoting Women Empowerment

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Abstract

The major problem India faces currently is the poverty which is deeply rooted along with the population growth. More than 40% of Indian population is living below poverty line. Microcredit can play a vital role to achieve inclusive growth and financial security especially for the poor women. Microcredit organisations are very much instrumental for the empowerment of women in rural areas. Rural women are more loyal to microcredit schemes due to its diverse benefits. It gives opportunities and engages them in self employment to bring a steady income. Sharing financial responsibilities between family members will help the women to achieve gender equality. The outcome would be the improvement in standard of living, education level and literacy rate of rural poor. If used properly, microcredit can empower people, particularly the women in rural India by acting as a great change catalyst at the grass root level. Government of India has taken up several initiatives to promote the welfare of rural women. Already, Commercial Banks, Co-operative Banks and Regional Rural Banks are lending to rural population under varied schemes. Microfinance institutions have been started by various agencies with the support of Government to lend and empower rural women. All these banks and institutions are not in a position to cater the credit needs of entire rural population because of its structural weaknesses. So the Government along with Reserve Bank of India has decided to start Small Finance Banks to serve the under-served folks in rural and semi-urban areas. Their role in providing microcredit services and there by empowering the women is the subject matter of analysis in this article.

Key Words: Microcredit, small finance bank, women empowerment, economic status, social status.

1. Introduction

Women are the backbone of the society. Gender discrimination is very much common in India. The empowerment of women and gender equality are the basic requirements for a developed society. Indian rural women are marginalized and vulnerable group of the society due to the lack of access to financial property and education. Women have less participation in the development process of the nation. Economic independence is necessary to enhance the status of women, both in family and society. For this cause, Government of India has taken many initiatives. Commercial banks play a vital role in the economic development of the society by ensuring mobilization of savings and providing credit to various poverty eradication programmes. Likewise, different institutions such as Industrial Development Bank of India (IDBI), Industrial Finance Corporation of India (IFCI), Small Industrial Development Bank of India (SIDBI) are functioning to fulfill various financial requirements of different segments of the country. Also Co-operative Banks, Regional Rural Banks and Local Area Banks are institutionalized by Reserve Bank of India (RBI) to focus on rural women empowerment programmes and satisfy the financial needs of small customers in rural and semi urban areas. All these financial institutions have not fully succeeded to cater to the entire society, mainly rural women and small customers because of organisational limitations and financial illiteracy. The concept of Small finance Bank (SFB) is the new step taken by RBI to bring unbanked and under-banked community under the territory of banking sector. Hence RBI issued license to ten institutions to start SFB in the nation. As Micro Finance Institutions (MFIs) have been practicing among rural people for long time, they are in a position to understand the credit needs of rural women and serve this under-served population. So, out of ten entities, eight are from microfinance sector which shows the importance of microfinance institutions to contribute to low income group in rural India. These banks are new and innovative in the formal banking sector. Under this context, an analysis is required to recognize their role in microcredit and empowerment of women.

2. Origin and Importance of Microcredit

In India, microfinance movement was started in 1974 in Gujarat as Shri Mahila SEWA Sahakari Bank, which provided financial services to poor women employed in informal sector. In early 1980s, the concept of Self Help Groups (SHGs) was evolved in order to provide financial services to rural poor from the banks and microcredit organisations.

The Indian government through the Reserve Bank of India has encouraged for the launching of microfinance movement in India. National Bank for Agriculture and Rural Development (NABARD), the Small Industries Development Bank of India (SIDBI) and The National Credit Fund for Women (NCFW) generally known as the Rashtriya Mahila Kosh (RMK) are the main

supporting institutions of microfinance from the formal sector. NABARD is the apex body in promoting microfinance in India. Economic empowerment of rural poor by facilitating their access to the formal banking system in a cost effective manner is the NABARD's vision in promoting the microfinance. Small Industries Development Bank of India (SIDBI) is a development bank, mainly responsible for launching programmes like Micro Credit Schemes (MCS) and Trade Related Entrepreneurship Assistance and Development (TREAD) schemes for women's economic development. It largely extends support to Non-Government Organisations (NGOs), for building capacity to handle microcredit programmes and improving their credit absorption capacity. SIDBI's Foundation for Micro Credit (SFMC) is the top provider of micro finance in India. Rashtriya Mahila Kosh (RMK) was started by Government of India in 1993 to satisfy the credit requirements of the poor and asset needs of women in rural areas. RMK provides microcredit through MFIs for different activities including setting up of micro enterprises.

Microcredit is given to those people who do not have collateral security, stable employment and authentic credit record, therefore not having at least the minimum eligibility to access formal credit system. Microcredit has been defined by the Microcredit Summit held in 1997 as "programmes that provide credit for self-employment and other financial and business services (including saving and technical assistance) to very poor persons".

3. Review of Literature

Some selected literatures are reviewed to understand the concept of small finance banks and their role in Indian rural population.

Acharya (2017), in her article pointed out that the Reserve Bank of India (RBI) is instrumental in promoting the idea of Small Finance Banks to provide banking services to unbanked region. It is compulsory as per RBI norms that these banks have to operate at least 25% of its branches in unbanked areas to give financial assistance to rural poor. Banks can expand their banking outlets and make sure the services to deprived community in unbanked areas.

According to Bandyopadhyay (2017), 75% of Small Finance Bank loans have to be disbursed to priority sectors of the society. Demonetization movement affected MFI-turned-Small Finance Banks as it increased the amount of Non Performing Assets. Cash is the foundation for their business form and small customers from informal sectors cannot easily accept cash-less business model. By adopting better technology system and experienced employees, SFBs can accomplish the RBI's goal to provide financial assistance to unbanked population. Ninan (2017), mention that out of ten SFBs, eight are from microfinance institutions and this is a clear evidence of the contributions of MFIs to financial inclusion process. SFBs can serve better the un-served rural population by issuing small amount of credits to meet their different life cycle requirements.

Jayadev et al (2017), in their article portray that Small Finance Banks have to develop digital connectivity with their outsized rural customer base for providing better services to the rural poor. As the rural poor are small value clients, banks need to adopt cost effective methods to serve their customers.

Ray (2017), in his paper point out that Small Finance Bank is an innovative development in the Indian banking industry to extend financial aids among rural and semi-urban poor. They adopt differential model of delivery apart from scheduled commercial banks to reach out to the needy. Small Finance banks have to develop adequate infrastructures and trained manpower in order to fulfill their assigned tasks.

Ravi Singh et al (2016), articulate that the financial inclusion is the main purpose of granting license to start small finance banks to existing Non-banking finance companies and local area bank. These banks have to focus on lending low-value customers at the bottom level of the society. The banks are permitted to collect deposits and perform other banking activities.

Morbias (2016) says that the Small Finance Banks are allowed to carry out the basic banking services such as accepting deposits and lending money, mainly to low-income groups. Since working as banks, the interest rates can be reduced, so the low-value customers and small enterprises can enjoy the benefits of low-cost credits. Institutions, transforming into Small Finance Banks are in a position to understand the financial needs of rural poor. By providing bank loans, these banks help rural population to come out of poverty. Taneja and Bhasin (2016) state that two billion people in the world do not have bank accessibilities.

Financial inclusion is an attempt from the part of the authorities to ensure formal banking facilities to the entire population particularly, low income groups at an affordable cost. In India, government has introduced various schemes to provide financial support to the entire population, but majority of them are still neglected by formal banking system. Small finance bank is the new concept to ensure the formal financial assistance to the whole populace in the country. These institutions provide financial assistance to the marginal sections of the society to meet their small financial needs. Small Finance Banks can uplift the rural economy by supplying credits to the unbanked and the under-banked community. The entities' prime objective is to satisfy the rural financial needs. In this context, it is relevant to study the role of small finance banks in promoting women empowerment in Idukki district, where 95.3% of people are living in rural areas as per the Census of India 2011.

4. Statement of the Problem

Commercial banks and other financial entities are not effectively serving the rural population especially women, because of lack of understanding the credit requirements of rural women. They are mainly interested in providing finance to

large and medium corporate and urban customers. In our nation, majority of the people belong to low and middle income group. In rural India, formal banking facilities are still a scant product. Micro and small enterprises and small customers especially from rural and semi urban areas are partly served by private financial institutions and local money lenders. The concept of Small Finance Bank is an innovative step taken by policy makers to serve the un-served and under-served rural population. Small Finance Banks have better knowledge of the financial needs of rural community because, most of these banks were working as MFIs and their employees have better knowledge regarding the credit needs of rural customers. In this situation, the present study tries to analyse the role of Small Finance Banks in promoting women empowerment through microcredit. In this process it is needed to examine the effect of microcredit on economic and social status of women beneficiaries.

Objectives of the Study

1. To analyse the role of Small Finance Banks in promoting women empowerment through microcredit.
2. To examine the effect of microcredit on economic and social status of women beneficiaries.

Research Methodology

The study is based on both primary and secondary data. To study the role of Small Finance Banks in promoting rural population and women empowerment, secondary data is collected from various journals, publications and websites. Primary data is collected by using a structured schedule to examine the effect of microcredit on the economic and social status of women beneficiaries who availed microcredit from Small Finance Banks.

Sample Technique

Random sampling method is adopted to select the respondents from the selected Self Help Groups.

Sample Size

In Kerala, there are 45,332 SHGs, availing microcredit from small finance banks. Out of which, 3,115 SHGs belong to Idukki District. Data collected from 30 beneficiaries of microcredit, are members of three women Self Help Groups of Karimannoor Grama Panchayat in Idukki District, comprise the population for the analysis. From each of the SHG, ten members are selected randomly to constitute the population.

Period of the Study

The data was collected during the month of May 2017.

Scope of the Study

There are different loan schemes of Small Finance Banks to women beneficiaries. They are beyond the purview of the study. The scope of the study is to analyse the impact of micro credit provided by Small Finance Banks to women borrowers and the result.

Small Finance Banks

Small Finance Bank is smaller in size and functions with no restriction in the area of operation. So they can spread out their activities all over India with a condition that “25% of their branches should be in unbanked area”. Its basic products are both deposits and different loan types. Through financial inclusion initiatives, the government and RBI could succeed to bring large number of rural people under the formal banking system. Still, a considerable portion of India’s population does not have credit facilities mostly because of poor physical infrastructure. According to RBI, the purpose of starting small finance bank is to accelerate financial inclusion by (a) provision of saving vehicles, (b) giving credit to small business units, small and marginal farmers, micro and small industries and other unorganised sector at reasonable rate through high technology. Ten institutions acquired in-principle license from RBI to start Small Finance Banks of which eight institutions are microfinance institutions, one Local Area Bank (Capital Local Area Bank) and the other is a Non-Banking Financial Company. At present nine of these ten institutions are started functioning as Small Finance Bank and the remaining one (Jana Small Finance Bank) will start its functions soon, are discussed below.

1. AU Small Finance Bank

AU Small Finance Bank commenced its operation in April 2017 as a Small Finance Bank. This institution was a Non-Banking Financial Company (NBFC) with the name AU Financiers (India) Ltd., came into existence in the year 1996 in Jaipur to supply the financial products to low and middle income and under-privileged customers.. AU Small Finance Bank currently has branches in 12 states in India. The bank helps the people to get financially empowered with variety of financial products including micro credit.

2. Capital Small Finance Bank (CSFB)

This is India’s first Small Finance bank which commenced its operations from April 2016. RBI granted ‘scheduled bank’ status to CSFB as per RBI notification issued on February 16, 2017. Capital Local Area Bank has changed from local area bank to Small Finance Bank in the name of Capital Small Finance Bank (CSFB) with 76 branches in two states. The bank tries to extend modern banking facilities to backward areas at low cost. The bank has varieties of loans such as housing loan, gold loan, loan for agriculture etc. besides microcredit.

3. Fincare Small Finance Bank

Fincare Small Finance Bank has started its operation in September 2017 with registered office in Bangalore. The bank provides gold loans and housing loans along with the existing business in priority sectors and retail segments, and bank will maintain its business such as microfinance and micro enterprise loans in rural and semi-urban areas. Fincare Business Services Ltd. is the holding company of Fincare Small Finance Bank, and the group is operating now in 7 states and one union territory. The bank believes that, if women are

economically uplifted, their standard of living would improve. So they provide microfinance products to rural, semi urban and urban women.

4. Equitas Small Finance Bank Ltd. (ESFBL)

Equitas Small Finance Bank Ltd. started its business in September 2016. It has focused its business to provide financial solutions to individuals and micro and small enterprises which are not getting easy access to formal banking system. 50% of the bank's business is in micro finance, 25% is in micro and small enterprises and the remaining 25% is used for commercial purpose. The bank has branches in 15 states in India at present.

5. ESAF Small Finance Bank

Evangelical Social Action Forum (ESAF) started its operation as small finance bank in March, 2017 with 15 branches in Kerala. Its aim is to meet the micro and small credit needs of poor women in the areas where there are little banking facilities. Group lending is the unique lending system of the bank. ESAF Small Finance Bank has presently branches in 5 states in India. ESAF Small Finance Bank offers a number of loan products such as (1) Personal loan, (2) Loan against property, (3) Business loan and (4) Micro housing loan apart from microcredit.

6. Jana Small Finance Bank

Janalakshmi financial services Ltd. (JFS) started its function as a non-banking financial company in the year 2008. It operates in 17 states and 2 union territories and considered as one of the fastest growing MFI in India. Janalakshmi financial services got the approval from Reserve Bank of India to start small finance bank and will be known by the name Jana Small finance Bank (JSF). It is planning to start operations shortly by establishing 300 branches in main cities in India.

7. North East Small Finance Bank (NESFB)

The first small finance bank in North-East region, named as North East Small Finance Bank (NESFB), started its functions in October 2017. The bank tries to use microfinance as a tool to alleviate poverty in the Northeastern region. It is obliged to various issues like women empowerment, entrepreneurship development and to increase standard of living of its clients with a number of financial products. It continues its micro credit lending and plan to introduce different loan products.

8. Suryoday Small Finance Bank

Suryoday Micro Finance Pvt. Ltd. converted into Suryoday Small Finance Bank and commenced its activities in January 2017 with 11 branches. It provides loans to low-income women who find difficulty to access formal banking services. The institution has presently branches in 5 states of the country. The bank's aim is to serve 'banked', 'under-banked' and 'un-banked' sectors along with the microcredit. This entity offers small unsecured loans, which represent 98% of its loan portfolio, and loan against property.

9. Ujjivan Small Finance Bank Ltd.

Ujjivan Small Finance Bank Ltd. is a subsidiary of Ujjivan financial Services Pvt. Ltd. based in Bangaluru and started its operations in the city in February 2017. Ujjivan Small Finance Bank currently has branches in 15 states. It offers a variety of financial products and services to poor people in India who do not have access to formal banking system. The institution's mission is to "provide full range of financial services to the economically active poor to build better lives". To fulfill the specific needs of its customers, the bank offers various types of individual and group loans.

10. Utkarsh Small Finance Bank

Utkarsh Micro Finance started its banking journey as Utkarsh Small Finance Bank Ltd. in January 2017. It extends microcredit and other loans for the betterment of the society. Now, bank has branches in 10 states in the country. Utkarsh Small Finance Bank gives financial assistance in unbanked area and offers credit services under Joint Liability Group concept.

Effect of Microcredit on Economic and Social status of women beneficiaries

The outcomes of microcredit organisations and small finance banks have resulted in the improvement of economic conditions and social status of rural poor through their lending. Women play an important role in the development of the nation. Women should get due respect and recognition in the family as well as in the society. To improve the status of women, they have to be economically and socially empowered. Empowerment refers to gain ability to take control and possession of their lives through the freedom of taking right choices. Women should be brave enough to handle the challenges and barriers which may come across in their way of life. Self-respect and self-esteem make them courageous to meet their rights and duties. Economic and social independence is fundamental for the liberalization of rural women from all sufferings.

Impact of Microcredit on Economic Status

Economic status of the women is analysed on the basis of their capacity to take decision on various economic factors like, amount of loan, usage of credit and income, ability to save money and increase in the ownership of property. Impact is measured by comparing various factors before and after availing the credits. The impact of microcredit on the economic status of beneficiaries are analyzed by using Paired 't' Test. Tables 1 and 2 shows the results of the analysis.

Table 1

Particulars	Mean	N	Standard Deviation	Standard Error Mean
Before	2.2800	30	.49993	.09127
After	3.9000	30	.46904	.08563

Source: Primary data

Table 2: Paired Samples Test

		Paired Differences					T	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	VAR00001 - VAR00002	-1.62000	.49924	.09115	-1.80642	-1.43358	-17.773	29	.000

Source: Primary data

The results show that the mean value of the factors of economic status of the beneficiaries has been improved from 2.28 to 3.9 after availing microcredit. The calculated P value is less than 0.01, indicates that there is a significant progress on the economic status of respondents after availing the microcredit. Women beneficiaries are agreeing that, microcredit has helped them to handle financial matters more confidently.

Impact of Microcredit on Social Status

Rural women are normally seems to be reluctant to participate in social activities. This is because of their ignorance of rights and social and economic backwardness. Microcredit programmes give them an effective platform to involve in social activities including participation in local body meetings. It helps to develop boldness to join in community development activities and react against social problems. Members’ recognition and respect in the family as well as society has improved. Based on the primary data, Paired‘t’ Test is used to find whether the social status of women respondents have been improved after availing the microcredit. Tables 3 and 4 give the results of the analysis.

Table 3

Particulars	Mean	N	Standard Deviation	Standard Error Mean
Before	1.8333	30	.42372	.07736
After	3.3333	30	.42453	.07751

Source: Primary data

Table 4: Paired Samples Test

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	VAR00001 - VAR00002	-1.50000	.54011	.09861	-1.70168	-1.29832	-15.211	29	.000

Source: Primary data

The mean values increased from 1.833 to 3.333; show that social status of women has been enhanced considerably after availing microcredit. The

respondents' recognition in the society advanced remarkably. Further, as the calculated P value is less than 0.01, there is significant difference between social status of women beneficiaries before and after availing microcredit. They are now more conscious of their social commitments and showed a better participation in the community development activities. Still, they are not much interested in participating in the local body meeting but more concerned about various government schemes.

5. Conclusion

Small Finance Bank is the appropriate step taken by the Government of India and RBI to bring the isolated un-banked and the under-banked community under the domain of formal banking system. Most of these entities were working as MFIs for a long period of time; they are in a better position to understand the credit needs of rural poor. Therefore authorities can efficiently execute microcredit programmes through Small Finance Banks. In our country, more than half of the population belongs to low-to-middle income group and are residents in rural area. The economic development of the nation is possible only through uplifting this particular category. Empowering rural women is also necessary for the development of the nation. To understand the impact of microcredit on economic and social empowerment of women beneficiaries, paired 't' test was employed. It is evident that the Small Finance Bank has substantially helped the rural women beneficiaries to improve economically as well as socially. Micro credit is the major tool to assist the un-served and under-served community for enhancing their economic and social life. So it can be restated that, Small Finance Banks have important role to improve the economic as well as social status of women beneficiaries through microcredit.

As on 31st March 2017, microfinance industry has total loan portfolio of Rs.106,916 crores, of which NBFC-MFIs contributed 42%, private and public sector banks provided 38%, small finance banks held 14%, NBFCs provided 6% and non-profit MFIs contributed 1%. Three leading NBFC-MFIs, i.e., Janalakshmi Financial Services Ltd., who will be transforming in to Small Finance Bank soon, Disha and RGVN which recently converted into SFB, held 31% of NBFC-MFI loan portfolio. After their conversion into SFBs, NBFC-MFI's share of microcredit will decrease to 28% and share of SFBs will rise to 27%. Then banks will have the largest share in microfinance lending. Reserve Bank of India and Government of India have encouraged the above mentioned microcredit institutions for converting themselves into small finance banks by realizing their importance in rural finance. From the share of 14% itself, it is clear that the Small Finance Banks' role is concrete in the rural finance segment.

Microfinance business will spread out further through Small Finance Banks. So in future, these institutions will become an important component of the rural economy.

6. Suggestions

Government of India and RBI decided to start Small Finance Banks as the part of financial inclusion to ensure better banking services to every section of the society. To achieve this objective, SFBs have to follow low-cost operations system based on the latest technological tools. Two main challenges of SFBs are talented work force and advanced technology. The existing staff needs to be properly trained to sell new products of SFBs and take deposits. In order to reach un-served and under-served rural areas, SFBs can adopt low-cost, mobile based technologies. SFBs offer financial support to small business units and micro and small industries. In the mean time, adequate training can provide to these units as well as the interested rural people to develop entrepreneurship skills so that they can manage their business more effectively and efficiently. Majority of SFBs' customers are from the rural areas. So financial literacy is another concern faced by these entities. Financial education and counseling help the rural people to invest money productively in their ventures. They will become aware of the benefits of good credit records and timely settlement of credit. These small-valued population need to be educated about e-money and cashless business model to reduce the use of cash as India is moving towards digital economy.

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