The Issue of Gendered Access to Credit in India: Is Microfinance the Answer?

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Abstract
With a significant number of adults owning a bank account, 78 percent according to the latest Findex Report released in 2022, a large percentage of the population still depends on informal channels of credit, which in most cases have led to situations of debt-trap with the interlinked nature of the credit, labour and goods markets. Women's accessibility to formal credit channels remains even lower, and predominantly depend on informal sources of friends and family. And with the falling female labour force participation rates over the years, there has been an argument for higher financial inclusion of women to reverse the trend. Primary among those solutions that have been hailed to plug in the credit accessibility gaps is microfinance. There is a widespread assumption of equating financial inclusion of the poor with accessibility to credit through microfinance, which would eventually set the economy directly on a path of higher and sustainable economic growth. Despite the mixed results generated in various countries, even the World Bank has given its blessings on pushing forward the 'shortcut' of microfinance in achieving women's empowerment. In India, the growth of microfinance institutions have only increased in the recent years, even in the aftermath of the pandemic. Given the scenario, what the paper intends to do is to first critically analyse the very nature of microcredit through Harvey's framework and expose the deeper issues of exploitation and gendered process involved with it. It then proceeds to suggest alternatives to the present policy orientations, both in terms of treating microfinance as an institution as well as other approaches to financial inclusion.

Keywords: Microfinance, Poverty Reduction, Women Empowerment, Neoliberalism

1. Introduction

Financial inclusion of the masses has been relentlessly pursued by each changing government at the centre. Even the elusive goal of 'empowerment' of women has more often been hinged on financial inclusion, specifically to credit accessibility, than on other factors. The Global Findex Report for 2021 released by the World Bank this year shows a total of 78 percent of the adult population owning a bank account in India[1]. The gender gap has also come down considerably to almost a negligible proportion. While the recent increase in bank account ownership from the figures from a decade ago may look promising, India also has one of the largest numbers of inactive bank accounts in the world, about 35 percent (Findex Report, 2021). The same report also mentions that the number of inactive accounts is higher for women by about 12 percent. The inactive accounts point to the reliance on informal methods of saving and borrowing. These non-institutional methods mostly involve borrowing money from moneylenders, which are more often connected to other markets of labour and produce as well.

Women's accessibility to formal credit channels remains lower than men in India, with more reliance on friends and family for source of funds, other than the regular non-institutional source of money lenders. The Findex Report 2021 shows that only 13 percent adults have formally accessed credit, with a gender gap of 5 percentage points. With the falling labour force participation rates (LFPR) of women, there has been a greater emphasis on making credit accessible to them to improve their market participation. There are many studies which suggest a positive correlation between LFPR and women's access to microcredit (see Field et al., 2016).

Microfinance institutions (MFIs) in India can be broadly classified into two as the ones regulated by the RBI and the ones that are not. MFIs operating with a profit motive, usually registered as companies and NBFCs, mostly come under the purview of RBI regulations. The other not-for-profit NGOs registered under trusts, and cooperative societies are regulated under different laws in various states. With the impact of demonetisation and the earlier microfinance crisis put in the past, the microfinance institutions have registered a substantial growth in 2018. The Report of the Microfinance Institutions Network (MFIN) released in 2018 shows that the microfinance sector had registered a year-on-year growth of 39 percent for the year. Even after the lockdown period and uncertainties that pandemic brought to the economy, the microfinance industry has only expanded and is predicted to keep growing at CAGR of 40% through 2025[2].

[1] This figure for 2017 is an overall jump of 27 percentage points from the last survey conducted in 2014. The Pradhan Manthri Jan Dhan Yojana (PMJDY) has been given credit for the increase in the numbers. The scheme claims to have 53 percent of its account holders as women and mostly in rural and semi-urban areas.

[2] See *As microfinance takes off in India, attention to detail is the need of the hour,* Times of India, dated Dec 9, 2022.

The question asked here is, why has microfinance been rigorously pushed, despite the setbacks, as a solution for poverty? And does the microcredit extended to women truly help them bring out their voices and/or put them on a path of empowerment? This paper attempts to answer these questions on the basis of a survey of existing literature and theoretical frameworks. Building on the arguments by Bateman and Chang (2012), this paper critically looks at the growth of microfinance. The idea of microfinance has received wide support as it tries to provide a market-based solution to the question of poverty. This paper also explores how the very nature of microcredit lent to groups of women has been intrinsically used as a tool for gendered accumulation by dispossession. The rest of the paper is arranged in the following way: the history of microfinance is revisited in section 2. Section 3 examines the sustainability of microfinance in the long run, while Section 4 looks at the very nature of microfinance through Harvey's model of accumulation by dispossession. Section 5 concludes the paper and discusses possible alternatives to microfinance.

2. Microfinance – Tracing the History

Microfinance, as was conceived originally, included the provisioning of "a small loan, a microloan, that is used by a poor individual to support a tiny income-generating activity, thereby to generate an income sufficient to effect an exit from poverty" (Bateman and Chang, 2012). The modern version of microfinance has been an improvement from the earlier models of small-scale lending like the Comilla method (Ghosh, 2013) and is said to have taken its roots in Bangladesh in the 1970s with the experiments of Dr Muhammad Yunus on the local economy. Yunus believed in 'eradicating poverty in a generation' (Yunus, 1997 as quoted in Bateman and Chang, 2012) with the network of lending captured in microfinance. The main focus of these small-scale loans was the women and so, added in an extra dimension of 'empowerment of women' with credit accessibility. In 1983, the Grameen bank was formed, formalising the earlier experiments with small-scale lending in Bangladesh. Since then, the microfinance model has caught the attention of the world and has been lauded as an effective tool in reducing poverty. The 1980s saw a proliferation of 'informal microenterprises and self-employment' (Bateman and Chang, 2012) fuelled by microfinance.

Microfinance was embraced by the international development community in the 1990s and rose to become the highest funded policy for poverty reduction (Balkenhol, 2007; Bateman and Chang, 2012). Simultaneously, there was a shift in the focus of the institution of microfinance itself. The MFIs, which initially used subsidised capital to fund its operations, eventually bowed out to the pressure from international institutions (mainly the World Bank and USAID) to reduce the dependence on subsidies. And thus, the not-for-profit approach initially adopted by Yunus gave way to a more market-oriented approach in the 1990s that even advocated in favour of 'for-profit'. Bateman and Chang (2012) call this new approach to microfinance, based entirely on a neoliberal outfit, 'the new wave model'. Even the Grameen Bank reformulated itself in favour of this 'new wave' with the Grameen II project in 2002.

The international appeal of microfinance lies in the market-based approach at its core to tackling poverty, an issue that had been a worry for ages to the ardent believers of the free market. The decade of the 2000s shows the institution of microfinance at its pinnacle of glory. The year 2005 was declared as the International Year of Microcredit. In 2006, Yunus and Grameen bank received the Nobel Peace Prize for their efforts in bringing down poverty levels. The same decade also saw the burst in the microfinance bubble, with 'sub-prime style microfinance meltdowns', as coined by Bateman and Chang (2012), in multiple countries. Although the first of such meltdowns took place in Bolivia in 1999-2000, as noted by Bateman and Chang (ibid), it was brushed off as a 'one-off incident'. Despite the Bolivian meltdown, the World Bank and other Washington DC institutions gave their blessings to push forward microfinance as a viable solution in reducing poverty. But from the year 2007 onwards, countries like Morrocco, Nicargua, Mexico, Pakistan, Bolivia and India witnessed microfinance meltdowns with varying degrees of intensity (see Bateman and Chang, 2012 and Ghosh, 2013). There was a proliferation of academic papers critiquing the institution of microfinance since then. Duvendack et al, (2011) who looked into the empirical data that supported the success of microfinance sums up the sentiment of the critiques, wherein it was said that the evidence for the euphoria regarding policy on microfinance is 'built on foundations of sand'.

3. Microfinance – What Went Wrong?

Microfinance had been successful primarily because it could tap into the markets which were usually dominated by the traditional money lenders. Microfinance, in its very nature, meant provisioning of credit without the backing of collateral support. And this was possible because the loans were not sanctioned to single borrowers, but to groups of individuals (mostly women) who were all in need of credit. The default rates were low with such practice as a result of 'peer monitoring' (coined by Stiglitz, see Ghosh, 2013). The members of the group looked out for the defaulters within their small group as their own credit standing directly rested on the group behaviour. It was assumed that the members in the same locality would know each other better and would avoid potential defaulters. Although this compulsion led to reiterating the existing economic and social divisions in the society, it did reduce the high transaction cost involved with monitoring the loans by the lender, which was almost entirely transferred to the borrowers themselves. The MFIs did not engage in costly screening of borrowers to assess risk, and instead resorted to charging of high interest rates from all the customers uniformly, to cover the cost of bad loans. The high interest rates and constant peer monitoring created tensions within the social fabric. The borrowers ultimately had to pay a huge price for accessing microcredit.

https://timesofindia.indiatimes.com/blogs/voices/as-microfinance-takes-off-in-india-attention-to-detail-is-the-need-of-the-hour/

In most cases, the MFIs were concentrated in particular geographical areas. As a result, the level of competition amongst the MFIs was also extremely high. This practice, combined with the high interest rates charged, led to levels of saturation in various geographical pockets. In many cases, the borrowers had taken loans from multiple MFIs even when it was prohibited, leading to a reduction in repayment rates generally. The short-term nature of the loans pushed people out of their comfort zones to obtain multiple loans in a highly unsustainable manner, mostly leading to situations where loans catered to servicing other loans. Even within the general structure of MFIs across the globe, importance was mostly given to microcredit, rather than encouraging micro savings. Part of the reason for this could be the larger tendency to view MFIs as an investment opportunity, thanks to the spread of its roots within the mainstream financial sector (see Viada and Gaul, 2011). Like any other investment portfolio, the funders viewed MFIs as an opportunity to increase their returns, adding pressure to the MFIs to dole out more loans and ensuring prompt and quicker repays as well.

In the Indian case, the NGOs spear-headed the microfinance projects with the ambition of reducing poverty as in many other countries. It was inspired by the Grameen-model; the functioning almost similar to it with the borrowers organising themselves into self-help groups (SHGs). The SHG-Bank Linkage Programme (SBLP) links the SHGs to commercial banks, where the SHGs maintain group accounts at the bank. Unlike the Grameen model, individual members of the SHG save a certain amount which is then collected and lent back to the members according to the decisions made by the group. The SHGs could also borrow from the bank or the NGO to maintain its loanable funds (see Kalpana, 2005 and Ghosh, 2013).

The SBLP was started in 1992 and it grew tremendously afterwards (Ghosh, 2013). The Indian MFIs are not allowed to collect deposits from the members as per the law. This led to the compulsive transformation of most NGOs which started as not-for-profit to for-profit organisations in the later years. Many of the 'transformed' MFIs began catering to the needs of the promoters than looking after the well-being of the borrowers. The change was also accentuated with the assistance of commercial banks. ICICI, in particular, bought many microfinance portfolios in exchange for the collection of loans, thus infusing fresh capital for the MFIs to lend (Ghosh, 2013). In any case, the recovery methods adopted by the MFIs were harsh and depended on the fissures in the society. Women, who are the primary members of the SHGs, bore the brunt of all these pressures.

The meltdown of MFIs in India, especially the Andhra Pradesh crisis, was the result of an unparalleled boom in the MFIs in the region, with hardly any laws to govern them. The local politicians also used MFIs to give more loans in their constituencies to promote their own interests, becoming one of the most important agents of microfinance (Arunachalam, 2011). The other variation in the type of loans doled out by the MFIs was in the form of repayment for consumer goods like televisions, as part of the larger collaboration with the consumer goods companies (Priyadarshee and Ghalib, 2011). The added pressure to the already debt-ridden households led to more defaults in the repayment of the loans. The recovery measures resorted to were coercive, adding to the wounds of the households and deepening the crisis. Although there have been stricter regulations in the Indian market recently, microfinance is still held as an answer to the question of poverty. The following section will delve into the reasons as to why such a view is problematic.

4. Bateman and Chang's Critique of Microfinance

Milford Bateman and Ha-Joon Chang (2012) have demonstrated the reasons why microfinance may not deliver upon the promise of transforming an economy, and that serious structural flaws in the institution of microfinance may outweigh their positive impacts in the long run. First of all, they argue that microfinance overlooks the importance of economies of scale. Taking instances from the South East countries and China, the authors narrate the importance of a critical level of investment for the industry to take off. With the proliferation of microenterprises (promoted by microfinance), the chances of survival of these enterprises are very low even.The concentration of MFIs in certain geographical locations, as mentioned in the previous section, should also lead to a saturation of microenterprises within a locality, an issue arising out of ignoring the macro-problem of the 'fallacy of composition'. They suggest that as a result of these, the economy may even regress, with little incentive for technological upgradation in the industrial sector and a case of 'primitivisation' of the agricultural sector like in Bosnia (see Bateman and Chang, 2012).

Bateman and Chang (2012) also believe that microfinance has been promoted internationally as a model for improving women's status and poverty alleviation as it has been the most acceptable form of solution to the neoliberal establishment. Microfinance has an added advantage in that it removes a plethora of policies including welfare programmes, steps taken to achieve more equitable income and wealth distribution involving measures like land reform etc. from the political agenda. It is a successful tool in depoliticising poverty. Since microfinance depends on the individuals and communities functioning as agents in bringing about change in the society and economy as a whole, the role of state (in terms of ownership, provision of services and support programmes like subsidies) could be pushed back to the minimum. On the other hand, the outright purchases of portfolios and even MFIs itself also garner support for the global financial institutions in terms of addressing the societal issues, which again works in favour of furthering the neoliberal view.

The other important role of microfinance in the neoliberal project is to provide a 'safety-valve' in containing the resentment towards the ultra-rich. The systemic inequality has produced the concentration of wealth and power in the hands of a few individuals and nations. As the inequality widens, creating more polarisation, societal unrest and violence may follow to challenge the system. It is in this situation that the containment role of microfinance in alleviating poverty plays its part in

thwarting such occurrences. As the neoliberal establishment stands to gain a lot from it, the real victims bearing the brunt of the project are the individual members of the SHGs who are mostly women. The solidarity of the group and the well-being of the individuals have greatly been reduced in the attempts to repay the loans to escape from the debt-trap. The following section dissects the gendered process of accumulation involved in microfinance in detail.

5. Gendered Process of Accumulation by Dispossession

David Harvey in his writings proposed returning to the Marxian concept of primitive accumulation (Harvey, 2003). As was earlier argued by Luxemburg, Harvey argues that primitive accumulation, a term originally used by Marx to capture the various processes which created a dispossession of wealth from the existing social structures to pave way for the birth of capitalistic economies, is an on-going process. Renaming the process as accumulation by dispossession to capture its continuous nature, Harvey remarks that the global economy has been going through a phase of 'dispossession by financialization'. The new ways of credit doled out to the global south from the north, credit fraud, speculation – all form part of this larger process, along with enclosing the global commons in the name of intellectual property rights, environmental degradation and converting previously public goods into private goods (Harvey 2003; Keating et al., 2010).

Nancy Hartsock (2006), while adopting Harvey's framework, also critiqued it to suggest that it ignored the gendered set of processes at the core of contemporary capitalism. Hartsock notes four processes that are interrelated which mark the gendered nature of accumulation: a rise in inequalities caused by dispossession by financialization, breaking up the old order and renegotiating a new social contract, the emergence of new ideological formations, and transformation in the structure of social reproduction (Hartsock, 2006). Hartsock particularly 'draws attention to the tools and strategies of dispossession that serve both to concentrate capital in ever fewer hands and to render workers even more vulnerable to exploitation' (Keating et al., 2010). These four processes could be identified within the practice of microcredit as well, which is explained below, and therefore makes the microcredit an ideal tool for gendered accumulation.

Although it would appear as though microcredit challenges the inequalities of the system by dispersing capital in the form of loans to the poor, a closer inspection reveals a different picture. Microcredit will then be understood as an instrument of accumulation by dispossession. The high interest rates and short-term nature of loans, with strict payment schedules and no room for lapse in repayment, would be hardly acceptable to the rich and affluent. As the poor women have no other alternative to access the credit (other than informal moneylenders), they agree to peer monitoring and take microloans. Another feature of microcredit is that it opens up new avenues for the formal financial sector to accumulate, thus deepening and widening its reach. Examining the type of labour it engenders leads us to a third characteristic of microcredit as a tool for accumulation by dispossession. The most vulnerable section of workers, mostly women working in the informal economy, depends on microcredit. While doling out loans, it constantly attempts to privatise the common resources as it provides financial means to these women 'to purchase goods and services that were previously held in common or subsidized' (Keating et al., 2010). Thus, microcredit functions more as an instrument of accumulation than a cure, as it is popularly advertised.

Microcredit also legitimises gendered accumulation through the renegotiation of new social contracts. New spaces for social relationships like SHGs are formed which mostly include (the earlier-excluded) women's labour in the market. These spaces, formed by cutting across lines and overlooking old social identifications like family, serve as new grounds for contemporary capitalism to accumulate. The solidarity of the women is utilised to peer monitor and ensure the repayment of the loans than for their well-being. Similarly, new social contracts are drawn up to restructure the societal relationship with the state. As mentioned in the previous section, the role of the state is cut back to a minimum and more market-based solutions are sought to address issues like poverty. And as this transformation happens, the control and power also shift from the state to NGO technocrats, economists and bankers who administer the solutions (see Ong 2006). Along with new social contracts, new ideologies are developed to suit the regime of accumulation. The market-based solutions often employ the philosophy of individual achievements and failures and take the responsibility away from the state. This is again utilised in the language of 'empowerment' used in these programs. The public responsibility, say for instance, on reducing poverty, is reduced to a minimum and instead, strategies to overcome these issues are based on self-help. The neoliberal state also gains in the process as its accountability reduces, and therefore, it actively promotes it.

Gendered norms are challenged and reinforced in the final process of accumulation by dispossession. The women should have ideally been able to challenge the traditional patriarchal norms with the access to loans. Although a few such instances occur and are often highlighted and blown out-of-proportion as the empowerment aspect by the advocates of microcredit, not enough changes have happened to alter the system. Mostly the credit is handled by the men in the family and the traditional structures continue to remain so, forcing women to perform both paid and unpaid labour. And even within the practice of microcredit, these structures are successfully tapped into for the benefit of repayment. For instance, a woman's honour, *ijjat*, is conveniently used by the Grameen bank to shame and force women to repay loans on time (Keating et al., 2010). Even their marital status is used as a means to determine the eligibility for loans, leaving out other women (Keating et al., 2010). These practices indicate that the microcredit practices and the gendered norms reproduced by the patriarchal society are not at odds, and in fact, in most cases, these are mutually reinforced and sustained together.

6. Conclusion

The preceding discussions indicate that mere accessibility to microcredit equals to neither financial inclusion of the poor nor empowerment of women borrowers as claimed. In many cases, the very nature of microfinance has put the lives of women in a more vulnerable state. Placing microcredit in the larger picture of accumulation by dispossession of a gendered nature will bring out a more realistic picture, than the current romanticised versions. Women as part of the self-help groups, have turned out to be victims more than beneficiaries of the microcredit programmes as a result of the strict repayment schedules and short-term nature

of the loans. In most cases, the gender identity and the values associated with it are used as convenient tactics for repayment, which forces women borrowers to take fresh loans to repay the earlier ones creating an endless debt-cycle.

So, does it suggest doing away with microfinance altogether? Not exactly. In its earlier not-for-profit outfit, it had tried to bring some good into the lives of women. And perhaps, reverting to this model with a much-relaxed repayment structure might provide a temporary solution. While the peer-monitoring largely has created extra tensions within the group, there have also been instances where groups of women have strongly advocated for changes, forcing MFIs to accept their demands. Although these instances have been rare, it also gives us an opportunity to concentrate on what was initially one of the main focusses of the microcredit, empowering women. There could be more programmes for women and SHGs, not just access to loans, with more state involvement, like the Kudumbashree programme in Kerala.

Microfinance as a vehicle of poverty reduction has been popular as it fits the neoliberal scheme of the reduced role of state. By understanding this very nature, microfinance could be administered with caution, without necessarily rolling back the state support. In any case, microfinance cannot be a substitute for formal financial institutions, setting up of which might entail larger subsidies and more flexible norms to make it truly inclusive.

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