

Financial Literacy: An Essential Tool for Empowerment of Women through Micro-finance

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ABSTRACT Micro-finance, through micro-credit has emerged as the biggest women's empowerment strategy for low-income groups across India. Besides the SHG-Bank linkage programme gaining success in the country, the MFIs are playing appreciable roles in providing micro-credit to SHGs, in collaboration with the government, NGOs and social organizations. But experiences at the micro-level of SHGs tell us that micro-finance is not always being effective in poverty alleviation and the questions being addressed here are related to financial practices within SHGs and knowledge of credit usage. The study looks at the money management practices of women SHG members, who were users of micro-credit through an MFI called Grameen Koota in Karnataka. On the basis of the findings that revealed limited knowledge of the women regarding value for savings, cash flow management, capital formation and account keeping, financial literacy modules were developed for empowerment of SHG members, one of which has been presented in this study in detail.

INTRODUCTION

Micro-finance, also known as 'inclusive finance' is a provision of financial service for low income group families, especially those who are living below the poverty line (BPL), without any tangible assets. It is the new hope for the millions of women in India who have the capacity to work hard. It has the potential to enhance women's capabilities and enable them to provide a better life to their families. Micro-credit is today the biggest poverty alleviation and women's empowerment strategy, that is accepted and adopted across nations of varied socio-political and geographical contexts (Sharma 2008). There are over 41 micro-finance programmes in operation in 17 countries, and this includes Grameen Bank in Bangladesh. Micro-finance which began in India in the 1990s, has become a robust movement with Micro-finance Institutions (MFIs) having crossed 30 million poor households at the end of March 2010. The promotion of Self Help Groups (SHGs) in India began more formally in 1992 with the launch of the SHG-Bank Linkage Programme by National Bank for Agricultural and Rural development (NABARD). The programme's main aim was to improve access of the rural poor to the formal credit system in a cost effective and sustainable manner by making use of SHGs (Shylendra 2008).

Given the widespread gender bias existent in India, the SHG growth is contributing in representing a massive grassroots level mobilization of poor rural women into small informal associations capable of forging links with the formal systems, to help access financial and other services needed for their socio-economic advancement. Linking the SHGs to banks has become a workable way of channelizing micro-credit to the poor. According to RBI guidelines, banks can lend upto Rs.5 lakhs to SHGs without insisting on any sort of collateral (George 2008). The MFI led model has witnessed faster rate of growth as well as bigger average loan sizes to clients (Rs. 6060 under the MFI model as compared to Rs.4570 under the Self Help Group model). The macro picture appears quite reassuring if we look at the dynamism and growth potential (UN Works in India 2011). Growth under the MFI model has been greatly facilitated by the sharp increase in bank credit to MFIs. A wide range of banks are now financing the sector, the private sector banks lending mostly to MFIs, and the public sector banks through their wide network of rural bank branches, and the public sector bank through their wide network of rural bank branches, mostly the SHGs. As per announcement made in Union Budget for 2010-11, the government of India had enhanced the corpus of Micro Finance Development and Equity Fund (MFDEF)

from the existing Rs.200 crores to Rs.400 crores in the ratio of 2:2:1 by NABARD, RBI and Commercial Banks. The fund is housed and managed by NABARD. NABARD has planned to upscale and consolidate the SHG-Bank Linkage Programme and micro-finance interventions (Kumbhare and Darad 2010).

Questions that Need to be Addressed in Micro-finance

The SHG based micro-finance programme is now more than a decade old. MFIs locally mobilize voluntary savings by forming SHGs; the household as an enterprise gets the benefit. SHGs are especially important for women and households headed by women, who often have difficulty in credit. As a risk management tool, the key strength of the micro-finance programme is the knowledge that loans will be available in time of need, making it possible for households to dispense with less desirable strategies like child labour. SHGs are becoming a potential source to empower and institutionalize participatory leadership among the marginalized to identify, plan and initiate development activities with positive and rippling effects. They have played valuable roles in reducing vulnerability of the poor through asset creation, income generation and consumption smoothing, provision of emergency assistance, emboldening women by giving them control over assets and increased self esteem and knowledge. They also develop human decision making of sharing.

But the organization of rural credit in India has still not produced desired results in terms of the direction, quantum and quality of the flow of credit. It is afflicted by alarmingly high over dues, bad debts, loan defaults, unviability, low profitability, and deteriorating customer services (Kameswari 2011). It is being debated whether there is any concrete evidence of poverty alleviation, through SHGs. The dominance of micro-credit agenda within SHGs in the last ten years has demonstrated the danger of SHGs being reduced to a collection of individuals working on credit rather than a collective working of justice. We need to develop a deeper understanding on the role of SHGs in empowering women. Most of the problems in SHGs are associated with lack of knowledge regarding handling of finances, as revealed in studies across India. In a study by Kour (2008) in Marh Block

of Jammu District, it was found that only 26.7% of the study sample felt that SHGs made them self-reliant. Many felt that loans got from bank were not to be repaid, and were unaware of repayment of loans with interest rates. This depicted ignorance in financial matters.

The micro-finance industry has pursued a path of rapid business growth in recent years, but there have been instances, for example, in the state of Andhra Pradesh where the employees of micro-finance companies have exploited borrowers, verbally and physically harassed over-indebted borrowers, which further led to more than 200 poor debt-ridden residents to commit suicide (Kinetz 2012). Such tragic instances could have been avoided had the micro-finance companies played a responsible role in guiding and informing about financial practices in the process of credit disbursement. Another study by Prabhakar et al. (2010), of an NGO in Andhra Pradesh that has been making efforts in empowering women through SHGs in Guntur and Prakasam districts, suggested that because most of the women were illiterate, thrust should be laid on providing literacy skills, even though the SHGs were providing them opportunities for leadership, experience and confidence.

The neglect of women's education related to handling of her finances is particularly disturbing in the context of globalisation which requires that women understand the macro situation, develop new skills and abilities to survive development. Financial literacy as a concept, that was developed by the SEWA Bank, is playing a positive role in expanding the knowledge of money management practices. Educational processes, therefore, need to be expanded as they are critical in enabling them to understand micro-credit programmes, creating a space for themselves to negotiate interests. The question we need to ask ourselves is, what are the levels of information about financial processes and the functioning of SHGs, that the women members are aware of? This calls for a greater demand for adult, non-formal education programmes (Sharma 2008).

In this context, the present study highlights the financial practices of SHG members, who were users of micro-credit through Grameen Koota, a Bangalore-based Micro-finance Institution. Suggestions in Financial Literacy through modules and communication strategies were the main outcomes of the study.

The objectives of the study were: (i) To understand the lending methods of the MFI, Grameen Koota, (ii) To examine the handling of finances by the SHG members catered by the MFI, and (iii) To develop a suitable Financial Literacy module and evolve appropriate IEC strategies suited to SHGs.

METHODOLOGY

This is an indepth, qualitative study, where an attempt has been made to understand the lending methods of an MFI (Grameen Koota) and the financial literacy needs of the SHG members involved, based on their financial practices. A total of eight target groups were chosen for the study, and the mode of sampling was purposive. The target groups were the newly joining members of Grameen Koota. Each group consisted of 10 members. Primary data was collected through semi-structured interviews and group discussions with the SHG members and Grameen Koota officials. Sources of secondary data were published information sources from Grameen Koota reports, journals and books. The study was carried out as a project for the S.P. Jain Institute of Management and Research, Mumbai.

Role of the MFI

MFIs around the world follow a variety of different methodologies for the provision of financial services to low-income families. These methodologies are overwhelmingly based on the principle of financial services being related to cash flows of the low-income client groups and thus aim to facilitate relatively frequent micro-loans and saving transactions (Rajesh and Venkatamma 2009). With this aim in background, Grameen Koota was visualized in 1997 based on the book 'Give Us Credit', by Alex Counts, which gives an account of the impact of micro credit on the lives of the poor in Bangladesh and the United States. Highly inspirational stories of large numbers of individuals rising above the poverty line through the use of micro credit inspired the trustees of the T. Muniswamappa Trust, an NGO, to replicate a similar programme for the benefit of poor in Avalahalli and its surrounding villages where Grameen Koota is located. In May 1999, Grameen Koota was born in Karnataka and started its operation.

Ever since then, Grameen Koota has built its knowledge and expertise in the Indian micro-finance sector. This factor, along with a clear mission and a dedicated team has allowed the MFI to serve over 100,000 clients who lack access to formal financial services. Through the provision of small loans- approximately Rs. 7,000 to Rs.35,000, the MFI has helped women who typically earn less than or between Rs.42 to Rs.84 a day, to start income generating activities such as trading, animal husbandry, agricultural production and transportation. The mission of Grameen Koota is to constantly deliver need-based financial services in a cost-effective manner and to become a sustainable Micro Finance Institution. Grameen Koota lent money to the newly appointed groups at the branch office and collected the weekly amount towards repayment of the loans during the Kendra meetings held in the presence of the Kendra manager.

The lending methodology of Grameen Koota went through the following steps:

1. Grameen Koota decided to set up a new branch, staff members conducted a comprehensive survey of the village to evaluate the feasibility of operations.
2. After officially opening a new branch, interested women formed self selected ten-member group to serve as guarantors for each other.
3. Compulsory Group Trainings (CGT) were being held at different locations in the slums of Vijaynagar area. This was a five-day programme that served to educate the borrowers about the procedures of Grameen Koota. Grameen Koota staff here introduced the new clients to various financial products and delivery methods. On the final day, the Area Manager conducted the CGT and the clients were officially declared Grameen Koota members.
4. A Kendra consisted of four groups. Financial transactions commenced one week after Kendra formation. Each Kendra member was responsible for repayment of all groups. This commitment amongst members showed that groups supported each other.

RESULTS AND DISCUSSION

Handling of Finances by SHG Members

The ages of SHG members ranged from 25 to 35 years. They predominantly belonged to the

Muslim community and the average household income was Rs.5000 per month. The family size ranged from 4 to 8 members. Family members were engaged in informal occupations like auto-rickshaw driving, tailoring and *beedi*-rolling (cheroot making).

It was revealed through group discussions that the women had limited control over money and money management within their households, whereas men were communicative about finances but unwilling to discuss with wives. Women held to the belief that financial planning is something meant for rich people who have extra money; poor people need not plan as they don't have extra money. Debt was often the first source of cash accessed when confronted with an emergency. There was lack of skills in planning the cash flow. All clients experienced cash flow management problems due to seasonality of the business and irregular cash flows. To address contingencies, women admitted that they saved secretly and participated in credit associations. Savings were being viewed as a means to get loans from the banks or something to be used to pay down old debts.

When the members did have savings, they found it difficult to hold onto them. A large fraction of the members were unaware of the concept of capital formation, that is, the ability of gathering interest on savings. At the time of crisis they went straight to the creditors, formal and informal; they took debt with little knowledge of the cost of borrowing from different sources. The value of savings as a tool for money management and capital formation was not well recognised. Very few (12/80 women) who were interviewed had a bank account while few others had savings with some other members in the community in a chit fund. Others had savings at home or had no savings at all. Regarding cash management practices, women did not keep an account of their expenses and were not able to remember the figures of previous week's expenses when they were questioned.

Members of the new group borrowed from money-lenders and repaid at the rate of 20% interest for a period of ten weeks. A late fee of 15% of the installation was charged as a fine of late payment of an installation. The borrowed funds were used for consumption purposes, business and for large requirements such as for illnesses or for a wedding. The new members were not insured for illnesses and it was observed that

the older members of the Kendras did not have a good comprehension of the meaning and benefits of insurance either. This shows that the members had very poor or negligible knowledge about the management of savings and credit.

A micro-finance institution such as Grameen Koota makes credit available easily at low interest rates to the poor; it opens up a wide world of opportunities, if the poor learn how to manage their credit and savings effectively. Hence Financial Literacy modules were developed for Grameen Koota which aim at training them to increase their assets and reduce their liabilities and also train them in money management that will help them move from reactive to proactive decision making.

What is the Relevance of Financial Education to Women's Empowerment?

A woman's empowerment through SHG is depicted through ways by which she influences family's economic resources, general welfare of the family and participates in economic decision making. Likewise, it has been found that in there is a positive impact of economic development and financial literacy, on financial inclusion. At a colloquium held recently in Jaipur, Mr. Jairam Ramesh, India's Union Rural Development Minister, had announced the good news that the National Rural Livelihood Mission would connect at least one woman from every poor household across the country with SHGs in five years. At the same time, he pointed out that micro-finance cannot provide a definitive answer to the challenges of poverty alleviation, but can lead to financial inclusion by providing credit to the customer as per his own needs (*The Hindu* 2012). The poor are challenged to meet these basic needs and unanticipated emergencies on a daily basis. Most often they take an unexpected amount of high-cost debt or mortgage assets. Both claim a place on future income. When clients borrow multiple loans from multiple sources, that is, MFIs and other formal and informal providers, juggling repayment schedules, and making sure that the credit is used to its best advantage adds a level of complexity that can be very challenging to manage. Under such circumstances, forward looking financial strategies are necessary, and these require specific knowledge, skills and attitudes about financial management. Here comes the role of financial education.

Most people learn to manage personal and household finances by trial and error. Financial education teaches the Knowledge, Skills and Attitudes (KSA) that are required for adopting good money management practices associated with spending, earning, saving, borrowing and investing money. Anticipated outcomes include changes in client behaviours and practices in money management such as saving regularly, making a budget, and working towards a financial goal. The changes lead to increased savings, reduced debt and less financial stress.

The Financial Literacy Modules were prepared keeping in mind the expected outcomes from the financial education. It was proposed to be used in the Socio Economic Development workshops (SEDs) or during the Husbands' Workshops and the shorter version to be used during the Compulsory Group Trainings (CGTs). The aim of the Financial Literacy Modules is to increase the members' assets, reduce liabilities and therefore increase their net-worth. Therefore the module was aimed at training them in money management. Such modules will be effective only if the content is relevant to the targeted learners, and if a pedagogy and delivery system that is appropriate to their knowledge and literacy levels is maintained.

Proposed Methods of Administering the Financial Literacy Modules

The Financial Literacy Modules were developed, based on the existing financial behaviours of the SHGs. The modules were proposed to be administered in the following ways:-

- Four 15-minute modules during the Compulsory Group Training (CGT)
- The Kendra Manager to administer each module during the CGT

- Part of Grameen Koota's micro-credit activities to be supplemented by periodic socio-economic development workshops in the areas of health, nutrition, AIDS awareness, insurance, banking, law, entrepreneurship, veterinary services, government schemes, Panchayati Raj, etc.
- Annual workshops for members' husbands in order to seek their support, feedback and to build awareness.
- A longer version of the same training to be administered during SEDs (Socio Economic Development workshops) or the Husband's workshops that were being conducted periodically.

The Micro Finance Opportunity Financial Literacy Module

One of the modules discussed below, is the Micro Finance Opportunity Financial Literacy Module (Table 1) that highlights the aims of financial literacy. It has been designed in accordance with the methodology prescribed for designing modules for Adult Education. The aim of this module is reflected in the desired behaviours for the respective thematic area as represented in Table 1. This section also discusses the various components of the module- IEC strategies involved in the teaching-learning process, the expected outcomes of utilizing these strategies (Table 2), storyline used in the module and the illustrative indicators of learning.

Target Group: Newly joined members of the Self Help Group

Place: Location to be adapted by user as per his/her convenience as well as the target group's convenience.

Content: It describes what the learners will do during the training; the teacher will be held accountable for this

Table 1: Financial Literacy module highlighting aim of micro- finance

Thematic area	Current behaviour	Desired behaviour
<i>Budgeting</i>	• Live day to day • Reactive financial behaviour	• Plan ahead for expenditures • Make a budget
<i>Savings</i>	• Lack of forward financial planning • Wasteful expenditures • Irregular savings	• Use a budget to manage money • Avoid unnecessary spending • Have a savings plan
<i>Debt Management</i>	• Savings not linked to goals • Borrow for emergencies • Over-indebtedness • Borrowing with little understanding of terms	• Save regularly • Maintain an emergency savings account • Make a plan to reduce debt • Avoid excessive debt
<i>Bank Services</i>	• Limited knowledge of bank services • Limited use of bank services	• Borrow with full understanding of terms • Know about financial options, their terms and conditions • Use bank services to support financial goals

Table 2: Expected outcomes of utilizing IEC methods

<i>Message</i>	<i>IEC methods used</i>	<i>Achievement</i>
(i) <i>Assets and Liabilities</i>	• Flip album • Bulletin board, chalkboard • Flash cards • Drawing on the ground (with chalk piece and cut-outs) and on paper	• Meaning of assets and liabilities conveyed • Net-worth is introduced as a difference
(ii) <i>Saving (for building assets), by Cutting Unnecessary Expenditure</i>	• Still pictures or slides- from real life situations • Flip album • Story telling- by flash cards and puppet shows. • Using two boxes each to show assets and liabilities- using tamarind seeds/marbles depicting income and expenses	• Counting of income and expenses learnt • If income exceeds expenditure, method of saving is conveyed
(iii) <i>Loans for Income-generating Activities</i>	• Bulletin board- displaying information on loans • Story telling- by flash cards and puppet shows • Flip album • Activity cards to encourage interactive learning- games involving participation	• Deriving ways in which savings can be increased • Differentiate between savings to be used for: ○ Income generation ○ Productive activities

- **Assets and Liabilities:** The learners list and categorize various assets and liabilities; they learn to categorize net-worth.
- **Savings:** They examine the income, expenditure and learn how savings can be created; teacher demonstrates why the need for debt is created and explains how to reduce unnecessary expenditures.
- **Debt Management:** Teacher explains how to increase assets by taking loans for income generating activities only.

How: Through use of appropriate Information Education Communication (IEC) methods as shown in Figure 1.

The Storyline

Sapna observed Rani everyday, who had lots of clothes to wear, had a car and sent her children to a convent school. Sapna, on the other hand is seen tearing her hair out at the end of the month, as everyone asks her for money including her son, husband and the milkman. The money lender comes frequently to her house for collecting weekly dues. She decides to visit a wise woman to get a magic charm that will solve all her problems. The Kendra manager here draws two boxes, the first box is called assets and it is the 'box of happiness', the more you have in this the happier you will be; the other is

the 'box of sorrow,' it decreases one's happiness. He now explains why Rani is happy. She has another piece of land in the village, her own house has been given on rent, she has gold ornaments and a fixed deposit in the bank. The Kendra manager at this point places cutouts depicting these on the asset box. Liabilities of Rani are the loan she has taken for her husband to start a new factory and loan to develop the land. Box of happiness is greater for Rani than her box of unhappiness. This difference is called her "net worth".

The story reveals that Sapna has no assets. Her liabilities include money borrowed for school fees, money borrowed for her brother's wedding and for her pilgrimage trip to Tirupathi. Her box of happiness is less than her box of sorrows; hence her "net worth" is negative. The Kendra manager now explains how to build up assets. He draws two more boxes of income and expenses, and uses tamarind seeds to explain. Seeds in the income box should be greater than seeds in the expenses box, so that the remaining money can be saved in a bank, or can be used to buy gold. Sapna is told to reduce unnecessary expenses after identifying them, for example, not to buy expensive clothes, not to conduct expensive marriages and festival rituals. Debt is also an expense as the borrower is giving it every week to money lender. So one should

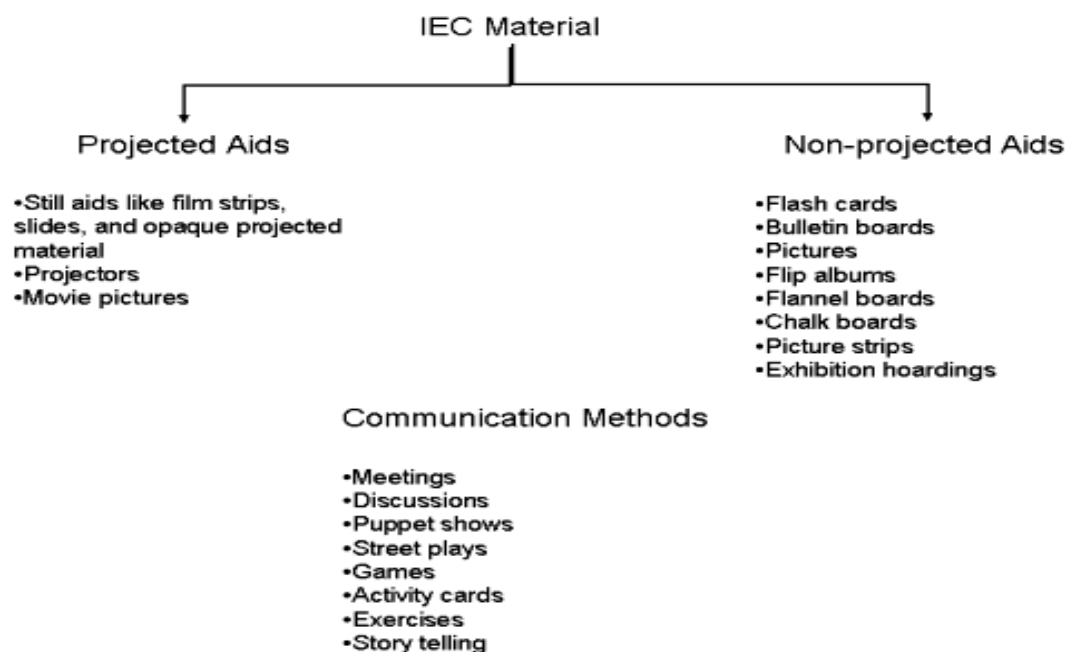


Fig. 1. IEC strategies

restrain debt to 30% (for every 100, take maximum Rs. 30 debt) then one will be able to save more. Sapna goes back home chanting the mantra, “More assets less liabilities; More income and less expenses will make my family wealthy and happy.”

The branch manager now asks the audience to find out what assets they have, their weekly income and their weekly expenditure. He tells them to list their income and expenses. Sapna goes back to the wise woman after 3 months; she takes sweets to the woman to show her gratitude. “There is more you can do Sapna, you can take loans to start income generating activities, take a loan and start a cloth business, then you will earn additional income. Keep your expenses the same and you will save more” says the wise woman.

The Kendra manager explains to them how they can earn money to pay back loans.

Illustrative Indicators of Financial Knowledge, Skills, and Attitude Outcomes

Net Worth

Clients will be able to:

- Differentiate between assets and liabilities.

- Understand how to arrive at their net worth.
- List and categorize their common expenses.
- List two benefits of tracking income and expenses.

Income and Expenses

Clients will be able to:

- Give at least three illustrative examples of useful and unnecessary expenses.
- Understand how to create savings out of their income.
- Give three reasons to save and can list three ways to save.
- Express a positive attitude towards saving.

Debt Management

Clients will be able to:

- List correct uses of debt and wrong uses of debt.
- List two benefits of using debt for income generating activities.
- State two advantages of using debt for consumption.
- Explain how to increase their assets.
- Describe problems caused by over-indebtedness.

Table 3: Summary of evaluation design for financial education programmes

<i>Types of Outcomes</i>	<i>What to Measure</i>	<i>When to Measure</i>	<i>How to Measure</i>	<i>Who to measure</i>
• Short term changes • Changes in participant knowledge, skills and attitudes	• Changes in financial knowledge, skills and attitudes	• Immediately before and after training	• Define one or more benchmarks • Measure percentage of trainees at benchmarks, before and after • Assess change in percent of trainees achieving benchmarks after	• 80-100 trainees at initial stages • A small randomly selected sample of participants (30) once appropriate benchmarks are defined.

- List the ways to control debt and feel cautious about borrowing.
- Calculate their total outstanding debt.

The financial literacy modules were designed in such a way that after administering, the target groups would be able to:

- Plan and prepare a budget; plan ahead for expenditures
- Use the budget plan to manage money
- Prioritize the spending needs; avoid unnecessary spending
- Prepare a plan for savings; develop a habit to save regularly
- Maintain an emergency savings account
- Make a plan to reduce debt; avoid excessive debt
- Find out about financial options, their terms and conditions before borrowing
- Preferably use bank services to support financial goals

An evaluation design for the financial education programmes has been summarized in Table 3.

CONCLUSION

Poor women are definitely bankable. But lack of information and guidance regarding practices of savings and credit result in women taking wrong financial decisions; this stands in the way of their empowerment. Wise financial practices and right financial decision-making go hand in hand. To achieve this, increased information dissemination, knowledge sharing and promoting the practice of financial planning for the SHG members is important. Financial literacy modules that are easy and comprehensible as the one described in the study would be effective tools to lead women towards economic independence.

RECOMMENDATIONS

Quality of SHGs can be improved only if attention is shifted from merely increasing their number and to enriching financial literacy. The Government's \$5.1 billion National Rural Livelihood Mission, 2011, encourages thrift, prudent financial behaviour, and lays special emphasis on instituting mechanisms for imparting financial literacy and credit counselling. This will in turn enable the SHGs to create space for financial service providers, both commercial banks and MFIs to bring in a range of affordable financial services for the poor. This is what Grameen Koota and other MFIs of India aim to achieve, in remote places where commercial banks do not exist. Proactive financial education will help strengthen capacities of SHG members. In the case of Grameen Koota's SHGs, financial literacy modules will enable the learners to apply the educational content of handling the finances in real lives. Learners will also be able to achieve a specific financial goal such as reaching a savings target, borrowing loans, managing debt, or purchasing an asset in the most beneficial manner.

For promoting micro- enterprises to create livelihood, there is a need to impart relevant financial skills and develop women's risk-taking abilities. Some of the guidelines have also been drawn from a range of experiences of some Indian NGOs such as MYRADA, PRADAN and LEAD. Some of the salient suggestions for (i) 'group fund' are – to promote giving of loans in proportion to savings and all bank accounts to be in the name of the group and not the individuals; (ii) 'savings' are – encouraging habit of thrift and controlling unnecessary consumption and encouraging members to save for a particular purpose eg. weekly savings to build

up a bank loan instalment; (iii) 'loans' are- to address the group for all loan applications, to finalise repayment schedules and disbursement of loans only at group meetings; (iv) 'training' and training needs of groups should be periodically assessed by the implementing NGOs/ government staff; project staff and groups must give priority to training group members in maintaining their own books and documents; and (v) 'auditing' where accounts must be audited once a year in the presence of MFI staff and SHG members, in a language which can be understood by the members; audit reports should be taken up immediately for follow-up action.

Emancipation of women is essential to raise their status. And emancipation can only happen when women acquire knowledge about financial practices in the most effective manner. It is about meeting people's strategic needs, gaining control of available resources, and using information to enhance economic and social security. The infrastructure of financial education can be erected on a macro-scale with the cooperation of three builders: the government, the private sector and the individual. Each of these 'builders' has its role. The government can regulate the financial marketplace and provide basic as well as advanced information for consumers. The private sector, including profit and non-profit organizations, can use their expertise, resources and positioning to provide financial literacy programmes. Individuals can take an interest in managing their finances and use the information and programmes provided by the government and private sector to improve their lives and those of their loved ones.

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