MICRO-FINANCE AND WOMEN'S EMPOWERMENT

Key Note address on the Occasion of National Conference on " Micro Finance and Women's Empowerment" held at Nrupatunga Degree College, Sedan, Gulburga Dt. on 21-10-2011

Micro-finance is a movement whose object is "a world in which as many poor and near-poor households as possible have permanent access to an appropriate range of high quality financial services, including not just credit but also savings, insurance and fund transfers. Those who promote microfinance generally believe that such access will help poor people out of poverty". The programme not only gives women access thrift and credit, but reaches a large number of people in poverty. It can be seen as a potentially significant contribution to gender equality and women empowerment as a pro-poor development strategy. If properly organized the programme could be a great support to the credit needs of the women who belong to the poor and lower middle class families. The structure of Micro finance involves group dynamics with an approach of community spirit. Rutherford and Aurora (1997) in their study made for DFID concluded that the small savings through which the slum dwellers can find a safe place to build their savings into usefully large and most of them have little access to formal Banking services.

Community Development is an approach of helping a group of people helping themselves by organizing themselves into a group; which we often call a Self Help Group (SHG) or a Neighbourhood committee as UNICEF named it. That means a community doing something to improve its living standard through its leadership and organization, without waiting for any help from outside. In the process the basic need should be identified and Community should discuss the problems. The solutions to the problem should also come from the community alone.

In Bangladesh the IDA credit made it possible in empowering the poor through credit by providing small loans for income generating self employment activities. The World Bank supported Bangladesh's micro credit scheme and the first Project (1996-2000) channelised from a quasi-Government Poverty Foundation that leads to promising small and medium NGOs to expand their micro-credit programmes. It helped about several million borrowers and helped in reducing poverty and stabilizing income and consumption levels as well as by increasing access to clean water and better health. The Project also increased school enrollment and boosted up family assets.

Poverty reduction requires investments in human development .Health and Quality education are the most important assets of the poor. Sustained growth is the most powerful driver of poverty reduction. Micro Finance is a tool through which women can be empowered through which they can contribute to the overall development of the community

Challenges of Micro Finance

Through all channels, microfinance reach is only 30-40 million, as against 250 million people who live below the poverty line. At the rate of Rupee One lakh per household needed for livelihood promotion, hence trillion of Rupees are needed., to cover all the poor. The coverage of the scheme is about 12 per cent in the country. Asset, health, education and other general insurance services are still nascent as the programme does not insist on real convergence.. Micro savings and remittance products have huge potential.. There is high Volume of Financial Transaction but value wise very low and inadequate to make impact on real poverty alleviation. Majority of the financial transactions are mostly off-site in nature. There is lack of geographic spread of operations as well as density of customers. There is further lack of infrastructure facilities like power, broadband etc. There is unsecured lending and no documented financial history are available. Combination of all these factors above has lead to high operating cost.

Seen from a broader perspective, the development of a healthy national financial system has long been viewed as a catalyst for the broader goal of national economic development. However, the efforts of national planners and experts to develop financial services for most people have often failed in developing countries.

Because of domestic difficulties, when poor people borrow they often rely on relatives or a local moneylenders, whose interest rates are very high. An analysis of 28 studies of informal money lending rates in 14 countries in Asia, Latin America and Africa concluded that 76 per cent of moneylender rates exceed 10% per month, including 22 per cent that exceeded 100 per cent per month. It has also been observed that moneylenders usually charge higher rates to poorer borrowers than to less poorer ones. While moneylenders are often demonized and accused of usury, their services are convenient and fast, and they can be very flexible when borrowers run into problems. Hopes of quickly putting them out of business have proven unrealistic, even in places where microfinance institutions are active.

Although much progress has been made, the problem has not been solved yet, and the overwhelming majority of people who earn less than $1 a day, especially in the rural areas, continue to have no practical access to formal sector finance. Microfinance has been growing rapidly with $25 billion currently at work in microfinance loans. It is estimated that the industry needs $250 billion to get capital to all the poor people who need it. The industry has been growing rapidly, and concerns have arisen that the rate of capital flowing into microfinance is a potential risk unless managed well.

Commercialization of Microfinance in India

There has been a long-standing debate over the sharpness of the trade-off between 'outreach' (the ability of a microfinance institution to reach poorer and to more remote people) and its ‘sustainability’ (its ability to cover its operating costs—and possibly also its costs of serving new clients—from its operating revenues). Although it is generally agreed that microfinance practitioners should seek to balance these goals to some extent, there are a wide variety of strategies, ranging from the minimalist profit-orientation to the highly integrated not-for-profit orientation. This is true not only for individual institutions, but also for governments engaged in developing national microfinance systems.

Private Investors and equity funds are now financing fast growing and nascent MFIs. Some state governments are funding SHG-programmes along with Commercial Banks. Govt. of India has appointed NABARD to manage the Microfinance Development & Equity Fund (MFDEF). Microfinance Bill is still pending in Parliament SERP (Society for Elimination of Poverty) in A.P. financed the SHGs on large scale with the assistance from the World Bank to reduce the poverty levels through SHGs.

Commercial microfinance institutions (MFIs) structure a profitable business model around the functions of conventional financial services, scaled down to “micro” levels. This does not prevent them from being socially responsible, or “pro-poor”. One MFI describes itself as a “commercial bank” with a “social mission”. This form of microfinance is most commonly found in middle income countries, or the urban areas of poorer countries. Though all are microfinance institutions, the actual services offered by each organization vary considerably due to the dissimilar nature of their client base.

Another area in which private investment is playing an increasing role in microfinance is through the wholesale funding of MFI loan books. In recent years, investors have begun to create investment funds for the microfinance sector offering a market rate of return. Large, multinational banks are also now becoming increasingly involved in this area – Citigroup, HSBC and Morgan Stanley all have microfinance divisions providing services such as loan guarantee funds, operational support and commercial wholesale lending to MFIs. In the UK, Morgan Stanley has a well established microfinance department, providing wholesale funding to microfinance institutions. They have even repackaged microfinance debt into structured investments such as collateralized debt obligations (CDOs), which are then sold on to institutional investors.

Micro financial services are needed everywhere, including the developed world. However, in developed economies intense competition within the financial sector, combined with a diverse mix of different types of financial institutions with different missions, ensures that most people have access to some financial services. Efforts to transfer microfinance innovations such as solidarity lending from developing countries to developed ones have met with little success.

Microfinance Institutions (MFIs), established primarily to lend small sums to the poor, are trying to make consumers out of them. Going beyond their traditional role, some

MFIs are starting to offer schemes to the poor to buy mobile phones and other products by paying in installments—a mode of credit that drives consumer spending in India.

Microfinance 'Bubble'

Daniel Rozas' piece in an edition of Microfinance Focus titled "Is there a Microfinance Bubble in South India?" highlighted this point and indicated that the microfinance industry in India; especially Andhra Pradesh; could be on the verge of a bubble. To optimize the benefit for the industry through this engagement with credit bureaus, the NBFC-MFIs have come together to create an association, Micro Finance Institutions Network (MFIN).

Women's Empowerment

Our Constitution provides for equality to all and in the Planning process it is expected that women will equally benefit along with men. Though the constitution of SHGs reinforce the commitment towards empowering women, it is necessary that the women especially from the rural areas should be relieved of their drudgery of unpaid domestic work. Empowerment implies expansion of assets, capabilities of people to influence control and hold accountable institution that affects their lives. Empowerment is the process of enabling an individual to think, behave, take action to control work in an autonomous way. Empowerment can be viewed as a means in which one can take decisions and make choice either individually or collectively for social transformation. Empowerment of women puts the spotlight on education and employment which are an essential element to sustainable development.

Way Forward:

Even though the approach of the Micro Finance is laudable. In implementation the desirable objectives could not be fully achieved for the following reasons:

- The coverage of the poor under Micro finance is not adequate AND GEOGRAPHICALLY NOT UNIFORM

- The Self help groups which should function as a tiny democratically viable unit has been politically maneuvered by different political groups using them for their political advantage of the ruling parties to catch votes out of the scheme for the political party. Very often the SHG members are organized to attend political meetings and their national level political leaders meetings and thus impacted the programmes adversely. All the SHGs should be free from political parties to which they vote and SHG should work free from political group irrespective of the party to which they vote.
- The administrative wing of SHG meets most of the administrative costs out of the interest amounts collected by the SHGs from the beneficiaries. They often increase the number of staff at every level right from village, Mandal/Tehsil/ division district level increasing the managerial costs. All this contribute to the increase of interest rates. A car loan, the upper class member can get a loan at 7.5 to 8.5 per cent interest whereas a poor woman beneficiary can obtain a loan from SHG at 24 percent (2 per cent for PM) or even at a higher rate of interest of 32 to 48 per cent in respect of private MFIs thus making the poverty alleviation programmes unviable.
- The SHGs mostly use the credit for consumption loans and not for a productive purpose. There shall be a proportion of at least 40:60 between consumption and self employment credit loans by the SHGs.
- The SHG office bearers should be well trained in talking up productivity oriented self employment programmes to contribute towards inclusive growth.
- As the Micro Finance institutions run by the Government are not in a position to meet the demand of credit requirements of the poor, the private money lenders do exist while playing a complementary role but charging a higher rate of interest. To avoid the high money lending rates , the system of SHGs to be fully strengthened and allow them to function as an autonomous body without any political intervention

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