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Microfinance and Innovative Financing for Gender Equality : Approaches, Challenges and Strategies

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ABSTRACT *Microfinance, which is widely recognised as a strategy to fight poverty, has long been considered as having its roots in the women's/ gender equality movements. While this is true for the evolution and development of microfinance in many countries, today it has more of finance and less of gender in its overall scheme of things.The needs of women are unique, and they often face the dual burden of productive and reproductive roles – providing livelihood security for their families as well as physically looking after their households and bearing children. Hence, it is critical that microfinance address gender challenges as it moves forward in its journey of empowering the poor, especially women. As microfinance grows further, it also becomes very important to professionalise it so as to optimise on performance to achieve the objectives not only of sustainability and inclusive outreach but also of livelihood security and gender impact.*

INTRODUCTION :

From the early 1970s, several organisations with their roots in women's and labour movements viewed enhancing access to credit as the key to the success of their work with women workers in the informal sector. Microfinance programmes targeting women thus became a major plank of donor poverty alleviation and gender strategies in the late 1980s/ early 1990s. With increasing evidence of the centrality of gender equality to poverty reduction, combined with the higher credit repayment rates achieved by women, a general consensus emerged on the desirability of targeting women. Not only 'reaching' but also 'empowering' women became the second official goal of the Microcredit Summit Campaign.

Microfinance programmes and microfinance institutions (MFIs) have enhanced outreach over the last few years and their largest client 'segment' is 'women'. Their growth in outreach is visible in terms not just of number of active borrowers but also gross loan portfolio and total assets. While performance in terms of outreach has indeed been spectacular, financial performance of microfinance programmes and institutions – using parameters such as operational sustainability, portfolio at risk and return on assets – has been equally phenomenal. Portfolio quality, financial returns and profitability also improved over the years 2001–2004.

Access to versus control of resources for women

While microfinance has done well in terms of extending access to financial services to low-income women, its focus has largely been in terms of delivery of credit. And within credit the focus, at least over the last few years, has largely tended to be on consumption loans and very small production loans. In reality, several critical financial needs have yet to be satisfied. Hence, the gender gap in terms of access to other financial services – formal/ flexible voluntary savings (the most basic insurance product); health, asset, accident and life insurance; and larger production and livelihood credit, to name a few – remains to be addressed for a large majority of women. And low-income women have a range of evolving needs: they require continued access to the wide range of financial services mentioned here to counter the risks and vulnerability that they and their families face in their daily struggle for survival. Indeed, microfinance has a great business opportunity and social obligation in facilitating on-going delivery of these risk-mitigating financial services for low-income women on the required scale.

It is also very critical to look at what access to a basic credit/ savings product has done for low-income women. There are four discernible broad level impacts of microfinance:

a) It has enabled women to have a collective bargaining mechanism at the local level;
b) It has facilitated them to move beyond their households and build relationships with various stakeholders;
c) It has given them a platform to combat various social oppressions; and
d) More than the money received through microfinance, at a very basic level, the self-management that it has fostered in some models (like the village banks and/or self-help groups) is what has perhaps led to some empowerment of women.

Gender challenges for microfinance

Without question, there are several gender challenges for microfinance that need to be addressed if microfinance is to truly empower women:

- Massification challenge: How to enable greater access to the vast majority of unreached women.
- Microfinance primarily targets women who have very little access to assets, and hence it may increase debts for women and perhaps be contributing to making their overall net-worth negative, at least at a basic level.
- Microfinance pushes the debt and poverty burden almost exclusively on women as it considers women more credit-worthy and less of a credit risk.
- Microfinance has traditionally supported women in group settings – self-help groups, joint liability groups, solidarity groups, etc – but has done very little to enhance women's access to larger individual loans required for establishing and running small and medium-sized enterprises (SMEs).
- Members belonging to marginalised groups – like Dalits, tribal and Muslim communities in India and migrant workers – as well as women-headed households are often unable to save or repay regularly, a precondition for most microfinance programmes. As a result there is perhaps an exclusion of the poorest.

Recommendations

There are five generic recommendations, keeping in view the various challenges.

1. Establish a Global/ Commonwealth Gender Innovation Challenge Fund

It is critical to establish a Global/ Commonwealth Gender Innovation Challenge Fund to help the microfinance industry and private sector innovate and develop models, methodologies, products, processes, procedures and performance measures for financial intermediation. This should be specially tailored to

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the needs of low-income women in several contexts. It is suggested that this fund be established with contributions from respective governments, multilateral and bilateral donors and other stakeholders. The Commonwealth Secretariat would be uniquely placed to be the global coordinator.

2. Create an enabling environment for supporting financing for gender equality

The second recommendation is primarily for governments and central bankers/ regulators and addresses the salient aspects pertaining to the creation of an enabling environment. These are:

- Ensuring a minimum number of women directors in MFIs and intermediaries;
- Establishing an integrated and comprehensive database on microfinance and gender;
- Sensitising central bankers and regulators on the special needs of low-income women and related technology;
- Encouraging standards for gender in regulatory reporting of performance.

3. Support Demonstration Pilots on Financing for Gender Equality

Governments and donors could initiate action pilots to test out new models, new methodologies and new products like micro-pensions, alternative savings products, technology-based delivery systems (including SMS banking and use of e-money – see the huge success of Vodafone with the poor in Africa), special products for women, flexible versus fixed repayment, individual lending models, cash flow-based financing, etc. These could be supported through the Global Challenge Fund as well as locally supported, in the country, by national governments and donors. Pilots could include:

- Special financial products for women;
- Delivery of risk management products tailored to the special needs of low-income women;
- Transactions cost reducing technology pilots;
- Encouraging public-private partnerships to overcome market imperfections;
- Enabling livelihood financing for women through larger loans/ individual lending.

4 .Facilitate the global microfinance industry to adopt gender-sensitive practices

The fourth set of recommendation is for the global microfinance industry and these essentially pertain to specific focus areas in microfinance that require gender inputs and sensitisation, based on which systems and practices would have to adapted and changed. The key stakeholders here are industry associations, technical support bodies like the Consultative Group to Assist the Poor (CGAP), MFIs and other stakeholders like central banks and regulators in various countries. other things, this would entail aspects such as (but not limited to) the following:

- Establishing gender-sensitive governance mechanisms including greater and real representation for women as directors and senior managers in MFIs/ intermediaries;
- Instituting gender-sensitive management systems and processes at MFIs /intermediaries, including real transfer of authority along with responsibility;
- Facilitating more women to become a part of the microfinance human resource pool and providing special incentives to institutions that support this;
- Allocating the financial resources required for gender sensitisation of various stakeholders including MFIs, regulators, rating agencies and others;
- Designing, testing and rolling out special microfinance products and delivery mechanisms suited to the unique needs of women, particularly those that cater to reducing their risk and vulnerability;
- Evaluating microfinance programmes not just on the basis of financial parameters but also using social performance indicators that focus on women's empowerment and their access to and control over resources and making these as important as prudent financial management in evaluating, rating and supporting MFIs/microfinance programmes/intermediaries;
- Ensuring protection of women, who form the largest client segment for microfinance, by instituting appropriate 'client protection' and 'client literacy' measures through incorporation of these aspects in various laws that govern microfinance.

5. Undertake research to support financing for gender equality

The fifth and final recommendation is gender-oriented research with regard to impact and convenience of microfinance, with a focus on women's special needs and aspirations. Without this research, which needs to be conducted on an on-going objective and country-wide/ global basis, it would be very difficult to understand various aspects pertaining to the impact of microfinance on women's empowerment and the convenience of microfinance for women clients. There are three major components suggested here as a starter's research agenda, and this could be expanded later as per contextual needs: (1) objective civil society gender audits across Commonwealth countries to understand the real impact of microfinance; (2) examining the trade-off between financial sustainability of MFIs and their focus on gender; and (3) country-wide gender-oriented market research.

Conclusion

Microfinance has to undergo a necessary revolution of being gender-responsive – and this means that the nature of the products being offered and the institutions that deliver them will have to change fundamentally. The microfinance industry has to move beyond providing standard credit for small-scale enterprise and other basic financial services (some savings and insurance) and offer a wide range of tailor-made financial services (including flexible credit, savings, health insurance, pensions, remittances, etc.) that can really empower women and also enable them to reduce their risk and vulnerability. A new set of institutions (corporations, postal/commercial banks, insurance companies, pension funds, telecom companies, etc) are keen to enter this market and they need to be incentives to deliver gender-responsive financial services to bottom of pyramid clients.

All of this calls for various stakeholders – including governments, bilateral and multilateral donors, MFIs, non-governmental organisations (NGOs), civil society and the private sector – to join hands to enable delivery of sound, responsive, affordable and market-oriented (gender-sensitive) financial services tailored to the special and unique needs of low-income women clients, in ways that are advantageous to both the women as well as the institutions. This alone will help the low-income financial services sector rediscover its original and laudable mission of truly empowering women.

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