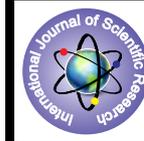


Overview of Micro Finance for Women in India



Economics

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ABSTRACT

Micro finance is the supply of loans, savings, and other basic financial services to the poor. People living in poverty, like everyone else, need a diverse range of financial instruments to run their businesses, build assets, stabilize consumption, and shield themselves against risks. Financial services needed by the poor include working capital loans, consumer credit, and savings, pensions, insurance, and money transfer services. The poor rarely access services through the formal financial sector. They address their need for financial services through a variety of financial relationships, mostly informal. Credit is available from informal commercial and non-commercial money-lenders but usually at a very high cost to borrowers. Financial services for the poor have proved to be a powerful instrument for poverty reduction that enables the poor to build assets, increase incomes, and reduce their vulnerability to economic stress

Introduction

To most, micro finance means providing very poor families with very small loans to help them engage in productive activities or grow their very small businesses. Like us, many poor people need and use financial services all the time. They save and borrow, invest in home repairs and improvements and meet occasional and domestic expenses such as food and school fees. However, there are some 500 million low income entrepreneurs in the world and about 5% have access to financial services. Indeed, the financial services available to the poor often have serious limitations in terms of cost, risk and convenience. As a result, over time, micro finance has come to include a broader range of services (credit, savings, insurance, etc.) as the industry has come to realize that the poor and the very poor that lack access to traditional formal financial institutions require a variety of financial products.

Meaning

A type of banking service that is provided to unemployed or low-income individuals or groups who would otherwise have no other means of gaining financial services. Ultimately, the goal of micro finance is to give low income people an opportunity to become self-sufficient by providing a means of saving money, borrowing money and insurance.

Micro financing is not a new concept. Small microcredit operations have existed since the mid 1700s. Although most modern microfinance institutions operate in developing countries, the rate of payment default for loans is surprisingly low - more than 90% of loans are repaid.

1. Like conventional banking operations, microfinance institutions must charge their lenders interests on loans. While these interest rates are generally lower than those offered by normal banks, some opponents of this concept condemn microfinance operations for making profits off of the poor. It is a tool for empowerment of the poorest; the higher the income and better the asset position of the borrower, the lower the incremental benefit from further equal doses of micro-credit is likely to be.

2. Delivery is normally through Self Help Groups (SHGs).

3. It is essentially for promoting self-employment; the opportunities of wage employment are limited in developing countries - micro finance increases the productivity of self-employment in the informal sector of the economy - generally used for (a) direct income generation (b) rearrangement of assets and liabilities for the household to participate in future opportunities and (c) consumption smoothing.

4. It is not just a financing system, but a tool for social change, specially for women - it does not spring from market forces alone - it is potentially welfare enhancing - there is a public interest in promoting the growth of micro finance - this is what makes it acceptable as a valid goal for public policy.

5. Because micro credit is aimed at the poorest, micro-finance lending technology needs to mimic the informal lenders rather than the formal sector lending. It has to : a) provide for seasonality (b) allow repayment flexibility (c) eschew bureaucratic and legal formalities (d) fix a ceiling on loan sizes.

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Micro finance approach

Micro finance approach is based on certain proven truths which are not always recognised. These are:

- That the poor are bankable; successful initiatives in micro finance demonstrate that there need not be a trade off between reaching the poor and profitability - micro finance constitutes a statement that the borrowers are not 'weaker sections' in need of charity, but can be treated as responsible people on business terms for mutual profit -
- That almost all poor households need to save, have the inherent capacity to save small amounts regularly and are willing to save provided they are motivated and facilitated to do so -
- That easy access to credit is more important than cheap subsidised credit which involves lengthy bureaucratic procedures - (some institutions in India are already lending to groups or SHGs at higher rates - this may prevent the groups from enjoying a sufficient margin and rapidly accumulating their own funds, but members continue to borrow at these high rates, even those who can borrow individually from banks) -
- 'Peer pressure' in groups helps in improving recoveries.

Women can make micro-credit succeed in India:

India has to understand that micro-finance is workable and sustainable anywhere where there is poverty. And to make it successful, it needs to emphasize and mobilize the role of women in each rural and poor household,' the chief architect of Bangladesh's Grameen Bank told a conference organized by the Federation of Indian Chambers of Commerce and Industry (FICCI). 'India and Bangladesh have no major difference in poverty. If micro-finance or micro-credit is successful in Bangladesh, it can be successful in India as well,' Yunus emphasised. 'The Grameen Bank and the work that we do is not something extraordinary and neither is it a model. It is a rather simple way of solving the complex problems of poverty,' the 66-year-old economist said. 'Bangladesh is very close to achieving the UN millennium development goal of eradicating poverty. And we have been able

to successfully reach 80 percent poor households 'India has a long way to go, but it can come out with excellent results only if it catches the pace,' he reiterated.

Women's Micro-enterprises

Considering the entrepreneurial environment, women's activities are very interesting as they offer a great source of knowledge and innovation. For example: there is no single type of female micro-entrepreneur; they differ in social background, educational level, experience and age. Another interesting factor is their strong social coherence that allows them to maintain strong communications-channels at all levels. One important element, and perhaps the only characteristic that men will never have, is the possibility to transfer "motherhood skills" to job.

Women and micro finance

Although men, as well as women, face difficulties in establishing an additional enterprise, women have barriers to overcome. Among them are negative socio-cultural attitudes, legal barriers, practical external barriers, lack of education and personal difficulties. In spite of this, for women and especially for poor women, microenterprise ownership has emerged as a strategy for economical survival. One of the most essential factors contributing to success in micro entrepreneurship is access to capital and financial services. For various reasons, women have had less access to these services than men. In this context, credit for microenterprise development has been a crucial issue over the past two decades. Research has shown that investing in women offers the most effective means to improve health, nutrition, hygiene, and educational standards for families and consequently for the whole of society. Thus, a special support for women in both financial and non-financial services is necessary.

Surveys have shown that many elements contribute to make it more difficult for women in small businesses to make a profit. These elements are:

- Lack of knowledge of the market and potential profitability, thus making the choice of business difficult.
- Inadequate bookkeeping.
- Employment of too many relatives which increases social pressure to share benefits.
- Setting prices arbitrarily.
- Lack of capital.
- High interest rates.
- Inventory and inflation accounting is never undertaken.
- Credit policies that can gradually run their business (many customers cannot pay cash; on the other hand, suppliers are very harsh towards women).

How to increase and support women's participation in micro-finance activities?

Both governments and donors should explore ways of developing innovative credit programmes using intermediary channels or institutions closer to the target groups such as co-operatives,

women's group associations and other grassroots organizations. Savings and credit programmes should be designed in a way not to exclude women from participating.

In general terms, in order to facilitate the participation of women in micro and small enterprise, donors should:

- Encourage micro enterprise programmes to develop specific strategies for recruiting women as clients from within their existing target groups.
- Encourage micro enterprise programmes to expand their target groups to include the sizes and types of enterprise activities in which women engage and/or experiment with assistance strategies, business and technical assistance needs of these types of enterprises.
- Consider expanding support to a broader range of organizations, especially poverty-focused organizations active in rural areas. Support for these organizations should include technical assistance and training in programme planning, management and in developing teams of female staff to assist clients in business planning and management.

To increase women's access to credit, the donor community should:

- Increase the availability of working capital;
- Experiment with lending programmes that do not require conventional forms of collateral;
- Replicate and expand existing successful methodologies for delivering small working-capital loans;
- Introduce savings mobilization components in the context of credit or other enterprise assistance programmes;
- Promote credit policies that are open to both small-scale enterprise activities and enterprises operating in trade, commerce and other small enterprise sectors where women have higher participation rates.

Conclusions

Traditionally women have been marginalized. A high percentage of women are among the poorest of the poor. Microfinance activities can give them a means to climb out of poverty. Microfinance could be a solution to help them to extend their horizon and offer them social recognition and empowerment. On the other hand, thank to women's capabilities to combine productive and reproductive roles in microfinance activities and society has enabled them to produce a greater impact as they will increase at the same time the quality of life of the women micro-entrepreneur and also of her family. The key issue for successful micro finance program focused on women should consider them in a broader context, as a family nucleus, that is vital for societal improvement and progress. Following this idea, micro finance programmes should provide women with specific adapted products through appropriate methodologies, which can offer competitiveness to their business but also well being to them and their families.

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