MICROFINANCE AND WOMEN EMPOWERMENT

The United Nations (UN) has paid close attention to and recognised the important role of microfinance in the socio-economic advancement of communities. This included the declaration of the year 2005 as the "Year of Microfinance", conducting studies and producing publications on the subject, and strengthening activities of its specialised fund for small-scale investment (UNCDF).

Microfinance has evolved as an economic development approach intended to benefit low-income women and men. Microfinance as defined by CGAP[1], "usually refers to the provision of financial services to poor and low-income clients who have little or no access to conventional banks."

The term is often used in a more specific sense, referring to institutions that use new techniques developed over the past 30 years to deliver microcredit—tiny loans—to informal micro-entrepreneurs. The range of services can include not only microcredit but also savings, insurance, and money transfers." Over the years, the discourse has shifted from "microcredit" to "microfinance," and now widespread concern for "financial inclusion" is directing attention to the broader "financial ecosystem" and how to make financial markets work better for the poor.

Microfinance: What it Provides

A great number of organisations are regarded as Microfinance Institutions (MFIs). They are those that offer credits and other financial services to the representatives of poor strata of population.

MFIs access financial resources from banks and other mainstream financial institutions and provide financial and support services to the poor. MFIs offer a range of services including loans, savings facilities, insurance, transfer payments, and even micro-pensions. Some of the services offered are:

• **Sequential loans**: Many MFIs operate on a formula that gives out small loans, of short-term maturity, and with small weekly repayment schedules, which are easier for the poor to handle than bullet repayments at the end. The amounts for future loans are increased gradually based on the repayment performance of the client, which also gives the borrower the financial flexibility needed to grow gradually, taking advantage of opportunities in a slower but safer way;

• **Agent banking**: Agents are located within the community and normally develop good rapport with the clients which helps them in understanding the need of the client and in building relationship which helps in avoiding potential problems; and

• **Group lending**: Group lending is designed to make up for the lack of collateral. In group lending, the loan is made sequentially to a self-selected group and their collective responsibility and the built-in incentive of further loans based on past performance cause pressure or even help each other to repay.

• **Information Communication Technology**: Technology, especially the mobile phone platform, has facilitated the reach of microfinance to the rural and unbanked areas. The approach has caught on in several countries since the introduction of the M-Pesa by Safaricom in Kenya. The future of branchless banking has several possibilities – the Mobile Network Operators (MNOs) on their own, partnership between the bank and the MNO, or acquisition of a bank by the MNO.

[1] Occasional Paper 15, "The New Moneylenders: Are the Poor Being Exploited by High Microcredit Interest Rates?" (Rosenberg et al. 2009)

Emergence of Microfinance

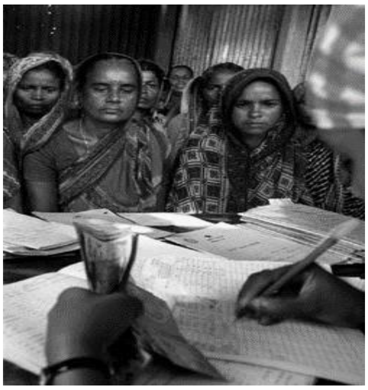
The beginnings of the microfinance movement are most closely associated with the economist Muhammed Yunus, who in the early 1970s was a professor in Bangladesh. In the midst of a country-wide famine, he began making small loans to poor families in neighboring villages in an effort to break their cycle of poverty. Consequently, the Grameen Bank was started as an action research project in 1976. Borrowers were organised into small groups of four or five people (soon becoming single sex groups, with a focus on women's groups) that met weekly with other groups to make loan repayments. Demand for credit grew rapidly and repayment rates were good, so the project was able to secure loans for on-lending from the state-controlled Bangladesh Bank and other commercial banks. In 1984, the Grameen Bank became a government-regulated bank through a special government ordinance, and remains the only body regulated in this way. (http://www.gprg.org/pubs/workingpapers/pdfs/gprg-wps-041.pdf)

The success of the Grameen Bank did not go unnoticed. Institutions replicating its model sprang up in virtually every region of the globe. Between 1997 and 2002, the total number of MFIs grew from 618 to 2,572.

Microfinance and Women Empowerment

From the early 1970s, women movements in a number of countries identified credit as a major constraint on women's ability to earn an income and became increasingly interested in the degree to which poverty-focussed credit programmes and credit cooperatives were actually being used by women. Self Employed Women's Association (SEWA) in India, for example, set up credit programmes as part of a multi-pronged strategy for an organisation of informal sector women workers.

Since the 1970s, many women's organisations world-wide have included credit and savings, both as a way of increasing women's incomes and to bring women together to address wider gender issues. The 1980s saw the emergence of poverty-targeted micro-finance institutions like Grameen Bank and ACCION and others.In the 1990s, a combination of evidence of high female repayment rates and the rising influence of gender lobbies within donor agencies and NGOs led to increasing emphasis on targeting women in micro-finance programmes.

The available evidence points to a considerable **potential of micro-finance to benefit women**: women's demand for credit and savings facilities is high; savings propensity as well as the loan repayment rates equal or exceed those of men; many women, particularly in programmes targeting women entrepreneurs, decide on the loan use and invest in income-earning activities; some are able to increase incomes considerably which they themselves control. With access to cash, evidence indicates that women spend much of their income on household well-being and acquire decision making space in the family. Their ability to make decisions over certain purchases and their new status as important household earners has been linked not only to increased bargaining power, but also to a decreased incidence of domestic violence.

Global Microscope on Financial Inclusion, 2015

The Global Microscope on Financial Inclusion (2015) compares around 50 countries across 12 indicators. **The 12 indicators and supporting sub-indicators include**: Government support for financial inclusion, Regulatory and supervisory capacity for financial inclusion, prudential regulation, Regulation and supervision of credit portfolios, Regulation and supervision of deposit-taking activities, Regulation of insurance targeting low-income populations, Regulation and supervision of branches and agents, Requirements for non-regulated lenders, Electronic payments, Credit-reporting systems, Market-conduct rules, and Grievance redressal of dispute-resolution mechanisms.

Table 1.0, culled out from the report, focuses on India, Tanzania, Kenya, Uganda and Ethiopia. The data indicates that India with a score of 71 ranks the best in terms of financial structures for inclusion and Ethiopia with a score of 32 lags behind other countries in the region. The report shows that despite a growing appreciation of the importance of financial inclusion, most countries can still improve their enabling environment. Only a few score more than 75 out of 100 in rankings, and a majority finish at or below 50. The intellectual argument for financial inclusion may have become conventional wisdom; putting it into practice will require more innovative policies and tools.

Table 1.0: Comparative data on financial structures for inclusion

↔ No change in rank ▲ Rank Increased ▼ Rank Decreased

Scores 0-25	Scores 26-	Scores 51-	Scores 76-

OVERALL SCORE					
Rank / 55				Score / 100	Δ
			Average	48	+2
	4	▲1	India	71	+10
	=6	▲3	Tanzania	62	+6
	=11	n/a	Kenya	56	+1
	16	▼5	Rwanda	54	-1
	=23	▼3	Uganda	50	0
	=48	n/a	Ethiopia	32	n/a

- Rank out of 55 countries, 1=best; '=' denotes tied rank between two or more countries
- Normalised score 0-100 where 100=best
- Δ = Change in score, 2015 compared with 2014

The Context of Microfinance in Africa

It is estimated, that as of 2007 only around 12.7% of the poorest families in Africa had access to microfinance services compared to 78.5% in Asia. A majority of African private businesses continue to be predominantly informal, dominated by small and micro enterprises. Despite their informality, these enterprises have yielded important benefits.

The informal sector has acted as a "regulator of the economy" in times of economic downturns and crisis, absorbing much of the shock of periodic economic contraction. It has also absorbed excess labour and provided additional incomes to persons whose real incomes have been eroded. Thus effort is concentrated to sustainably lift the majority of Africans out of poverty. In this context, empowering the poor through financial inclusion opens various opportunities for those who have limited or barely any choice to make a living. The African microfinance industry is diverse and geographically dispersed. An array of approaches has been used ranging from the use of agent and village community banks and traditional group based- systems to specialised lending by various institutions. Evidence shows that microfinance in Africa is developing at all the three levels of the financial system – the micro (financial service providers), meso (support service providers), and macro (policy, regulatory framework and supervision). At the micro level, there are many stakeholders and growing interest from banks and private investors.

Africa: Country Specific Scenario

Ethiopia

The emergence of MFIs in Ethiopia can be traced to July 1996, with the Licensing and Supervision of the Business of Micro Financing Institutions Proclamation (No. 40/1996) which was issued providing for the establishment of microfinance institutions. Since then, various microfinance institutions have legally been registered and started delivering microfinance services in both rural and urban areas.

In an attempt to enhance the development and soundness of the micro-financing business; Micro-Financing Business Proclamation No. 626 /2009 was ratified by the House of People's Representative. The Ethiopian microfinance sector is characterised by its rapid growth, through an aggressive drive to achieve scale, and a broad geographic coverage.

The Ethiopian owned and government backed MFIs, emphasise on rural households, promotion of both credit and savings products, with a strong focus on sustainability. (Deribie et al, 2013 and Gobezie, 2010).

Kenya

The earliest forms of microfinance and microcredit in Kenya were church-based lending programmes that arose in the 1980s. However, it was only in 1999 that the Central Bank established a division to handle microfinance and in the same year the Association of Micro Finance Institutions of Kenya (AMFI) was formed under the Societies Act by the leading microfinance institutions in Kenya. The Central Bank set up a Microfinance Division within the Bank Supervision Department (now Financial Institutions Department) in 2000. In 2004, the Central Bank established a Rural Finance Department to address various policy issues concerning rural finance, including microfinance.

The Microfinance Act and the Finance Act were enacted in 2006 and envisaged two tiers of microfinance institution, i.e. nationwide microfinance institutions, and community microfinance institutions. The Microfinance Act and the associated microfinance regulations, outlined the legal, regulatory and supervisory framework for the microfinance industry in Kenya through licensing and supervision. (Source: http://redfame.com/journal/index.php/ijsss/article/viewFile/1004/939).

Mobile Remittance Service in Kenya – An Example in Adaptation of Technology for Progress

The provision of mobile remittance services is a key growth area in payments systems. Remittances have grown rapidly in recent years, reflecting the growth in migration. Unsurprising, then, that mobile remittances is one of the key growth areas in remittances. One of the earliest mobile remittance services was M-Pesa (M for mobile, Pesa is Swahili for money), a mobile-phone based money transfer service set up in October 2005 by Vodafone affiliate Safaricom in Kenya.

The service was aimed at mobile customers who do not have a bank account. The initial concept of M-Pesa was to create a service which allowed microfinance borrowers to receive and repay loans conveniently using the network of Safaricom airtime resellers. This enabled MFIs to offer more competitive loan rates to their users, with the reduced cost of dealing in cash. The users of the service gained through being able to track their finances more easily. The continuing success of M-PESA has been due to the creation of a highly popular, affordable payment service with only limited involvement of a bank. It has opened up possibilities for service expansion to previously unbanked areas.

Rwanda

In the fight against poverty and increasing inequality, since 2000, the Rwandan government has embarked on poverty reduction strategies. To this effect, the government places much emphasis on microfinance as one of the tools to poverty reduction. According to an assessment of microfinance done in 2005, close to USD100 million was mobilised in the sector and 85 was extended to over 600,000 MFI clients as credit. (Bamwesigye, Jackson, 2008)

In 2006, the government adopted a National Microfinance Policy, which sets guidelines for the microfinance sector. The main institutions responsible for microfinance in Rwanda are the Rwandan National Bank (BNR) and Rwanda National Association of Microfinance Professionals (AMIR). BNR is responsible for the regulation and supervision of the microfinance sector by virtue of its statutes. The Rwanda National Association of Microfinance Professionals (AMIR), which was established in June 2007, comprises 89 of the sector's 116 institutions.

Tanzania

The emergence of the Savings and Credit Cooperative Organisations (SACCOs) in Tanzania dates back to the years 1965 as the first step to the emergence of microfinance institutions (Chao-Béroff et al., 2000; Nyamsogoro, 2010). In 1991 the Government of Tanzania entered in the financial sector reforms in order to create an effective and efficient financial system. Realising that some of the financial reforms of the government resulted in reduction of financial service to the poor people, in 2000 the Government of Tanzania, together with donor community, started to implement the financial rural programmes (Randhawa & Gallardo, 2003).

It was in the same year that the National Micro Finance Policy approval by the government was finalised. In its statement of the overall microfinance policy, the government recognizes the microfinance sector as an integral part of the financial sector, which falls within the general framework of its Financial Sector Reform Policy Statement of 1991 (URT, 2000). Since then number of MFIs in Tanzania helping the poor people, especial women, is constantly growing. (http://journals.acrn.eu/resources/Journals/201302c.pdf).

Uganda

Formal Microfinance began in Uganda in the early 1990s when Foundation for International Community Assistance (FINCA) and Uganda's Women Finance Trust (now Uganda Finance Trust, Ltd) started offering microcredit loans. The early development of the sector was supported by USAID and PRESETO/Centre for Microfinance which provided training workshops to the microfinance institutions. According to the Microfinance Census Report generated by Uganda Bureau of Statistics (UBOS), rural clients make up 43% of all microfinance clients in Uganda. In 2009, bad weather and a food shortage in Central Africa affected a number of countries, including Uganda. However, Uganda still experienced higher yields than many other countries in Sub-Saharan Africa. A series of recent impact studies find evidence that the financial services provided by MFIs have decreased client vulnerability to economic shocks and have bolstered linkages between clients/households and agricultural sector (http://ds.haverford.edu/mappingmicrofinance/reports/uganda).The Association of Microfinance Institutions of Uganda (AMFIU) now operates to support a sustainable network of MFIs and publishes a directory containing information about the most reputable MFIs.

Microfinance in India

Poverty alleviation has been one of the guiding principles of the planning process in India. Government has considerably enhanced allocation for the provision of education, health, sanitation and other facilities which promote capacity building and well-being of the poor. The Indian government has focused on providing financial services to the poor and underprivileged since independence.

In India, microfinance began to take root through the formation of informal Self-Help Groups (SHGs) in several parts of the country, such as SEWA. Subsequently, with the government initiative, new organisations such as Small Industries Development Bank of India (SIDBI) and National Bank for Agriculture and Rural Development (NABARD) began to actively promote microfinance in the country by refinancing various MFIs.

Recent governments in India have also realised the importance of microfinance, seeking to promote it through schemes like Micro Units Development and Refinance Agency (MUDRA) and through legislative proposals for the regulation of MFIs in India. (*Microfinance Institutions - Development and Regulation Bill, 2012*).

Table 2.0: A brief snapshot of the Development of Microfinance in India

1995	• **NGOs inspired by Grameen Model of Professor Yunus start operations in India**
1996	• First Non-Banking Finance Company working as a Micro-Finance Institutions starts operations in Andhra Pradesh.
1997	• SIDBI starts supporting small NGOs working as MFIs
2000	• Lending to MFIs is included in priority sector list and provides impetus to bank lending to MFIs.
2005	• **RBI introduces "No- frill account" a basic savings account for improving financial inclusion.**
2006	• MFIs transform to 'for-profit' structures and attract private equity. • RBI allows individuals, small shops, private companies, societies and trusts to act as an extension of banks called banking correspondents.
2007	• MF industry grows at 80% per annum and reaches 27 million borrowers
2010	• First Indian MFI SKS gets listed publically with shares over-subscribed. • Andhra Pradesh issues an ordinance banning all microfinance activities in the State – leads to slow down in the sector and 9.2 million loan defaults of value 1.5 billion USD.
2013	• Government announces Direct Benefit Transfer through Aadhar enabled bank account for payment of various government subsidies.
2014	• RBI allows Non- Banking Financing Companies to Act as Business Correspondents. • RBI issues guidelines for Small Finance Banks and payment Banks
2015	• Prime Minister launched the Pradhan Mantri Micro Units Development and Refinance Agency (MUDRA) Yojana. Under the scheme, MUDRA Bank is a new institution being set up by Government of India for development and refinancing activities relating to micro units. It was announced by the Hon'ble Finance Minister while presenting the Union Budget for Financial Year 2016. MUDRA provides funding to the non-corporate small business sector.

Microfinance, Self Help Groups (SHGs) and Women's Empowerment in India

Group lending has emerged as a powerful form of including women within the financial system in India. Since the early 1990s, the Indian SHG movement has emerged as a dominant 'community based institutional model' that provides basic financial services to its members and helps them progressively reduce social and financial vulnerability, expand livelihood opportunity and achieve socio-economic and political empowerment. The basic mechanism of the group where 10-20 women come together to grow their savings and to access credit which banks are increasingly willing to lend, gradually evolved into a financial plus social platform. This facilitated women to increasingly discuss and take action on community and women's issues like- health and education, livelihoods and enterprise development, water and sanitation, access to entitlements and government schemes and prevention of social evils like dowry, alcohol and gender violence.

Over the years there have been numerous studies which have researched the impact of SHGs on women's empowerment. These studies find that SHGs in general have made a **positive impact on socio-economic condition and poverty of SHG members and their households**. It has also reportedly empowered women members substantially and contributed to **increased self-confidence and positive behavioural changes.** Some of the facets oft include:

- ***Significant impact on poverty reduction***
    - *Poverty rate for member household showing a decline of over 25%*
    - *Household income for the members from the SHG group increased by over 72%*
- ***SHGs have enhanced ability of members to leverage finance for investments, consumption***
    - *Expansion of choice and increased freedom to women on financial matters*
    - *60% of women members reported increase in ownership of productive asset post SHG; 22.9% women reported taking decision on household matters compared to 9.1% pre-SHG*
    - *More than 70% of the women indicated control over expenditure on children's education as improved or significantly improved*
    - *Such transformation in decision making role can be linked directly to women access to credit and savings though their membership of SHGs*
- ***The penetration of SHGs has led to a cascading impact on choices for credit sources available to member households***
    - *Loans from banks have also increased from 13 to 44%*
    - *Massive drop in loans from moneylenders from once 60% before SHGs to 1.2% in post SHGs*
    - *Loan (by number) taken by members for productive purposes like investment in livelihoods/enterprise has shown steady increase from 43-51%*
- ***Membership with the SHG has led to an 'increase' in access to formal institutions***
    - *Increase in access to formal institutions (60.9%) and pro-poor programmes (53.3%*

[2] Finding from GIZ-NABARD study conducted in six states (Andhra Pradesh, Karnataka, Maharashtra, Orissa, Uttar Pradesh and Assam) in five different regions across India in 2002; an all India study on SHG in 2012; and primary data collected through expert engagement and focus group discussions with SHG groups.

Conclusion

Many development experts agree that microfinance, when properly harnessed and supported, can economically empower individuals and small enterprises and enable them to contribute to and benefit from economic development. In the current economic environment of on-going global financial and economic instability, microfinance lies at the heart of Africa's efforts at delivering inclusive socioeconomic development.

Microfinance offers significant opportunities for African countries to fully unleash the private sector's potential and contribute to addressing emerging and long lasting development challenges such as poverty, income inequality, high levels of unemployment, particularly amongst its youth.

Evidence shows, microfinance can play a crucial role in empowering women and bridging the gender gap which is an imperative to achieve developmental goals. Growth of the microfinance industry, especially with focus on women, has also been central to the social progress achieved in South Asia in the past four decades.

The experience of South Asia and other regions demonstrate that microfinance can deliver positive effects only when it is combined holistically and integrated effectively with other economic and social programmes to meet the diverse needs of the poor and help lift them from poverty. The South Asian experience and good practices offer models for the African microfinance sector to build on and benefit from the South Asian experience.

KPP is a South-South cooperation programme promoting knowledge sharing in the areas of Food Security, Resource Scarcity and Climate Change; Health and Disease Control; Trade and Investment; and Women and Girls. KPP is funded by the Government of UK's Department for International Development (DFID) and managed by a consortium led by IPE Global Private Limited under its Knowledge Initiative. The main objective of KPP is 'Gathering and uptake of evidence on issues central to India's national development that have potential for replication in LICs and impact on global poverty'.

Contact Us: Dr N. Hamsa
Policy Lead – (Women and Girls)
IPE Global Pvt. Ltd. B – 84, Defence Colony, 110 024, New Delhi, India
Phone Main: 0091 11 4075 5930; Direct: 0091 11 4075 5984
E-mail: nhamsa@ipeglobal.com
Website: www.ipekpp.com

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