IJARSCT

ISSN (Online) 2581-9429

International Journal of Advanced Research in Science, Communication and Technology (IJARSCT)

International Open-Access, Double-Blind, Peer-Reviewed, Refereed, Multidisciplinary Online Journal

IJARSCT

Impact Factor: 7.301

Volume 3, Issue 1, July 2023

Microfinace and Gender Equality: Issues and Outlook

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Abstract*: In recent years, microfinance has emerged as a significant tool in the fight against poverty. The microfinance scheme has proven effective in elevating individuals beyond the poverty line by offering enhanced self-employment prospects and fostering creditworthiness. In India, the microfinance sector has witnessed substantial growth, catering to both rural and urban populations with a comprehensive range of financial services. While the core concept of microfinance encompasses more than just microcredit, the terms microfinance and microcredit are often used interchangeably. Notably, the microfinance industry places a strong emphasis on empowering women clients due to their proven creditworthiness. An overwhelming 97 percent of microfinance clients are women, reflecting their pivotal role in this domain. However, despite this focus, there appears to be a lack of concerted efforts from microfinance institutions (MFIs) to genuinely promote women's empowerment and gender equality. This paper draws on secondary data and articles, supplemented by the researcher's own experiences as a Branch Head at BASIX and Janalakshmi Financial Services Pvt Ltd. The study aims to delve into gender-related challenges within the microfinance industry, identify opportunities for achieving gender equality, and examine the obstacles and potential pathways toward this goal. Additionally, the researcher investigates the rationale behind the strong emphasis on women within the microfinance sector.*

In conclusion, the findings suggest that, beyond the mere provision of credit, MFIs have not adequately prioritized gender equality initiatives. Consequently, the anticipated positive impact of microfinance on gender equality has yet to materialize on the ground. It is imperative for MFIs to take proactive steps towards promoting gender equality, not only to enhance the borrowers' livelihood sustainability but also to ensure the long-term viability of these institutions

Keywords: Microfinance, Gender Equality, Women empowerment

I. INTRODUCTION

Poverty stands as a pervasive barrier to development in developing countries. Dr. Amartya Sen (1999) underscored that poverty should be viewed as the lack of fundamental capabilities rather than solely a meagre income. The impoverished find themselves ensnared due to the absence of access to productive capital. This poverty trap renders it arduous for them to break free from its clutches without external interventions. Its repercussions are felt across family income, savings, and overall economic conditions. Consequently, the pivotal goal in pursuit of projected growth becomes poverty eradication. The dearth of credit access stands as a significant contributor to this dilemma. The Indian government has fervently endeavored to combat poverty through diverse schemes and programs. Access to credit proves pivotal for self-empowerment and the expansion of existing livelihoods. However, formal financial institutions fall short in reaching the creditworthy poor. Enter microfinance—a beacon in the battle against poverty. In recent years, it has emerged as a potent tool for poverty eradication.

Microfinance, as described by Otero (1999, p.8), encompasses "the provision of financial services to low-income poor and very poor self-employed people".

Broadly, microfinance products are categorized into three domains: microcredit, micro-savings, and micro-insurance. Often, the term microcredit is used interchangeably with microfinance. However, microcredit represents just one facet of the comprehensive microfinance concept. It entails providing microloans to individuals within the low-income bracket, encompassing an array of loans for consumption and production. These span housing, education, agriculture, and small to medium enterprise financing. Microfinance encapsulates both credit and savings, with recent years witnessing growth primarily in these aspects. Microfinance institutions place a particular emphasis on women borrowers, aiming to furnish them with opportunities and resources for empowerment. Credit is extended to women to bolster existing livelihoods and facilitate the initiation of new enterprises.

1.1 Significance

This paper addresses the assertions and actualities surrounding the intersection of microfinance and gender equality. Microfinance institutions purport to empower women economically, aid in escaping exploitation, and foster self-reliance. The present study endeavors to highlight the endeavors of microfinance in advancing gender equality.

II. LITERATURE REVIEW

This paper presents a review of relevant studies conducted on the subject at hand. The purpose of this review is to conceptualize and comprehend the factors associated with the subject matter. It has contributed to the understanding of both theoretical and methodological aspects of the reviewed literature, alongside empirical studies. Moreover, this literature review has served to address key questions such as the existing studies on the subject, partially covered topics, unexplored areas, theoretical gaps, and methodological limitations.

- **Vijay Mahajan (2005)**, a prominent social entrepreneur and chairman of BASIX, expressed in the article 'From Microcredit to Livelihood Finance' that "Microcredit alone cannot be deemed a catalyst for economic growth. In fact, it falls short as a means for poverty alleviation, let alone fostering economic growth. Microcredit is a necessary but insufficient condition for promoting micro-enterprises." Mahajan underlines that alongside credit, additional inputs are necessary, including the identification of livelihood prospects, selection and motivation of micro-entrepreneurs, and business and technical training. Establishing market connections for resources and products plays a pivotal role in entrepreneurship development. Without these components, microcredit alone remains effective only for a limited range of activities, such as small-scale farming, livestock rearing, and small trading, especially where market links exist. It becomes imperative to provide value-added services alongside credit to foster new entrepreneurs.
- **Professor Yunus (2003)**, renowned for his work in microfinance, emphasizes, "Micro-credit does not eradicate poverty in a single step. However, it has the potential to alleviate poverty for many and reduce its severity for others. By combining collective efforts with innovative programs that unleash human potential, micro-credit becomes an essential tool in our pursuit of a poverty-free world."
- **Kamal Vatta (2003)** delved into the subject of Microfinance and Poverty Alleviation. Her study revealed that microfinance offers modest loans, financial discipline, and frequent credit disbursement that caters to the diverse credit needs of the impoverished. She sought to establish a link between poverty alleviation and microfinance through the Self-Help Group (SHG) model. Vatta observed that SHGs, predominantly composed of women's groups, empower women economically and socially. A common assumption suggests that moderately poor individuals are less likely to default compared to those in acute poverty. Vatta suggests that microcredit could play a significant role in the long-standing objective of poverty alleviation through a deeper penetration of credit in rural India.

2.1 Objectives

- To uncover the factors driving MFIs' emphasis on women.
- To investigate gender equality within the context of microfinance.
- To propose potential interventions for enhancing gender equality via microfinance.

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III. METHODOLOGY

This paper is founded upon secondary data and articles evaluated by the researcher. The author has crafted this paper drawing from personal practice and experiences gained during his tenure as a Branch Head at BASIX and Janalakshmi Financial Services Pvt Ltd.

3.1 Microfinance and Women:

Across the historical trajectory of microfinance, women have not consistently occupied a central role. Diverse arguments concerning both the supply and demand for microcredit can shed light on the targeting of women by microfinance institutions (Armendariz and Morduch 2005; Mayoux 1999; World Bank 2001; World Bank 2007).

The proportion of urban clientele served by microfinance organizations is progressively growing in comparison to rural populations. The urban clientele proportion increased from 44% in 2013-14 to 67% in 2014-15. Notably, women borrowers constitute a substantial 97% of the total clientele of MFIs, with SC/ST borrowers comprising 28% and minorities accounting for 18% (Bharat Microfinance Report 2015).

Microfinance institutions prioritize women for various reasons, some of which are outlined below:

a) Better Credit Utilization by Women: The notion that women make more efficient use of credit compared to men isn't merely speculative; evidence supports this claim. Women exhibit prudent saving habits for domestic expenses, which translates into responsible credit utilization. They direct credit toward prudent expansion of businesses or initiation of new entrepreneurial ventures. Unlike men, women are less inclined to spend credit on luxury items. This effectiveness in credit utilization among women propels the MFI sector's focus on them.

b) Improved Repayment Records of Women: Traditionally, middle-class men are the preferred borrowers for commercial banking. However, MFIs were among the first to place trust in women borrowers, a trust substantiated by MFI operations. Repayment rates are notably higher in MFIs compared to conventional banks. Women tend to have higher repayment rates than men. Practical observations demonstrate that men often present various excuses for not repaying installments, making recovery challenging for MFI officers. The inclination to focus on women borrowers primarily stems from the ease of repayment rather than being driven by objectives of women's empowerment or gender equality.

c) Women's Right to Access Capital: According to Mohammad Yunus, access to credit is a fundamental human right and a matter of justice. MFIs have provided women from low-economic backgrounds the opportunity to engage in economic activities through microfinance movements in India. This movement has recognized and honored women's right to access credit, marking a significant step in granting economic agency to women.

3.2 Challenges Faced by MFIs

Microfinance institutions (MFIs) encounter several hurdles when striving to achieve gender equality through microfinancing. These challenges include:

- Recruitment of Female Staff
- Insufficiency of Non-financial Services
- Emphasis on Targeted Outreach
- Prioritization of Quantity over Quality
- Lack of Credit Utilization Oversight
- Inadequate Commitment to Shifting Community Attitudes toward Women.

3.3 Recommendations for Enhancing Gender Equality through Microfinance

To foster a positive impact on women, it is imperative to tailor microfinance policies, practices, and products to promote gender equality and empower women. The following suggestions serve as a foundation for achieving these objectives:

i) Enhancing Gender Equality within MFIs: Diversifying the representation of women in senior management and general administration roles within MFIs is pivotal. Presently, the proportion of women in such roles is minimal. Within the MFI sector, approximately 16% of the workforce consists of women, with 64% serving as field staff (Bharat

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Microfinance Report 2015). Bolstering the number of women in service delivery roles would significantly impact on-ground operations. Equal opportunities for employment and management positions should be promoted within MFIs.

ii) Customizing Financial Services to Women's Needs: Microfinance products tailored to women's requirements must encompass loan amounts, loan purposes, and repayment schedules. Additionally, incorporating services such as microinsurance can mitigate risks and vulnerabilities, thereby contributing to financial inclusion.

iii) Expanding Non-Financial Services by MFIs: MFIs should extend their offerings beyond credit to encompass a broader range of financial services. Delivering financial literacy training, business development guidance, and technical support for specific entrepreneurial pursuits is pivotal. These initiatives can facilitate women's effective access to microfinance services and create equitable opportunities for income generation, simultaneously benefiting both women entrepreneurs and the sustainability of MFIs.

iv) Implementing Rigorous End-Use Monitoring of Credit: MFIs should prioritize rigorous end-use monitoring practices for the credit extended. In the past, such practices have eroded due to business pressures, resulting in misuse of funds. Ensuring that credit is utilized for the intended purpose, particularly by women, is essential for enhancing gender equality and the viability of microfinance initiatives.

v) Leveraging Group Mechanisms to Strengthen Gender Equality: The group approach commonly employed by MFIs can be harnessed to influence women's participation in decision-making processes. This group dynamic can serve as a platform for negotiating gender disparities and promoting collaboration. Strengthening these group networks could further connect women with other community stakeholders, amplifying the impact of microfinance initiatives.

vi) Cultivating Attitudinal Change within Communities: MFIs have the potential to drive attitudinal shifts within communities towards recognizing and valuing women's contributions to economic activities. Given the historical oversight of women's involvement in sectors such as agriculture and dairy, MFIs can play a pivotal role in acknowledging and promoting women's economic contributions. Creating better economic prospects for women, while also addressing gender norms, can catalyze substantial change.

IV. CONCLUSION

Microfinance has emerged as a prominent and dynamic issue in India, drawing both accolades and critiques from experts. Positioned as a tool for alleviating poverty and advancing the livelihoods of both rural and urban underprivileged individuals, microfinance garners attention for its pivotal role. It prominently centers on women, ostensibly aiming for their empowerment, a claim echoed by a majority of Microfinance Institutions (MFIs). While the outreach of MFIs showcases contributions toward gender equality, the practical realities on the ground diverge.

Despite ostensibly focusing on women's empowerment, the multifaceted objectives of MFIs extend beyond this noble goal. These institutions are also entangled in concerns related to credit repayment. This study concludes that the MFI sector's endeavours to promote gender equality fall short in both adequacy and seriousness. A fundamental transformation in strategies is imperative, necessitating a genuine commitment to gender equality. Such reform should initiate from the recruitment of female personnel within the institutions. This strategic move could pre-empt the challenges currently faced by MFIs.For the sustainability of the microfinance industry, it becomes paramount to shift focus from exclusively financial services to encompass non-financial services. This pivot should occur despite the industry's intense competition. The competitive landscape has, in fact, placed MFIs in a precarious situation, with their number-centric approach exhibiting unintended repercussions.

In essence, microfinance's potency is unquestionable, yet the MFI sector must earnestly address gender equality and modify their strategies accordingly. Only then can they effectively navigate the intricacies of the sector and avoid the challenges currently plaguing their operations.

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