

**OPINION ARTICLE**

## **Importance of Micro Finance and Small Savings to Maintain Home Budgets**

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### **INTRODUCTION:**

Bono once put an interesting twist to an old adage: Give a man a fish and he'll eat for a day. Give a woman micro credit, she, her husband, her employees and her extended family will eat for a lifetime. The simple quote sums up the power of credit to develop entire societies in a bottom-up manner instead of just the top-down manner traditionally employed by the commercial sector.

As the name suggests, Microfinance is the provision of financial services (loans, savings, insurance) to people on a small scale, such as businesses with low or moderate incomes, but you can read more meticulous definitions here and here. Loans of micro value are one of the better known means of helping small business owners in developing countries move out of poverty.

Microfinance Institutions (MFIs) Provide loans and savings services through a variety of lending models, while micro entrepreneurs use these services. The theory is that if the poor have access to these services, their financial lives will be more stable, predictable and secure, allowing them to plan and improve their livelihoods through education, healthcare and empowerment.

### **Genesis of Micro Finance:**

The origin of Micro finance or micro credit can be traced to the 1976 when Mohammed Yunus set up the Grameen Bank experiment on the outskirts of Chittagong University Campus as an experiment. Grameen we mean 'rural or village' in Bangladesh language. These Grameen banks provide loans to the poor who do not have anything to put up for collateral. Grameen banks are the largest rural financial institution in Bangladesh. Their lending guidelines and procedures are mainly for women, 97% are women. In terms of clients, Grameen Bank is doing very well.

To most, Microfinance 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 training 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, Microfinance 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 who lack access to traditional formal financial institutions require a variety of financial products.

### **Profile of Micro Finance in India:**

The profile of micro finance in India at present can be traced out in terms of poverty it is estimated that 350 million people live Below Poverty Line. The following are some components of micro finance:

- a) This translates to approximately 75 million households.
- b) Annual credit demand by the poor in the country is estimated to be about Rs 60,000 crores.
- c) A cumulative disbursement under all micro finance programmes is only about Rs 5000 crores.
- d) Total outstanding of all micro finance initiative in India estimated to be Rs. 1600 crores.
- e) Only about 5% of rural poor have access to micro finance.
- f) Though a cumulative of about 20 million families have accepted accessed.
- g) While 10% lending to weaker sections is required for commercial banks, they neither have the network for lending and supervision on a larger scale or the confidence to offer term loan to big micro finance institutions.

### **Microfinance, empowerment for Women and Poverty Alleviation:**

The identification of the concept of poverty is not easy, arises where a great deal of controversy and disagreement about the appropriate definition of poverty, some researchers poverty is defined according to income or rather due to the lack of income, and other researchers emphasize that poverty should be measured by the inability of the individual to obtain the necessary social requirements, and accepted that poverty, can not be reduced only in the deprivation of financial resources that this concept be expanded to include other forms of human deprivation, the concept of poverty is defined from the perspective of social exclusion.

In 1980s, Microfinance programs have improved upon original methodologies and extended beyond conventional thinking. First, Microfinance demonstrated that poor people, and especially women, had excellent repayment rates (and often, rates that performed better than those informal financial sectors). And second, that the poor were willing and able to pay interest rates that would allow the Microfinance institutions (MFIs) to cover costs.

### **The Clients of Microfinance and Small Savings:**

The typical Microfinance clients are low-income persons that do not have access to formal financial institutions. Their “micro enterprises” represent an estimated 80% of the total enterprises in the world, 50% of urban enterprises and 20% of the GNP of their countries. Microfinance clients are typically self-employed, often household-based entrepreneurs. In rural areas, they are usually small farmers and others who are engaged in small income-generating activities such as food processing and petty trade, in urban areas, Microfinance activities are more diverse and include shopkeepers, service providers, artisans, street vendors, etc. microfinance clients are poor and vulnerable non-poor who have a relatively stable source of income. Access to conventional formal financial institutions, for many reasons, is inversely related to income: the poorer you are the less likely that you have access. The poor often obtain financial services from informal financial relationships-credit can be available from commercial and non-commercial lenders, but often at very high interest ; saving services can be available through savings clubs, credit associations and the like. As a result, the chances are that, the poorer you are, the more expensive or onerous informal financial arrangements. Moreover, the informal arrangements may not suitably meet certain financial service needs or may exclude you anyway. Individuals in this excluded and under-served market segment are the clients of Microfinance.

Microfinance generally targets poor women because they have proven to be reliable credit risks and when they have the financial means, they invest that money back into their families, resulting in better health and education, and stronger local economies. By providing access to financial services – loans and responsibility for repayment,

maintaining savings accounts, providing insurance – Microfinance programs send a strong message to households and communities. Studies have shown that women become more assertive and confident, have increased mobility, and more visible in their communities and play stronger roles in decision making.

### **Microfinance Help the Poor:**

Microfinance brings the power of credit to the grassroots by way of loans to the poor, without requirement of collateral or previous credit record. Experience shows that Microfinance can help the poor to increase income, build viable businesses, and reduce their vulnerability to external shocks. It can be also be a powerful instrument for self-empowerment by enabling the poor, especially women, to become economic agents of change.

Poverty is multi-dimensional, and by providing access to financial services, Microfinance plays an important role in the fight against the many aspects of poverty. Access to credit allows poor people to take advantage of economic opportunities for their homes, their domestic environments and their communities. For instance, income generation from a business helps not only the business activity expand but also contributes to household income and its attendant benefits on food security, employee’s education, etc. Moreover, for women who, in many contexts, are secluded from public space, transacting with formal institutions can also build confidence and empowerment.

Recent research has revealed the extent to which individuals around the poverty line are vulnerable to shocks such as illness of a wage earner, weather, theft, or other such events. These shocks produce a huge claim on the limited financial resources of the family unit, and, absent effective financial services, can drive a family so much deeper into poverty that a can take years to recover.

### **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 emphasise 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.

### **Women’s Role in Economy:**

All over the world, the significant of women entry into the workforce over the past three decades has produced profound transformations in the organization of families,

society, the economy, and urban life. Since the late 1950s, women's economic activities have been steadily increasing.

Women have always actively participated in their local economies. In Africa, for example, women produce 80 percent of the food and in Asia 60 percent and in Latin America 40 percent. In many cases, women not only produce the food but market it as well, which gives them a well-developed knowledge of local markets and customers.

This is a small example of the importance of women's work in society. It does not illustrate the real extent of women's contribution, especially in developing countries, not only to the labour force, but also their role as a significant income-source for the family.

Women, especially poor mothers, must divide their time between work "productive role" and family "reproductive role", and balancing all the demands. Time is valuable for these women, as their livelihoods depend largely on their ability to fulfil the multiple demands of the household and the marketplace.

In spite of the remarkable importance of women's participation, their jobs have been considered as an "extra income" to family survival or simply to improve its living conditions. Moreover, micro enterprises owned by women have been considered as a way to meet professional needs instead of a profitable source of income.

Unfortunately, labour markets have followed this perception and have offered less favourable conditions to women. Women workers consistently earn less than their male partners do. That is the case of Cameroon women who work, for example, up to 10 hours a day, but at the end of the month, their income is far below the Cameroon monthly minimum wage of 2900 CFA francs (US\$ 60).

Women have had to fight against an adverse environment, which traditionally had been minimising and exploiting their capacities. As a consequence of this reality, in some cases, women are just satisfied with the non-financial benefits, such as the psychological satisfaction of "social contact".

## CONCLUSION:

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 all levels.

In general terms, female-led microenterprises tend to be associated with activities that provide part-time employment. They are small in size and have loose, informal structures, require very little start-up capital, and

little or no formal education. On the other hand, many women entrepreneurs in the developing world remain illiterate and live in poor rural communities.

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, micro enterprise 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 micro enterprise 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.

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