## Background Note
## Gender and Economic Policy Discussion Forum

**Project Objective**

The Discussion Forum will provide an opportunity to understand, discuss and critique economic policy from a gender lens, and provide an opportunity for interaction between economists, policy makers, and gender advocates in a structured manner. The forum will make special effort to reach out to students and university faculty.

However, this is only the beginning of any effort to 'engender' economics. Differences in roles, responsibilities and needs of men and women from different social groups, geographical locations, income and occupational class, can be articulated through a process of analysis that brings out the differences in access to resources and opportunities. A gendered approach can also identify the systematic factors or processes that result in gender differentiated behavior and outcomes with a view to improving policy formulation.

By bringing together people with different perspectives, background, and experience, the Forum expects to shift public discourse around selected key economic policy issues in the direction of gender sensitivity, to create space for dialogue between the concerned theorists, policy makers and practioners, and be reflected in the work of individuals who participate in the Forum.

**Forum Outline**

In all five discussions will be held under the 'Gender and Economic Policy Discussion Forum' between the months of March and November at India Habitat Centre from 9:30 to 12:30 p.m. The focus will be contemporary, pertaining to economic policies in relation to women's meaningful empowerment.

The first discussion will be held on 28 March 2012, followed in quick succession by the second discussion of the Forum at the end of April and three more to be held between the months of May and November.

In our first Forum we hope to understand the complex link between micro-finance and women's empowerment in India through their engagement in livelihood activities.

The theme for the second discussion is 'Government's skill training schemes for employment generation aiming at women's empowerment'. This discussion will help us to understand the problems faced in envisaging change, i.e. – from skill training to employment to empowerment of women. The other three discussions of the Forum will emerge from and be rooted in furthering the discussion on engendering economic policies.

**Discussion Forum I**
**"Is Micro-finance at the crossroads in India? What does it mean for women's Livelihood concerns?"**

The discussion agenda for the first discussion forum is '**Is Micro-finance at the crossroads in India? What does it mean for women's Livelihood concerns?'** The discussants will unpack the theory and practice of micro-finance and its effect on women's livelihood in India. The Discussion Forum will allow the participants and the speakers to engage in questions concerning an area of immense potential for marginalized people in India and the world. The significance of micro-finance has been highlighted globally as a possible tool to fight poverty and consequently empower the poor and marginalized. In recognition of the importance and potential of micro- finance as a development tool in eradication of poverty, the United Nations declared the year 2005 as the 'Micro Finance Year'. During the discussion on Union budget for the year 2011-2012, Finance Minister, Pranab Mukherjee, stated that Micro Finance Institutions (MFIs) had emerged as an important means to financial inclusion. Creation of a dedicated fund for providing equity to smaller MFIs would help them maintain growth and achieve scale and efficiency in operations.

**A brief note on Micro Finance in India**

Micro-credit and micro- finance first came to prominence in the 1970s. Prior to then, from the 1950s through to the 1970s, the provision of financial services by donors or governments was mainly in the form of subsidized rural credit programmes. These often resulted in high loan defaults, high losses and an inability to reach poor rural households.

Robinson states that the 1980s represented a turning point in the history of micro- finance in that MFIs such as Grameen Bank and BRI2 began to show that they could provide small loans and savings services profitably on a large scale. They received no continuing subsidies, were commercially funded and fully sustainable, and could attain wide outreach to clients. It was also at this time that the term "micro-credit" came to prominence in development. The difference between micro-credit and the subsidised rural credit programmes of the 1950s and 1960s was that micro-credit insisted on repayment, on charging interest rates that covered the cost of credit delivery and by focusing on clients who were dependent on the informal sector for credit. It was now clear for the first time that micro-credit could provide large-scale outreach profitably.

Micro- finance, according to Otero, is "the provision of financial services to low-income poor and very poor self-employed people". Schreiner and Colombet define micro- finance as "the attempt to improve access to small deposits and small loans for poor households neglected by banks". Therefore, micro- finance involves the provision of financial services such as savings, loans and insurance to poor people living in both urban and rural settings who are unable to obtain such services from the formal financial sector.

Also, the terms micro-credit and micro- finance, often used interchangeably, share a link but are not the same. Micro-credit is a component of micro- finance in that it involves providing credit to the poor, but micro- finance also involves additional non-credit financial services such as savings, insurance, pensions and payment services.

Micro- finance in India started in the early 1980s with small efforts at forming informal self-help groups (SHG) to provide access to much-needed savings and credit services. From this small beginning, the microfinance sector has grown significantly in the past decades. National bodies like the Small Industries Development Bank of India (SIDBI) and the National Bank for Agriculture and Rural Development (NABARD) are devoting significant time and financial resources to micro- finance.

In the Indian context there are some value attributes of micro- finance :

- Micro- finance is an activity undertaken by the alternate sector (NGOs). Therefore, a loan given by a market intermediary to a small borrower is not seen as micro-finance. However when an NGO gives a similar loan it is treated as micro-finance. It is assumed that micro-finance is given with a laudable intention and has institutional and non-exploitative connotations. Therefore, we define micro- finance not by form but by the intent of the lender.
- Micro-finance is something done predominantly with the poor.
- Micro-finance grows out of developmental roots. This can be termed the "alternative commercial sector." MFOs classified under this head are promoted by the alternative sector and target the poor.
- The Reserve Bank of India (RBI) has defined micro-finance by specifying criteria for exempting MFOs from its registration guidelines. This definition is limited to not-for-profit companies and till the year 2004 only two MFOs in India qualify to be classified as micro-finance companies.

Most MFIs in India are solely engaged in extending micro-credit; a few also extend saving/thrift, insurance, pension, and remittance facilities.

With respect to legal structure, MFI may be classified as follows :

- Not - For Profit MFIs- Societies, Public Trust, Non- Profit companies.
- Mutual Benefit MFIs- Co-operatives registered under State or National Acts, Mutually aided co-operative Societies.
- For-Profit MFIs- Non-Banking Financial Companies, Producer Companies, Local area banks.

Micro-finance activities are undertaken by organisations that are registered under several legal forms. However, currently, only NBFCs are under the regulatory and supervisory purview- the NBFCs are regulated by the RBI. The absence of prudential norms and accounting guidelines for non- NBFC MFIs leads to lack of uniformity in accounting practices and highly leveraged balance sheets among MFIs .

Majority of MFIs would like to be converted to NBFCs which would enable them to raise public deposits for on lending. A big deterrent is the startup capital of Rs 20 million required to register as an NBFC which is beyond the reach of many MFIs. This requirement, however, is part of the regulatory apparatus of RBI to ensure the issue of safety of public money. But MFIs need liquidity also. Hence, it is argued that MFIs should be allowed to borrow public money, with adequate safeguards ensured for clients, to avoid unintended and deleterious consequences that could permanently impact MFIs.

The legal structure and attendant regulatory requirements of an MFI have a strong bearing on governance practices because they influence management practices and levels of transparency.

**Micro Finance and its impact on women's livelihood**

It has been observed that gender equality is a necessary condition for economic development. The World Bank reports that societies that discriminate on the basis of gender are in greater poverty, have slower economic growth, weaker governance, and lower living standards.

Studies on the effect micro-finance on women's ability to take up income generating activity, and provide sustainable living for her and the family show that women entrepreneurship could be an effective strategy for poverty reduction in a country; since women are the worst hit in such situation. The rate of women's participation in the informal sector of the economy is higher than males, and micro- finance factors could have positive effect on their performance. However, it is discovered that women entrepreneurs, especially in developing countries, do not have easy access to micro- finance factors for their entrepreneurial activity and as such have low business performance than their men counterparts.

Though the potential link between micro-finance as a means towards entrepreneurship opportunity and a sustainable livelihood has been highlighted in the mainstream discussions on micro-finance and women's empowerment, this link is only a potential one and not an immediate causal- effect one. The following points are highlighted in literature dealing with breaking points in this micro-finance to women's livelihood link:

- The majority of women clients of micro-finance institutions do not have specialized skills, and so cannot make good use of micro-finance factors, hence they need training. Again, there are suggestions on the need to study credit jointly with training on entrepreneurship performance in developing countries because of low educational levels of women entrepreneurs in low-income countries. Literature confirms that skill training and tertiary education have positive effect on enterprise performance.

- Social capital is vital for start-ups and growing firms. For women entrepreneurs, especially in developing countries, lack social connections, a source of information for access to micro-finance factors, can be detrimental to enterprise performance.

- Also, limited studies are available on the mediating relationship between opportunity and women entrepreneurs' performance and the moderating relationship between attitude to risk and women entrepreneurs' performance.

- Again, micro-finance factors could not lead to business performance without opportunity for entrepreneurial activity, i.e., a predetermined project, business or contract.

Assessing one of the significant outcomes of micro-finance, Littlefield, Murduch and Hashemi state that access to MFIs can empower women to become more confident, more assertive, more likely to take part in family and community decisions and better able to confront gender inequities.

The concept of empowerment is difficult to define unequivocally, as the concept may contain different meanings for attempting individuals. Once we are able to place an individual in their respective cultural, class and gender context, the range of manifestation of empowerment can be appreciated. Thus, in order to capture this wide range of sense of empowerment for women, the current debates on the impact of micro-finance on women's livelihood acknowledges and calls for a holistic perspective, since livelihood activity is only a indicator to capture women's empowerment. If micro-finance is to be used as a development tool to improve the condition of the marginalized, the assessment cannot be mere economic well-being but also growth in social well-being that better expresses the idea of meaningful empowerment of women and marginalized in general.

**An Appraisal of micro-finance in India**

This brief note on micro-finance institutions (MFIs) will be incomplete without mentioning the current crisis affecting the micro-finance sector in India. The crisis started in late 2010 with the enactment by the Andhra Pradesh government of the AP Micro Finance Institutions (Regulation of Money Lending) Act- banning repayment of micro loans in response to complaints about high interest rates and dodgy loan recovery practices. The ban crippled the operations of microfinance companies in the state, apart, of course, from bringing to the fore questions regarding the existing methods of micro-finance companies.

The Reserve Bank of India in October 2010 set up a Sub-Committee of its Central Board of Directors to study the issues and concerns in microfinance sector, under the Chairmanship of Y. H. Malegam. The Sub- Committee has recommended some additional qualifications for NBFC to be classified as NBFC-MFI and has made a number of recommendations to mitigate the problems of multiple-lending, over borrowing, ghost borrowers and coercive methods of recovery. The Sub-Committee has cautioned that while there is a need to protect borrowers, it is also necessary to recognise that if the recovery culture is adversely affected and the free flow of funds in the system interrupted, the ultimate sufferers will be the borrowers themselves as the flow of funds to the microfinance sector will inevitably be reduced.

Based on the recommendations of the Committee the government has framed the Microfinance Institutions (Development and Regulation) Bill. The draft Bill (that the Finance Minister in his Budget speech on 16 March promised to bring before Parliament in the current Budget session), should go a long way to remove the uncertainty that presently haunts the sector. It proposes to make it mandatory for micro-finance institutions to be registered with the Reserve Bank and have minimum net-owned funds of Rs 5 lakh.

The draft Bill also proposes that any micro-finance institution which is not a company registered under the Companies Act, 1956, and which becomes a systemically important micro-finance institution shall convert its institution into a company registered under the Companies Act, 1956, with or without a licence, under Section 25 of the Act.

Most important of all, the RBI may pass an order directing a micro-finance institution to cease and desist from carrying out micro-financing if it is found acting in manner prejudicial to the interest of its clients or depositors.

The move to bring the sector under the RBI's direct regulation is a positive development though it is doubtful if more than a handful of the existing microfinance institutions will be able to meet the higher norms.

The MF sector in India today is at the cross-roads. Its ability to grow with responsible lending practices is crucial if the sector is to come back to its pre-crisis status. Strict regulatory guidelines, such as interest cap of 26 per cent and margin cap of 12 per cent, would probably separate the wheat from the chaff, and leave only serious players in the field. The need to understand the MFI sector and help it grow is critical in a country where close to a third of the population is below the poverty line and less than half has access to any formal system of banking.

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