BENEFITS OF MICROFINANCE

Access to financial services –whether in the form of savings, credit or insurance— is a fundamental tool for managing a family's well-being and productive capacity: it can smooth expenditure when inflows are erratic (occasional work, seasonality of crops), it enables to build up purchasing power when expenditures are lumpy (school fees, buying seeds), or to protect against emergencies (natural disasters, death in the family).

What is Micro Finance ?

Microfinance serves as an umbrella term to describe the provision of banking services by poverty-focused financial institutions (microfinance institutions – MFIs) to poor sections of the population not being served by mainstream financial services providers. Microfinance is generally defined as a specialized set of financial tools available to poor households and small businesses many of whom work in the informal sector and do not typically have access to financial services. They generally have no formal employment status or documented salary;they lack formal title to property for use as collateral, and have small credit needs and low savings generation. Although microfinance started out simply as small, non-collateralized loans, the term now covers a whole range of services provided to the poor, including savings, money transfers, payment services and insurance.

Role Of MFI's in providing microcredit

Customers can access these services through financial organizations called microfinance institutions (MFIs) and use the loans in different ways: some purchase a bicycle to transport vegetables to a market, or use the money to buy fertilizer for their crops, or a sewing machine to start a tailoring business. However, they all have one goal: to make a decent living and support their families' basic needs. Many are able to send their children to school for the first time, enable all the family members to eat three meals a day or make seemingly small home improvements that can actually have a significant effect on the health and well-being of a household such as replacing a mud floor with a cement floor.

Development of Traditional Financial Sector

It has also been argued by advocates that microfinance can also promote the development of a traditional financial sector. Most obviously, by alleviating poverty, microfinance can enlarge the market for more traditional financial services. In addition, MFIs and their clients can lobby for the creation of clearinghouses for information on borrowers' credit histories, easing of interest rate controls, greater foreign ownership of financial institutions, and opening local capital markets beyond a country's political elite, among other reforms. Such improvements could strengthen the financial sector as a whole, creating a feedback loop that could serve to lift even more families out of poverty.

Microfinance And Women Empowerment

Many microfinance programs are aimed specifically at women and this access to financial services enhances women's power and influence in the household. 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. (Lower incidences of abuse could also be the result of third party scrutiny from loan officers and, in the case of group lending, fellow borrowers.) Furthermore, the opportunity to pursue business opportunities may make women more likely to use contraceptives and lower fertility rates.

Though 30 years ago the provision of credit to poor entrepreneurs was gender neutral and was aimed only to those who had no assets to pledge as collateral and, consequently, were denied access to capital by the formal banking sector ,it quickly emerged, , that women entrepreneurs invested the profits from their businesses in ways that would have a longer-lasting, more profound impact on the lives of their families and communities. The woman entrepreneur as the gateway to household stability became a fundamental premise of the microfinance business model and the success of microfinance as a poverty alleviation tool.

Microfinance versus other funding

There are other ways of helping alleviate poverty currently being used around the world, each with a number of benefits and limitations, for example:

- Charitable donations are helping the world's poor in many areas, but these funds are limited and don't always stimulate sustainable enterprise.
- International programmes involving non-governmental organizations (NGOs), large commercial business and governments are working to help develop local entrepreneurs and business with great effect. But, these programmes are currently limited in their reach.

Microfinance, therefore, provides an important complement to the above by fostering small-scale businesses globally and promoting economic growth and stability from the bottom up.