Women and Microfinance: A Route to Poverty Reduction?

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How Successful are Microfinance Initiatives Directed at Women in Achieving Poverty Reduction?

Late 1980s and the 1990s saw a change in development practice; there was a shift from the state-led approach to a market-led approach. It was believed that markets are not mechanisms for achieving only economic growth, but also political freedom and social justice (Rankin, 2001, p.19). In line with this argument microfinance initiatives were introduced underpinned by the assumption that the poor should be given access to the market, satisfying both the neo-liberal philosophy of the importance of the market as well as participation discourse that encourages bottom-up approach to development. Soon, a consensus was reached among scholars and development practitioners that microfinance, and especially microcredit, was a panacea for poverty world-wide (ibid.).

The aim of this essay is to evaluate the success of microfinance initiatives that are directed at women in achieving poverty reduction. It argues that while these initiatives are beneficial, the belief that they alone can reduce poverty is too simplistic. Rather than focusing on the minimalist credit-only approach as opposed to integrated "credit plus" approach to microfinance service provision (for the importance of the latter, please refer to Islam, 2006) it draws attention to the importance of measures tackling the existing social norms and economic opportunities. The essay is divided into two parts. The first part introduces the concept of microfinance and the rationale behind targeting women, which is critically examined. The second part looks at the impact of microfinance initiatives directed at women on poverty alleviation. Drawing on examples from some African and Asian countries, the argument is built on the examination of two dimensions of poverty, namely income generation and empowerment.

THE POWER OF MICROFINANCE

Financial services provided by formal institutions do not reach all segments of population. Due to constraints such as collateral, land ownership, income and high interest rates, largely the poor cannot access these services and do not have the opportunity of breaking away from the poverty circle by making use of their skills. Women face additional obstacles since lack of experience and illiteracy make it difficult for them to deal with formal credit services (Endeley and Thompson, 2005, p.8). As an answer to these problems the concept of microfinance emerged. The initiative started in a developing country, in Bangladesh, as a response to the failure of the conventional development strategies that emphasise large-scale interventions and the changing economic conditions (Islam, 2006, p.8). Microfinance services, especially microcredit, focus on small loans provided to the poor and have been promoted "to address the concerns and needs of poor households that markets and governments fail to adequately meet" (Swain et al., 2008, p.193). Acclaimed as an effective means of poverty reduction (Johnson and Rogaly, 1997, p.1), microfinance was incorporated into mainstream development agendas.

There were tremendous expectations of success reflected in the first Microcredit World Summit of 1997. The commitments made seem to be even more ambitious than those of the Millennium Development Goals. While one of the latter's goals is to halve the world's poverty by 2015, the commitment made at the Summit was to create a poverty-free world by 2025 (Islam, 2006, p.10). As a result there is scarcely a multilateral, bilateral donor, or private development or voluntary organisation that is not involved in the promotion of these programmes. Through the increase in funding, donors have tried to reach as many poor people as possible, particularly women (ibid.).

WHY WOMEN

Women bear a disproportionate burden of poverty (UNIFEM, 2009). They make up for the majority of low paid work and informal sector of most economies (Cheston and Kuhn, 2002, p.8). Since they present half of the world's population development cannot be effective and efficient if women are excluded from development process (Islam, 2006, p.11). Thus gender equality is a matter of development effectiveness and not just a matter of political correctness and kindness (World Bank, 2002, p.1). Both the World Bank (2002) as well as the Beijing Platform for Action of 1995 (BPFA, Women and Poverty, Strategic Objective A.3.) have recognised women's access to financial resources as an important strategy for poverty reduction and donors have increasingly directed microfinance services to women. Indeed, the proportion of women participating in these programmes is high. At the end of December 2007 3,552 microcredit institutions reported having 154.8 million clients, 106.6 million of whom were among the poorest when they took their first loan. Of these poorest clients, 83.4 percent were women (SOCR, 2009, p.9).

The rationale behind targeting women is not only to enable them equal access to financial services. Muhammad Yunus (2004, p.4078), the founder of Bangladeshi Grameen Bank, for instance writes that women have greater long-term vision and are excellent managers of scare resources. It is also believed that they are more likely to spend their income on the household well-being (Cheston and Kuhn, 2002; Kabeer, 1998; Islam, 2006; Osmani, 2007 and Mayoux, 2002) and they reach higher repayment rates (Cheston and Kuhn, 2002; Rahman, 1999; Kabeer, 1998). While this might be true, it does however not necessarily translate into poverty reduction.

As mentioned above, it has been recognised that women are more likely to spend the money in ways that are more beneficial to the household than their male counterparts. They proportionally spend more of their extra income on things that help develop human capital, better sanitation, better nutrition and also better health care and education (Islam, 2006, p.11). If loans given to women thus benefit more than one person it seems sensible to direct them to women. Unfortunately in some cases this loan does not come as an addition to the already existing family budget, since evidence shows that in Zimbabwe and Niger men use additional finance women bring to the family as an opportunity to spend their income for their own luxury expenditure since they are freed of some of the responsibilities (Mayoux 1999, p.972). Even if this is not the case, investing into household consumption leaves women, especially the poorest with little or nothing left for investment into profit generating activities.

Another argument why women are preferred by microfinance institutions (MFI) is the high repayment rates. These are often used to measure the success of MFIs (Bunning, 2004), yet the appropriateness of such equation should be questioned. Does financial sustainability of MFIs, achieved through high repayment rates, mean poverty reduction? Cheston and Kuhn (2002, p.30) rightly argue that the impact of poverty reduction should be continuously assessed rather than taken for granted which usually happens if a microfinance intervention is covering its cost and has many low-income users. The repayment statistics alone do not necessarily mean an increase in income. Mayoux (2002, p.966) argues that money to repay can be taken from other resources, possibly leading to greater indebtedness. Thus targeting women in some cases can pose even greater burden on them, causing recycling of debt (Rankin, 2002).

The equation of financial sustainability with poverty alleviation can have negative implications. Financially sustainable minimalist microfinance is being promoted as the key strategy for poverty alleviation and empowerment (Mayoux, 2002). In order to achieve it, MFIs have drastically cut complementary services, such as for example business training and gender awareness (ibid.). Nevertheless, the provision of financial services alone, as will be seen below should not be considered sufficient for poverty reduction. If responsibility for development is shifted onto women with no other programmes in place that would challenge the existing cultural context or equip women with the knowledge of how to make best use of financial resources available, poverty reduction agenda is less likely to be realised. To better understand the shortcomings of microfinance initiatives and understand the importance of the broader context in poverty alleviation efforts, I propose a closer look at income generation possibilities and empowerment of women, two interconnected dimensions of poverty which microfinance should in theory resolve.

MICROFINANCE TO EMPOWER

There is not one single definition of poverty. It is a complex phenomenon, which is difficult to grasp and define. While it is usually measured in monetary terms as the one-dollar a day poverty line introduced by the World Bank in the 1980s (Townsend, 2006, p.5), nonmonetary dimensions of poverty, reflecting the importance of social capital, have increasingly been recognised. The examination of three definitions of poverty given by Johnson and Rogaly (1997, p.73), Holcombe (1995, p.13) and Endeley and Thompson (2005, p.3) points to two common denominators- income and empowerment[1].

There is an assumed link between credit and empowerment of women. And indeed, in a perfect setting microfinance could lead to the series of events described by Johnson and Rogaly (1997, p.38), namely, microfinance increases women's income and their control over that income, enhancing their knowledge and skills and increases participation in household decision making. All this brings along transformation in the society, social attitudes and perceptions change and women's status is enhanced. While such "graduation" of women seems very attractive, the envisioned scenario fails to take into account the broader context. Access to resources alone does not automatically translate into empowerment or equality; women must have the ability to use the resources to meet their goals (Cheston and Kuhn 2002, p.12).

Osmani (2007, p.696) identifies two ways through which empowerment of women due to microfinance can take place; one is through the household and the second one through mingling. While household activities women usually perform are essential, they do not bring them much prestige and recognition as earning of cash income (Osmani, 2007, p.696). That is why the contribution of cash to the household is supposed to give women greater power in decision making (ibid.).However, loans to women are often considered as a household resource rather than resource to women (Rahman, 1999, p.150). That is why to understand the contribution of microfinance to women empowerment Hunt and Kasynathan (2001) believe a number of questions should be addressed. Namely, who controls decision making regarding the use of credit, who manages enterprises supported by credit, whose paid or unpaid labour is used, who controls the marketing of products and who keeps and uses any income generated.

There has indeed been a lot of criticism as to who manages the money. While women are more likely to have control in some African countries (Mayoux, 1999, p.965) the data for Bangladesh is different. A research showed that only in 37 percent of cases women retained a significant control over the loan. This was more likely the case when the women were single, divorced or widows (Johnson and Rogaly, 1997, p.13). In the other cases women gave their loan either to their husband or a male relative. Although this passing on of loans can take place simply due to better managerial skills of male counterparts, or because they are more experienced and better acquainted with the market, one should not forget there might be cultural inhibitions that prevent women from taking economic activities (Osmani, 2007, p.713). Most rural women are vulnerable to patriarchal ideology, related prevailing social norms and intra household gender relations (Rahman, 1999, p.149). Due to cultural and societal constraints women have been excluded from decision making processes and often lack the sense of agency which would allow them to define goals and act effectively to achieve them (Cheston and Kuhn, 2002, p.12). If no other programmes are put in place that would target wider gender relations or if no socio-cultural reforms are undertaken, women might still in many cases serve, borrowing the expression from Hunt and Kasynathan (2001), as 'postboxes' passing their loans directly to men.

The second path Osman (2007) identifies is empowerment through mingling. Group-based lending[2], which is common in many microfinance programmes, requires group meetings which means that "women are able to defend their attendance as a social role and obligation. In societies where women are socially isolated, these meetings might be of intrinsic value" (Johnson and Rogaly, 1997, p.38). Since women use loans for income generating activities they have to leave their homes and form networks with other women which is supposed to give them self-confidence and courage they need in order to exercise more power within the household and larger community (Osmani, 2007, p.697). They can get access to wider information and support networks for economic activity and groups can link to wider movements for change in women's position (Mayoux, 2002).

Yet again the link to empowerment cannot be taken for granted. First of all Rankin (2001) warns that for the solidarity group concept it is not enough that the participants are women. They can sometimes themselves inhibit the operation of the group. An example of South Asian countries shows that caste, ethnicity, and class are social distinctions that might preclude women from viewing their interests with other women. Secondly, the repayment pressure imposed by the group may also increase tensions between women and lead to the exclusion of the most disadvantaged which are then further disadvantaged in the markets and communities (Mayoux, 2002). Thirdly, involvement in group meetings can pose heavy cost in terms of time on women, especially poor women who have heavier workloads than men or better-off women (Johnson and Rogaly, 1997, p.38). Thus group meetings while having their advantages also have their disadvantages and do not automatically bring women empowerment.

It could be argued that to a certain extent the MFIs themselves do not contribute as much to the change in the power structures as they could. Bunning (2004) for example criticises the manner microfinance services are provided in. The management positions are reserved for men, women being the borrowers. As such they are excluded from the decision making processes, do not participate in policy formation nor do they have a say in discussing the procedures of the programmes. To initiate change she cites an example of a Mongolian MFI that took a gendered approach with women employed as credit officers, which later led to promotion and election of women to village leadership positions. Consequently, as Rahman (1999, p.150) states, "loans alone without viable opportunities for women to transform the power relations and create their own spaces in the prevailing power structures make equitable development and empowerment of women unattainable in the society".

MICROFINANCE TO GENERATE INCOME

The second dimension of poverty defined above – the monetary indicator reflected in terms of income – also calls for an examination of the link between microfinance initiatives and income generation, especially when it comes to women. Giving women access to working capital should help mobilise women's productive capacity to alleviate poverty and maximise economic output (Cheston and Kuhn, 2002, p.7). It also gives them the opportunity to make a 'proper' economic contribution to the household and through this enhance their sense of self-worth (Kabeer, 1998, p.33).

Despite this positive impact, the problem occurs when one looks at the type of activities women engage with- these are usually an extension of their domestic work, which unfortunately yield extremely poor returns. Examining the results of a research carried out in Sri Lanka, Hunt and Kasynathan (2001) write that at best women gain very little for their labour for many traditional income generating activities. Similarly Johnson and Rogaly (1997, p.12) write about the revision of Oxfam's experience with income-generating projects for women that raised serious questions about the profitability of such activities. They claim that many factors were not included in the revision since they would have revealed many projects as loss-making. Such omissions were the opportunity cost of labour, and subsidisation of income generating projects with income from other sources. Thus it appears that rather than being a potential for income growth, such activities are a source of subsistence.

Data collected by De Mel et al. (2007) show that returns to capital are greater for men than women, with women often having zero return. The overlap between household and business makes it difficult for women to use the money for purely productive services since there is the daily demand to feed and care for family members (Berger, 1989, p.1022). Men on the other hand, with no such overlap present, are more likely to reinvest in business than women, increasing the chances for profit generation (De Mel et al, 2007, p.4). Consequently investment in the consumption related needs serves short term objective only, while it has been recognised by Kabeer (1998, p.30) that re-investment in business can be regarded as a strategy for assuring both consumption standards as well as security in the future.

Examining the reasons why women engage in these low income generating activities shows that one has to go beyond the provision of microfinance if such an arrangement is to be changed. Women often lack the skills and training for other activities (Mayoux, 2002, p.966; Berger, 1989). If they are to expand their business, a simple minimalistic approach of providing financial services without the provision of education and technical assistance is not enough if the loan is to have an impact. Also in general terms, De Mel et al. (2008) discovered a correlation between years of schooling and an increase in profit. This calls for an intervention which would guarantee more and better education of both girls and boys. Some might argue that this can be achieved through microfinance, since greater enrolment rates of children, especially girls, have been noted in the families where women have participated in microfinance programmes (Kabeer, 1998, p.61). However, before this fact is fully praised, additional considerations have to be made. Through providing microfinance to women who then invest their money in education of children, responsibility is taken off the shoulders of the governments to provide access to schooling. It is also questionable how good an indicator enrolment rates are, since they do not say anything about the educational attainment, retention and transition rates from primary to secondary schooling (Hunt and Kasynathan, 2001). Possible dropout rates might be a direct consequence of microfinance – due to increased workload Leach and Sitaram (2002, p.581) noted absence of children in schools in India. Girls are more often the ones that leave schools and Mayoux (1999, p.972) warns that this might replicate gender inequalities, leading back to the question of unpaid labour and empowerment raised above. There is evidence that women employ their daughters and daughters-in-law as unpaid labourers increasing their workload and decreasing their ability to attend school unless these issues are directly addressed.

The decision of engaging into these non-risk activities is sometimes taken because it is more likely that in this way the women rather than men control the loan (Johnson and Rogaly, 1997, p.13). Another important factor is that such activities do not challenge the gender stereotype notions of appropriate work for women and men (ibid.; Mayoux, 1999). Citing an example from Uganda, Mayoux (1999, p.986) speaks of a woman who had to give up a more lucrative business of managing a butchery for a less profitable but socially acceptable one for a woman to run – a second-hand clothes shop. This again calls for measures that would bring about the change in gender relations.

Another problem is not only restricted access to market as is the case in India and Bangladesh (Hunt and Kasynathan, 2001) and Sudan (Mayoux, 1999, p.986) but also the structure of rural economy and absence of investment opportunities (Rahman, 1999, p.149). The stagnation and low productivity in rural areas limits the extent to which incomes can be raised in small-scale activities and credit alone cannot solve this problem (Bernasek, 2003, p.375). Due to limitation to work in rural areas, the activities undertaken might be seasonal and more volatile such as for example silk-reeling industry in India. Due to fluctuation in prices women could not become independent (Leach and Sitaram, 2002, p.583). Additional important factor is also the failure of MFIs to carry out a sound assessment of the market (ibid., p.584), which would show whether the undertaken activities can be expected to be sustainable over the long term.

Failure to tackle these problems, the failure to provide market opportunities, training and education, no additional effort taken to change the power relation has implications for both the aforementioned empowerment dimension of poverty as well as income generation. The continued encouragement of microcredit programmes that lead women to experiment with the kinds of home-based enterprises that do not interfere with their domestic responsibilities can according to Rankin (2001, p.32) only entrench and not challenge the "gender division of labour that institutionalises their subordination". Further, persisting in informal sector only reinforces women's presence there (Bernasek, 2003) leaving them with little opportunities to climb out of poverty.

CONCLUSION

Microfinance initiatives have proved to be an important tool in development process. Through innovative approach they have managed to give opportunity of access to finance to those who were previously denied such access and who have often been excluded from development programmes, these are mainly women. Recognising positive effects women have on household welfare as well as financial sustainability of MFIs, they became the major recipients of microfinance services. While both positive effects mentioned call for continued provision of loans to women, they nevertheless have to be considered in more detail if they are to be used as arguments for targeting women to achieve poverty alleviation. Spending the loan on household consumption serves well in the short term but does not leave room for investment in business that might be beneficial in the long term. Aiming for financial sustainability might push women into greater indebtedness and decrease additional services MFIs might otherwise offer, such as business training and gender awareness rising, which could form the basis for a more efficient use of loans.

Examination of the link between microfinance initiatives, empowerment and income generation showed that such links should not be taken for granted, since the context in which these initiatives take place has to be taken into account. While there have been positive impacts of microfinance, there have also been examples where microfinance initiatives did not reach their aim, at least not to the envisioned extent. For this to happen, microfinance has to be accompanied with other measures, which would tackle the existing gender relations, cultural inhibitions and also market limitations; the latter both in terms of structural limitations as well as limitations faced by women only. Only a change in the broader social and economic context will allow microfinance to reach its full potential. However, awareness of the complexity of broader environment is the precondition to the understanding that microfinance initiatives targeted to women alone cannot be considered the silver bullet for poverty reduction.

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[1] While Kabeer (1998) questions 'empowerment' as a criteria for determining the desirability of a development intervention and while it is a highly difficult concept to measure since it varies accross cultures and class, and might be perceived as a westernised concept, Cheston and Kuhn (2002, p.17) recognise gender inequalities and discrimination against women as contributing directly to the perpetuation of poverty. They call for recognition of the importance of addressing women's empowerment even if the desired outcomes and goals of empowerment are culturally relative.

[2] Group based lending is a model pioneered by Bangladeshi Grameen Bank. It provides access to credit on the basis of social collateral. Social sanctions and peer enforcement are used to guarantee repayment of loans (Rankin, 2002)

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