

Microfinance: Champion in Poverty Alleviation and Failure in Female Empowerment

ALEXANDRA DOBRA

»Gender equality is more than a goal in itself. It is a precondition for meeting the challenge of reducing poverty, promoting sustainable development and building good governance.«

KOFI ANNAN

In 2005, according to the World Bank, 16.1 percent of the world's population lived on less than 1 US dollar a day (which corresponds to absolute or monetary poverty) and 57.6 percent lived on less than 2.5 US dollar a day. Moreover, according to the Microcredit Summit 2005, women represent 70 percent of individuals living on less than 1 US dollar a day. Not only do women represent the major part of the poorest individuals, but in addition they are also the most vulnerable. On the basis of these reports on female poverty and vulnerability, it seems imperative to help them, among other things through microfinance programs. Poverty reduction strategies are strongly related to the promotion of development. Thus, while in the developmental process, humans are vital actors, speaking about development without seeking to reduce inequalities between men and women leads to both curtailed development and curtailed poverty reduction. Furthermore, the World Bank (2001) has stressed that the chronic gender inequalities characteristic of many developing countries are also restraints on economic growth and development. Therefore, the amelioration of gender equality appears to be a crucial component of effective durable development strategies, as echoed by the UN's Millennium Development Goals.

Using microfinance programs to give women access to financial services is a means of mobilizing their productive capacities for the benefit of economic development. In addition, the fact that women's public status – which tends to be precarious – is contradicted by their private status (within the family they have multiple responsibilities) implies that

they have considerable potential for national development. Microfinance strategies must therefore be exclusively oriented towards women. »Microfinance above all represents a means of realizing people's dreams and helping even the poorest of the poor to attain dignity« (Yunus 2003): in addition to their role in the family, microfinance can enable women to become active economic actors.

Emergence and Definition of the Concept of Microfinance

*»I am very much afraid of definitions,
and yet one is almost forced to make them.«*

ROBERT DELAUNAY

Until 1995, poverty reduction strategies were considered to be part of social policy (Pallier and Prévost 2007) and left out of development plans. Since 1995, the feminization of poverty has been highlighted via sex-specific human development indicators showing dramatic variations with regard to access to primary goods. This called for a new developmentalist vocabulary which emerged together with a new development paradigm, pioneered by international organizations. The aim of this new comprehensive development paradigm was to redefine the concept of poverty and the principles of international aid. Because female vulnerability was recognized as a constitutive element of poverty, it introduced a new understanding of the poverty process and of the tools for fighting it (Alwang et al. 2001). In 2000, the UNDP's Human Development Report introduced two innovative aspects: acceptance of the limits of a strictly economic approach and the need to pay attention to chronic gender inequality. This innovation was inspired by Amartya Sen's idea that wellbeing cannot be measured monetarily (Sen 2000) and by the notion that poverty is the result of inequalities in multiple spheres. One comprehensive development strategy which emerged from this was microfinance, which specifically targets females, based on the idea that the enforcement of rights and liberties is good in itself and a fundamental value judgment (Kabeer 2005c), besides being beneficial economically.

Microfinance can be defined as »giving access to financing to as many poor people as possible, allowing them to use their capacities in favour of durable development« (Yunus 2003). Microfinance allows the poorest actors to exploit their skills and therefore to become productive

economic agents. Such actors are becoming reliable clients of specific microfinance programs. In basic terms, microfinance makes possible a virtuous economic cycle. A small loan granted to a microentrepreneur is invested, generates an income, the loan is repaid, the entrepreneur can then access another loan and eventually has increased purchasing power, as well as social recognition. This social recognition highlights the social dimension of microfinance which focuses on the actors targeted by microfinance programs and the global consequences for the community. Through access to financial resources, microfinance not only gives access to self-employment, but also contributes to the amelioration of family life and influences the social situation of poor people by promoting self-confidence and the capacity to play an active role in society. This social impact is particularly important for women and provides impetus for their empowerment, thereby constituting a vital part of the development process and enabling poverty reduction. To sum up, microfinance has the ability to reach the poor and the vulnerable (Amin et al. 2003).

Economic and Social Aspects of Female Targeting by Microfinance

»Set your target and keep trying until you reach it.«

NAPOLEON HILL

The focus on gender and development emphasizes that gender inequalities are constraints on economic growth and development, and thus feed poverty. The World Bank (2001) has established a positive correlation between, on the one hand, its measures of women's empowerment and the indices of development and, on the other hand, the Index of Human Development. Gender equality promotion is a key element of every anti-poverty and development strategy. Microfinance programs give women priority because, by giving them access to monetary and educational funds, microfinance helps to mobilize female productive capacities, thereby reducing poverty and maximizing economic output.

The situation of women in society is incongruous in that their public status is precarious and they are among the poorest of the poor. In the private realm, however, they are burdened with a plethora of tasks (education, housekeeping). In the Human Development Report 2008, UNDP stated that 70 percent of the world's population living on less than

1 US dollar a day are women and that more than 75 percent of women are working in the informal sector. In addition, not only are women poorer than men but they also have an inherent vulnerability (due to the patriarchal norms of our societies) which maintains them in a situation of impotence and poverty. Baden and Milward (1994) note that »although women are not always poorer than men, based on their poorer education they are generally more vulnerable and, when they are poor, they have fewer options for escaping it.« By giving women access to financing in order to generate income, microfinance institutions can reduce female fragility and thus reduce poverty in general. Moreover, extrapolating from household expenditure by working women it appears that women are more inclined to be altruistic and spend most of their money on their families. In this way, the wellbeing of the whole family is improved: as noted by the Special Unit for Microfinance (UNCDF 2005), women's success is beneficial to more than one person. In Bangladesh (Latifee 2003) 1.35 percent of (poor) nonmembers of microfinance programs registered an increase in their income. The same point was raised by the Women's Entrepreneurship Development Trust Fund: additional women's incomes are beneficial for their children in terms of schooling (18 percent of income), nutrition, medical services and household goods (55 percent of income) and clothes (15 percent of income). The Progress Out of Poverty Index, an accurate tool for measuring the poverty levels of groups and individuals, is used to determine the clients' needs, which programs are most effective, and how quickly clients move out of poverty. Mitra Karya East Java, which provides financial services to the poorest households in Indonesia, reported that the proportion of poor households crossing the poverty line was 60 percent (Latifee 2003).

The rational profit-oriented behavior of financial institutions focuses on the effectiveness and durability of women-targeted microfinance programs. Durability is shown via risk management and through the credit repayment rate of women and their adhesion to microfinance programs; female repayment rates are much higher (74 percent) than male ones, according to the World Bank (2001). Financial institutions have less losses from unrecoverable loans. In this way, a closed and self-maintained economic circuit of informal financial resources is created. There is a positive impact on both financial institutions and on poverty reduction.

By granting loans to women, they become income-generating actors and acquire financial independence. This is liable to modify the available choice parameters (Kadeer 1998). It increases their areas of action and

women are required to make a wider variety of choices. For instance, the Women's Empowerment Program in Nepal (Ashe and Parrott 2001) showed that 68 percent of women are taking more and more decisions in the fields of familial scheduling, schooling, and marriages. Another key issue is self-confidence. Self-confidence refers to how a person perceives her capacities and what her real capacity level is. URWEGO (2004/2009) in Rwanda found that 69 percent of their female clients had more respect for themselves. In addition, while self-respect is strongly related to knowledge, URWEGO also highlighted that 38 percent of women had heightened notions of enterprise management. Finally, by generating economic growth, women benefit from more social legitimacy and thus have increased rights. For instance, in Tanzania, female members of WEDTF, after the creation of a kerosene selling enterprise, enjoyed more prestige and thus were able to emancipate themselves. This illustrates the postulate that increasing social and human capital leads to an increase in material capital and vice versa, and thus reduces global poverty rates.

Implementation of the inter-female sustenance web multiplies the number of persons targeted by microfinance. The premise is that women are both »private and public agents« and, at the same time, are more altruistic social actors than men. Women tend to create social webs, in response to which a collective approach to microfinance (and the fight against poverty) has been developed. Because women are largely responsible for domestic tasks, it is more beneficial with regard to fighting poverty to help them. Indeed, if a woman wishes to engage in some sort of work or business, she must pass on some of her domestic tasks to a third party. As a result, most women who have created their own microenterprises have drawn on the help of other women. This woman-to-woman interdependence constitutes bilateral help, beneficial to both sides. Furthermore, by creating solidarity groups, microfinance assists in social capital accumulation. Hence, positive externalities and economies of scale are created: each individual while interacting with others gives and obtains knowledge and experience; all these elements put together lead to both a decrease in individual costs and an increase in efficiency. In addition, solidarity groups are the basis for inclusionary social systems (insurance, retirement), reducing poverty and increasing gender equality in the long term (Robinson 2001).

As a lack of social resources is a corollary of a lack of economic resources, poverty is multidimensional and contributes to a vicious cycle. Fighting it involves providing more monetary resources but also social

and power resources, through empowerment programs. Furthermore, because of the symbolic hierarchy between men and women, the prevailing power structure is based on social practices which articulate alpha-male values. According to Annas (2003), the norm of particular importance with regard to human life is that no society can be indifferent to people's life conditions and opportunities. Gender constrains a person's available choices. Consequently, in traditional societies in particular there is an effective sexual division of activities and ways of life. Therefore, women are disadvantaged in comparison to men, not only in terms of their access to material resources, but also their access to social resources. As Kabeer (1999) notes: »poor men are as powerless as women with regard to access to material resources but they remain privileged within the patriarchal familial structure.« In order to reduce these inequalities and allow women to play a greater role in society it is necessary to favor their access to social and human resources, which will reinforce their autonomy. While microfinance programs increase monetary incomes they also tend to increase social capital thanks to empowerment strategies. Empowerment corresponds to processes by which vulnerable individuals are endowed with power. Vulnerability characterizes the least advantaged populations via the material situation it imposes but also via the life experiences it provides (Narayan et al. 2000). Empowerment allows equality of development, so that women's social status is reinforced and they are able to engage in self- and other-regarding actions which allow them to escape poverty.

Criticisms of Microfinance

*»Criticism may not be agreeable, but it is necessary.
It fulfils the same function as pain in the human body.
It calls attention to an unhealthy state of things.«*

WINSTON CHURCHILL

Although the social dimension of microfinance enables the emergence of female empowerment, the latter is too underdeveloped. Hence, the most general criticism of microfinance is centered on the lack of real causality between it and female empowerment. One obstacle to this causality is related to the absence of an operational and universal definition of the concept of microfinance (Guérin and Servet 2005). If empowerment is

defined as involving full and equal participation in all spheres of society, including decisionmaking and access to power (Guérin and Servet 2005), empowerment has indeed not yet occurred. Applying a typology of power articulated in terms of »power with, power to, power within and power over« (Csazar 2004), it appears that agency capacity (formulation and realization of aims), which constitutes empowerment within the individual sphere, is attained via microfinance programs. However, the development of »power over,« which aims to include excluded persons in the empowerment process via redistribution of resources (Dahl 1999) has not occurred. Hence, achieving the empowerment of the poorest (for example, women) creates more conflicts (Woolcock 2004). Deshmukh-Ravadiwe (2005) has proposed a theoretical framework of analysis centered on the concept of space. The idea is that, although there is certainly a relationship between the macrosphere and the microsphere, the expansion of one does not necessarily entail the expansion of the other: in most instances, only personal empowerment has been enhanced. Although this is, of course, necessary, it is not enough, as interactions between different spheres condition the effectiveness of the empowerment process. To conclude, if empowerment is conceived as an instrument for social change, then it is inevitably conflictual and based on individual and collective interactions and forces. For Mayoux (2004), empowerment is an internal process involving the improvement of capacities and collective female mobilization in order to modify the relations of subordination between the genders. If empowerment is neutral and individual it only maintains the status quo. On current evidence, this is the kind of empowerment currently prevailing (Deshmukh-Ranadiwe et al. 2005). To take an example, in 2000 the percentage of woman MPs in Sweden was around 47 percent: in Bangladesh, it was only around 2 percent (UNDP 2000).

The preponderance of the economic dimension of microfinance is detrimental to the political dimension. Most of the shortcomings of microfinance programs are due to weak political support. Indeed, in most of the least developed countries (LDC), where democracy is unequal and mostly merely formal, women face constant sexual discrimination which constrains their development. In India, however, this political deficit is palliated somewhat thanks to self-help groups, which provide an opportunity to develop real democratic practices. The Beijing Action Program 2000 is aimed at reinforcing women's rights by stepping up the fight against sexual discrimination and accelerating the

politicization of women. Green's theoretical representation of the state, according to which the state is invested with social responsibilities for its citizens, epitomizes well the necessity for democratic political interventionism. Moreover, the lack of correlation between microfinance and empowerment is also related to female wages and lack of participation. Overall, women's incomes are too low to allow them to be self-reliant: they remain limited in their productivity and seriously disadvantaged (Mayoux 2003). Therefore, microfinance programs have to go beyond their current embryonic stage of development and promote a stronger »mentoring« function in order to overthrow the current support of such programs which is too punctual, and not enough oriented to long term outputs. In addition, if development is understood as a process of expanding real liberties and poverty as the privation of elementary capacities (for example, equal access to power), then political and social liberties are constitutive of development and cannot be subordinated to economic priorities (Sen 2000). Henceforth, the main aspect which must be promoted is political intervention and exogenous support for the emergence of strongly entrenched democracies in LDC, which would make possible the de-instrumentalization of women (Rahman 1999). Democracy plays a normative role, guaranteeing respect for norms, thereby ensuring a climate generally favorable to equality of opportunity (Clinge et al. 2005) and ensuring further decreases in poverty.

Finally, because the expansion of microfinance is taking place within a general framework of structural adjustments, sometimes the conjectural – in the sense of the different variables defining a specific situation – dimension is forsaken. Most of the programs are too »rigid« and do not take into account countries' social norms. Having distinct kinds of microfinance program, composed of two main types, would allow microfinance programs to be more sensitive towards social norms and hence more effective. One type should be adapted for countries based on a »marital« model (strong separation of public/private spheres, low social mobility), while the other type should be adapted for countries with an »authoritative« sexual model (gender discrimination in access to resources, sexed division of roles, minimal female autonomy). Through the integration of gender differences, »development results are positively influenced and are able to engender deep social and economic changes« (Sebro 2005).

Microfinance must cease to neglect the political dimension in order to endow individuals with norms enabling them to express themselves and

have a stake in the national political process. This scenario is somewhat idealistic, however. Most of the countries which require microfinance programs have deeply patriarchal societies: societies created by men for men, characterized by positive reinforcement of passivity, meekness, and submissiveness among women. Hence, if microfinance provides both economic and political support and tools, there will always be the danger of a backlash. Indeed, agents, institutions, or programs that do not conform to the patriarchal system, but counteract it, threaten it and are thus likely to be subject to a strong negative response.

Conclusions

»Power can be taken, but not given. The process of taking is empowerment in itself.«

GLORIA STEINEM

Among the 81.9 million poor clients served by microfinance programs in 2005, 84.2 percent were women (World Bank 2005). Microfinance, by targeting women, allows improvements in gender equality and effective decreases in poverty through its positive effects on development. Notably, it allows holistic development by increasing the income of the whole family, which has repercussions throughout the economy and society, at all levels. Nevertheless, in order to improve their effectiveness, microfinance programs must try to enhance their contextual adaptation and the political dimension. However, in doing so microfinance programs must try to promote a balance between political forces: »If the state is strong, it crushes us. If it is weak, we perish« (Paul Valéry 1984: [1936–38]).

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