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Full Length Research Paper

Do microfinance programs benefit women in developing countries?

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This paper looks at the case for and against the view that microfinance programs benefit women in developing countries, based on a selective body of research. The analysis suggests that women constitute the largest pie of the clientele of microfinance programs at the global level. Broadly, these programs have worked within two paradigms which aim at (1) poverty alleviation and (2) empowerment of women within the feminist discourse. However, the literature remains inconclusive about the real impact of these programs. In some developing countries, access to microcredit has helped many women to cross the poverty line but even where poverty has been alleviated, scepticism persists about long-term and sustainable benefits in terms of empowerment, including but not limited to, control of women over incomes raised through investing credit or savings, improved bargaining power and better social status. This is because the commercialization of microcredit and savings services is shifting the focus from the poor clients, particularly women, to all those who needs credit from formal institutions. This development is jeopardizing the objectives of poverty alleviation and empowerment of women and calls for a greater attention to the needs of women in setting the objectives and design of microfinance programs in developing countries.

Key words: Women, microfinance, empowerment, poverty alleviation, developing countries

Introduction

Over the past decade and a half, the concept of microfinance has received a phenomenal popularity worldwide, particularly in developing countries. Compared with a few initiatives till the early 1990s, there are now more than 7000 microfinance institutions (MFIs) in 143 countries; a high majority of their clients comprises women (Microcredit Summit Campaign [MSC], 2009, p. 22). A growing body of scholarship suggests that women benefit from financial services of the MFIs considerably, though in varying degrees, in the form of increased incomes and poverty alleviation (Yunus and Weber, 2008; Pitt and Khandker, 1998; Remenyi and Quinones, 2000), improved consumption and better schooling for girls (Khandker, 1998) and empowerment within the feminist discourse (Mayoux, 2002). At the same time, however, there exists a significant current of apprehension due to some known deleterious effects of microfinance programs on women such as indebtedness as a result of failure to repay the loans (Hulme, 2007) and increased vulnerability to domestic violence and intimidation (Goetz and Gupta, 1996; Rahman, 1999). The interest in the benefits and costs of microfinance programs is gradually increasing with the rapid expansion of the MFIs.

In this backdrop, this paper engages the wide range of arguments and attempts to examine the extent to which microfinance programs benefit women in developing countries. The discussion is organized as follows: The second section briefly explains the growth of microfinance and attempts to explore why the MFIs specifically target women rather than men. The purpose is to identify the motivation that underlies the focus on women as the clients of microfinance services. The third section looks at the case for and against the view that microfinance programs benefit women in developing countries. Then, different types of benefits are discussed in two broad categories, namely 'poverty alleviation' and 'empowerment'. The rationale for choosing these categories is explained at the beginning of the section. The last section draws some conclusions.

Before proceeding further, it seems pertinent to mention two caveats. First, the terms 'microcredit' and 'microfinance' are not the same. Microfinance is a broader category which refers to a range of financial services including microcredit, micro-savings and/or micro-insurance (Rahman, 2004), but nevertheless the bulk of the services still comprises microcredit (Ditcher, 2007). The usage of these terms in this paper is guided by this distinction. Secondly, there are some limitations of sex-disaggregated data on microfinance, especially in countries other than Bangladesh. Although the literature is steadily growing, it is difficult to draw a clear picture of the benefits, as cross-country comparisons are not possible due to differences in samples of the MFIs and methodologies used by researchers. Therefore, this paper draws on selective empirical data and case studies from various developing countries.

Growth of Microfinance in Developing Countries: Why Target Women?

Globally, women have had been the main target group of the MFIs, although the numbers vary across countries. See Table 1 for the outreach of the MFIs. See Table 2 for the percentage of women borrowers and profitability of MFIs in selected developing countries. One may ask why it is so. Do the microfinance programs target women as their clients purposefully for alleviating their poverty and/or for reducing gender inequality? Or, do they prefer to target women only because of their greater willingness and ability to repay the loans? What kinds of benefits are generally predicted from women's participation in microfinance programs? One can find answers to these questions by looking at the process in which the MFIs have emerged.

The concepts of 'microcredit' and 'microfinance', as they are understood and practised today, are relatively new (Grameen Bank, 2009), but different arrangements for the provision of small credits have had been in vogue for a long time. According to Rahman (2004, p. 27-29), the institutionalization of microcredit began in the 1950s when the developing countries with the financial support of international donors tried to deliver government-subsidized credit to small farmers and the poor households. Later, it came to be known that the subsidized credit was indeed reaching the rich and the powerful, rather than the poor. The failure of this approach triggered the search for an alternative financial tool, which led to the development of microcredit for giving the poor access to financial capital on a more sustainable basis. The main idea was to reach the poor who did not possess collateral for accessing loans from formal financial institutions or were being exploited by informal lending outlets. This motivation formed the basis of the Grameen Bank of Bangladesh in 1976. The Bank introduced tiny collateral-free loans to jointly liable group members, rather than individuals, and became popular worldwide due to rapid expansion of women clients and high loan payment rates.

The Grameen Bank model was replicated at a large scale in most countries of Asia, Latin America, Africa and North America during the 1980s and the 1990s. A group of major donors formed the Consultative Group to Assist the Poorest (CGAP) in 1995 at the World Bank in order to coordinate microcredit activities. The major breakthrough was the first Microcredit Summit held in Washington in 1997, which marked the beginning of a global campaign to provide credit to 100 million of the world's poorest households, especially to the poorest women, by 2005 (MSC, 2009; Remenyi and Quinones, 2000, p. vii). Today, out of the total poorest clients reached by the MFIs, the majority (87.6 percent) comprises the poorest women.

From the above description, two arguments can be identified which explain the overwhelming focus on women: First, the conventional wisdom has reinforced the belief that, if credit is to be provided to the poor, it must go to a woman within a poor household, rather than to a man. Why? One major motivation has stemmed from the fact that majority of the world's poor comprises women (Rehman, 2004, p. 31). At the same time, women are more likely than men to be credit constrained, have restricted access to the wage labour market and have an inequitable share of power in household (Pitt and Khandker, 2006, p. 791). Such considerations formed the basis of Grameen Bank's strategy to target women (Yunus and Weber, 2007). Due to immense success of this strategy, donors began to view microcredit as one of the most important financial tools for alleviating women's poverty. Remenyi and Quinones (2000, p. 4) argue that today, almost all the MFIs have learnt that if “one's objective is poverty reduction through the provision of financial services to the poor, women are their best clients”.

Secondly, an important reason for preferring women as the clients of microfinance services lies in institutional dynamics. The choice of women clients is believed to be a cost effective strategy because they are perceived as being more reliable and susceptible to group pressure. As a result, the repayment rates are higher for women than men (Momsen, 2004, p. 207). Moreover, some empirical evidence suggests that the benefits of the investment of loans by women are greater than men (see, for example, Pitt and Khandker, 1998 in Rahman, 2004, p. 32-33); this point will be further elaborated in the next section.

Counting the Benefits for Women

Now I turn to examine the extent to which the motivations identified above have been actually translated into real benefits. The literature discusses the benefits mainly in two analytical categories: 'poverty alleviation' and 'empowerment'. The first category is primarily concerned with two interrelated benefits: increase in incomes and poverty alleviation. The second category looks at the transformation of the increased incomes and poverty alleviation into long-term and sustainable benefits through empowerment strategies. Let us consider each category in some detail.

Poverty Alleviation

Conventionally, microfinance has had been considered a panacea for poverty alleviation (Hulme, 2007, p. 21; Yunus and Weber, 2007, p. 233; Khandker, 1998, p. 1), particularly for women who comprise 70 percent of the poor and two thirds of the world's illiterate population (Remenyi and Quinones, 2000, p. 4). It is widely believed that the poor women's access to credit will enable them to engage in viable microenterprises or other economic activities resulting in increased incomes. Much of the legitimacy of this belief comes from the perceived success of Grameen Bank, which has come to serve as a model of the virtuous outcomes of credit for poor women in rural Bangladesh (Rahman, 2004, p. 31).

In the past, however, few efforts have been made to examine the actual impact of microfinance programs on women's poverty. Traditionally, the only indicators used by donors and practitioners for program evaluations have been the outreach and profit margins (Rahman, 2004, p.32). It was not until 1991-92 that the first major study to examine the impact of microcredit on poverty alleviation was undertaken by Pitt and Khandker with the support of the World Bank. Based on a survey of 1800 households from 87 villages of Bangladesh, the study found that about 21 percent of the borrowers of Grameen Bank (about 96 percent women) were lifted out of poverty within 4.2 years of their membership.

In recent years, impact studies have been undertaken in many countries. In Bangladesh, an internal survey of Grameen Bank has found that 64 percent of the borrowers who had been with the Bank for five years or more had crossed the poverty line (Yunus and Weber, 2007, p. 52). However, the impact does not appear significant outside Bangladesh. A number of authors have cited studies which confirm that microfinance programs have not been able to even scratch the surface of women's poverty in many developing countries such as Sri Lanka, Kenya and Malawi (see, for example, Rahman, 2004; Ditcher and Haper, 2007). Most recently, the MSC has claimed that the MFIs have reached more than 106 million poor clients out of whom 88.7 million are the poorest women. Nevertheless, it is a significant achievement, but it still remains to be seen how many of these women have actually been able to improve their incomes and get out of poverty.

Considerable scepticism exists about the impact of microfinance on poverty alleviation, especially in terms of the coverage of women (Sharif, 2002, p. 227). While globally, women constitute a high majority of the clients of the MFIs, but the numbers vary across countries. As Table 2 indicates, women do not constitute even half of the total clients of the MFIs in Pakistan (16.3 percent), Sri Lanka (47.6 percent) and Eastern Europe and Central Asia (45.9 percent). It can be argued that fewer women are likely to benefit from poverty reduction effects of microfinance programs in these countries/regions due to their low ratios in the total clientele.

Moreover, since the early 1990s, a shift from 'microcredit' to ‘microfinance’ is taking place globally. This process is accompanied by the progressive commercialization of microfinance services and entry of for-profit institutions in this sector (Sharif, 2002, p. 241). This trend has significant implications for the poor because the commercial institutions target all potential clients who want to access loan from formal institutions, but not necessarily to the poorest (Rahman, 2004, p. 37). In

Bangladesh where microcredit originally emerged as a financial service for the poor about 40 percent of the total microfinance clients in the NGO-led industry are non-poor (Zohair, 2001 in Rahman, 2007, p. 194). This is contrary to the original concept of microcredit, which aimed to reach the poor for poverty alleviation. Remenyi and Quinones (2000) have compiled eight case studies from Asia and the Pacific which confirm this trend.

An important concern persists about growing preoccupation of the MFIs with profitability. Overall, the mean profit margin of MFIs stands at 12.9 percent, though there are huge variations among countries. The mean value is highest in Asia and Pacific. It is argued that the MFIs are increasingly taking up a commercial face by raising their own revenues thereby trading-off the objective of poverty alleviation (see, for example, Mayoux, 2002; Rehman, 2004). Moreover, some critics argue that, even where microfinance programs reduce poverty of women, there is no guarantee that this outcome will increase their control over the raised incomes or reduce gender inequality within the household or community (Goetz and Gupta, 1996; Mayoux, 2002). From this point of view, microfinance is considered as an entry point for women's empowerment in the broader economic, social and political context.

Empowerment

The pursuit of microfinance's social objectives stops at poverty alleviation; women's empowerment has never been a major concern of microcredit or savings programs, notwithstanding some exceptions. Indeed, empowerment was not originally predicted as an outcome of women's access to microfinance (Ditcher, 2007, p. 4). The literature produced by the pioneers of microfinance and major institutions confirms this proposition. For instance, the founder of Grameen Bank and the Nobel Laureate, Muhammad Yunus, has recently co-authored a book on his motivation and experience in this field spanning over three decades (see Yunus and Weber, 2007). A glimpse of the book tends to convince one that microcredit is only about alleviating poverty; not even a single entry in the 261-page book touches upon empowerment or gender equality despite that 96 percent of the borrowers of Grameen Bank are women. Similarly, women's empowerment hardly appears as an important topic in the reports of leading international organizations such as the MSC (2009) and MIE (2009a, 2009b and 2009c).

The absence of a purposeful empowerment focus, of course, has not prevented the academics and the feminists to investigate the potential of microfinance programs to create benefits associated with empowerment, i.e. control over incomes, improvement in social status, enhancement of capabilities and skills, and increase in bargaining power, to name a few. The debate on such benefits has picked up momentum during the past two decades based on growing empirical evidence. Mayoux (2002) argues that this debate is taking place within three paradigms: the financial self-sustainability paradigm, the poverty alleviation paradigm, and the feminist empowerment paradigm. Although the benefits with which each paradigm is concerned cannot be classified neatly into these three categories, they provide a useful framework for looking at women's empowerment in the context of microfinance in a systematic way.

The Financial Self-Sustainability Paradigm

The financial self-sustainability paradigm seeks “individual economic empowerment" of women through increase in incomes on a sustainable basis. According to Mayoux (2002), the assumption at the core of this paradigm is that economic empowerment will lead to greater control of women over their income and savings, which in turn, will contribute to their own and children's well-being. The expectation is that sustainable income generation activities will enable women to initiate the broader social and political changes, even if explicit support for women does not exist within a household or community.

Empirical evidence suggests that access to microcredit or savings services has not necessarily empowered women economically. In rural Bangladesh, a study conducted by Goetz and Gupta (1996) showed that 63 percent of the loans borrowed by women were controlled by male members of their family. Although they had no direct control on the proceeds from these loans, the women bore the burden of debts and repayments. The authors noted that the lending process often victimized women borrowers leading to disempowerment, violence, and intimidation by the lending institutions. These findings have been confirmed in many other studies (see, for example, Rahman, 1999; Karim, 2001). In other regions, the benefits may be just the opposite. In Sri Lanka, for instance, a study (Aladuwaka, 2002 in Momsen, 2004, p. 208) shows that microcredit has little impact on poverty, but it is playing significant role in empowering the Sri Lankan women, as the income earned by them is not controlled by their husbands. Their economic activities have earned them great respect in the eyes of their husbands.

In addition, it is argued that benefits of microfinance for women have remained limited because the opportunities for investment lie only in informal sector and microenterprises. This issue is forcing the women into a “microcredit ghetto” without any meaningful economic empowerment (Randriamaro, 2001 in Momsen, 2004, p. 206). In recent years, however, some innovative models have been mounted in developing countries. A classic case is the economic empowerment of Black women in South Africa where stokvels have helped many Black African women to become shareholders and investors in big companies, rather than participation in micro-enterprises. Verhoef (2002, p. 108-09) explains in a case study that this process was started in the early 1990s with the emergence of Black Economic Empowerment investment companies. The purpose of BEEs was to promote direct participation of Black people in the corporate sector of mainstream economy of South Africa. As a result, a large number of Black Women's Economic Empowerment (BWEE) groups have emerged, which raise capital from international and domestic corporate and financial institutions. The capital is then invested in long-term ventures and the dividends are used to provide microfinance to women in rural and urban areas.

Verhoef (2002) notes that one of the BWEE groups Women Investment Portfolio Holdings (Wiphold) has pioneered a new approach to Black women's economic empowerment by including stokvels in corporate investments. Stokvels have to be registered as a company, which represents a shift from informal arrangement towards formal structure based on transparent rules. The registered stokvels invest savings of their women members in Wiphold, which passes on the dividends of the investment. The investment of women savers in Wiphold, through stokvels, has grown so rapidly that three years after its establishment in 1994, it was listed on

Johannesburg Stock Exchange. The value of its investment portfolio increased to more than one billion Rand (approximately USD 11.8 million) by 1998. Nevertheless, such innovative models of economic empowerment are still very rare.

The Poverty Alleviation Paradigm

As indicated above, the prime concern of microfinance services has been to provide credit and savings services for increasing the incomes of women borrowers through sustainable economic activities. The poverty alleviation paradigm is concerned with the manner in which this income is utilized for the "well-being" of women. According to Mayoux (2002, p. 248), the term "well-being" in this sense may be defined to include a range of benefits such as improved confidence, increase in consumption expenditure, participation in household decision-making, and better schooling for girls, to name a few. Thus, this paradigm assumes that women's empowerment and poverty alleviation are inherently mutually reinforcing.

There exists considerable ambivalence in empirical evidence on the extent to which an increase in incomes and poverty alleviation create the above mentioned benefits for women in developing countries. Take consumption expenditure, for example. In Bangladesh, Pitt and Khandker (1998) showed that consumption expenditure increased by 18 percent for every dollar borrowed by women, but only 11 percent in case of men in Bangladesh. However, the increase in incomes generated through small enterprises was generally not enough to meet the costs of basic goods and services. In Malawi, a survey of 404 households showed that the effect of microcredit was too small to make any difference on consumption expenditure of the borrowers (Diagne, 1998 in Rahman, 2004, p. 34).

Similarly, evidence on the effects of microfinance on the schooling of female youth is conclusive. Rahman (2004, p. 35-36) explains that a longitudinal study commissioned by the United States Agency for International Development, focussing on three microcredit programs in Asia, Africa and Latin America, showed that none of the programs had any impact on girls' education. Even where the increase in incomes of women shows improvement in schooling of girls may be misleading in the sense that this change could be due to other factors such as improvements in accessibility to schools and government incentives. Momsen (2004) argues that in general, the proposition that access to microcredit increases schooling of children has not been studied in detail.

The Feminist Empowerment Paradigm

The feminist empowerment paradigm views microfinance as an important entry point for social and political change through enhancing women's ability to transform and challenge gender subordination. Mayoux (2002, p. 248-49) argues that empowerment, in this paradigm, is seen as a complex and multi-faceted process that involves more than just economic empowerment or well-being. The end objective of this process is to address certain 'strategic gender interests' that include the promotion of individual internal change (power within), increasing capacities (power to) and the collective mobilization of women, and where possible, of men (power with) to question and transform gender subordination (power over).

A number of studies have confirmed that in many countries, women who participated in microfinance programs were more likely to challenge or overcome gender subordination in a more effective way than those who did not (Verhoef, 2002; Khandker, 1998; Pitt et al., 2003). However, there is no automatic link between access to credit and ability of women, as individuals or in groups, to trigger social and political change. The creation of benefits depends on a multitude of social and political factors that resist the changes in prevailing gender relations. More difficulties arise where attitudinal changes are required.

Let us consider a case study to illustrate this point. In India, Sinha (2007) has examined the efforts of women's Self-Help Groups (SHGs) to bring about social change. The growth of SHGs has taken the form of a movement, as about 400 women join a SHG every hour, according to the website of the National Bank for Agriculture and Rural Development (NABARD). Since the 1990s, the NABARD has linked more than 2.2 million SHGs to banks enabling the members of these groups (90 percent women) to access small loans. This model is distinct from many other microfinance institutions in the sense that it has ingrained empowerment as an element of the financial strategy.

Sinha (2007) conducted a study covering 3000 women members of SHGs linked by the NABARD whether the bank credit had any empowering effects in the social context. The findings indicated that the participation of women in the SHGs became a source of confidence and strength for pursuing a social agenda which largely focussed on social injustices meted out to women. However, the success was only partial. As Table 3 indicates that prevention of bigamy, obtaining compensation, marriage of an orphaned girl or a separated women were easier, as they required practical intervention with immediate results. However, the groups could not succeed where long-term behavioural change in men was required such as in the case of domestic violence and sexual abuse.

The analysis presented in the previous two sections indicates that the benefits of microfinance programs for women vary considerably in their nature and degree, and across countries. The literature has documented important factors that cause this variation. They include, for example, the program design and strategies of the MFIs (Vyas, 2002; Mayoux, 2002; Khandker, 1998), the age of female participants (Sharif 2002), intra-household gender relations (Sharif 2002), and the prevalent social status of women (Verhoef, 2002; Sinha, 2007). Some studies have shown that the benefits are higher for women when they involve skill building and training components. Ellerman (2007, p. 157) observed that the 1997 Annual Report of the World Bank Institute reported that the women borrowers who had been trained in a Grassroots Management and Training Program in North Africa had systematically better business practices, higher business incomes and felt more empowered than control groups without access to the training.

Conclusion

While many 'pockets' of success in developing countries exist, it is difficult to claim that microfinance programs have been able to demonstrate a strong impact on poverty alleviation and empowerment of even a majority of their women clients, let alone all clients. In some countries, adverse effects such as indebtedness and increased physical violence against women have also been reported. In addition, the traditional enthusiasm and optimism associated with microfinance as a powerful strategy for helping women is being overshadowed by growing pessimism among academia and feminists. This is because the commercialization of microcredit and savings services is shifting the focus from the poor clients, particularly women, to all who needs credit from formal institutions. This development tends to jeopardize the objectives of poverty alleviation and empowerment of women; these objectives cannot be left to be achieved as externalities or chance-outcomes of their participation in credit and savings services. The local 'pockets' of success must be scaled-up through redesigning the institutional objectives and strategies of the MFIs. This must include the capacity to reach out to the poor women through effective mechanisms designed to alleviate poverty within the mainstream feminist empowerment discourse.

End Notes

i The average loan size of Grameen Bank was less than USD 50. If we look at the websites of different MFIs, the size of their loans varies greatly but is generally in the range of USD 100 -200.

ii These countries include Bangladesh, India, Sri Lanka, Indonesia, Malaysia, the Philippines and the Pacific Islands.

iii For example, *Stokvels* in South Africa and Self-Help Groups in India have embodied empowerment as an element of financial strategy.

iv *Stokvel* is an umbrella term for different community-based informal financial and social organizations, which have existed in South African Black communities since 1920. They perform similar functions as typical microfinance organizations do, but their focus rests more on savings, rather than lending. For details, see Verhoef, 2001, p. 93-99.

v A SHG is a small group of poor women, which pools small amounts of savings. These savings are then deposited in a saving account in a local bank through 'linkage' organizations such as NABARD. After about six months, the members can access small bank loans with low interest rate. See Sinha, 2007, p. 73.

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Table 1: Outreach of the MFIs

Region	Number of MFIs reporting to MSC	Number of total clients	Number of the poorest clients	Number of the poorest women clients
Sub-Saharan Africa	935	9,189,825	6,379,707	3,992,752
Asia and the Pacific	1,727	129,438,919	96,514,127	82,186,663
Latin America & Caribbean	613	7,772,769	2,206,718	1,450,669
Middle East & North Africa	85	3,310,477	1,140,999	890,418
Developing World Total	3,360	149,711,990	106,241,551	88,520,502
North America & Western Europe	127	176,958	109,318	72,576
Eastern Europe and Central Asia	65	4,936,877	233,810	133,815
Industrialized World Total	192	5,113,835	343,128	206,391
Global Total	3,552	154,825,825	106,584,679	88,726,893

Source: MSC (2009).

Table 2: Percentage of Women Borrowers and Profitability of MFIs in Selected Developing Countries

Country/Region	Sample MFIs [1]	Percentage of women borrowers [2]	Median Value of Profit margins [3]
Afghanistan	14	53.2	(70.8)
Bangladesh	20	98.9	(14.5)
Cambodia	15	84.3	20.5
China	5	85.0	(22.1)
Indonesia	59	100.0	6.3
Indonesia	38	50.8	(0.5)
Nepal	14	100	15.8
Pacific Islands	3	n/a	(15.9)
Pakistan	8	16.3	(101.0)
Philippines	50	95.5	5.4
Sri Lanka	5	47.6	(2.1)
Vietnam	11	98.3	6.4
Asia and Pacific	242	69.16 [4]	23.44
Egypt	13	75.1	4.1
Jordan	6	82.0	9.8
Morocco	9	95.5	8.6
Middle East and North Africa	28	84.2	7.5
Balkans	39	39.0	11.6
Caucasus	29	42.7	9.8
Central Eastern Europe	17	42.1	-5.0
Central Asia	35	46.6	16.6
Russia	38	58.9	1.6
Eastern Europe and Central Asia	158	45.9	7.8
All Regions	418	66.4	12.9

Notes:

1. Number of MFIs that reported data to the MIE.
2. Number of active women borrowers/adjusted number of active borrowers.
3. Adjusted net operating income/adjusted financial revenue.
4. Excluding Pacific Islands.

Sources: Compiled from MIE 2009a; 2009b; and 2009c.

Table 3: Issues of social injustices addressed by SHGs and reported success in India

Category	Total	Effective	Partially Effective	Failure
Total actions	20	10	6	4
Ending domestic violence	6		4	2
Preventing bigamy	5	4		1
Marriage of a girl orphan, remarriage of a separated woman	2	2		
Compensation for dowry death	1		1	
Prevention of child marriage	1	1		
Ending sexual harassment	1			1
Justice for husband/son (compensation for injury, unfair arrest)	4	3	1	

Source: Sinha (2007).