The Climb to Empowerment: Microcredit's Effect on Women

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THE CLIMB TO EMPOWERMENT: MICRO CREDIT’S EFFECT ON WOMEN

by

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Abstract

Microcredit has been praised and criticized for its reputation as the solution to global poverty—helping the poor help themselves. The economists have focused on the impossibility of a sustainable microfinance system, whereas other scholars have commended the social advancements that MFIs have supported, especially in relation to gender inequality. This conceptual thesis specifically studies the effects of microfinance institutions on women’s empowerment—first defining ‘empowerment’ and then observing it in various case studies. My research supports the conclusion that microfinance is a useful economic aid and more importantly it spearheads the fight for women’s rights.
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I credit my friends and family for supporting me and believing that I could finish this thesis when I felt overwhelmed and my advisor who inspired me when I hit mental roadblocks
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CHAPTER I. INTRODUCTION

Turn on the news and you are bombarded by images of the skyscrapers on Wall Street, while the stock ticker runs along the bottom of the screen, talk of the rising oil prices and unemployment rates. Now...turn off the flat screen, get off the sofa, step out of your living room, leave your apartment, whiz out of the city, whoosh out of your country, and into a hut made of discarded tin scraps with a dirt floor and no running water. This hut, be it in Bangladesh or Peru, is inhabited by a family, many of whom do not have enough money to feed, clothe, or educate themselves.
Perhaps, inside lives a single-mother who works nights at a textile factory for pitiful wages and has to pull her oldest daughter out of grade school to take care of the other children. Maybe it is a family of eight, being supported by one man's income. In 2011, as the world's richest economies try to right themselves, there are people in developing countries who have little to no chance of breaking even. These people are the clientele that microfinance institutions are trying to help.

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In 2000, the United Nations proposed eight Millennium Goals: 1) eradicate extreme poverty and hunger, 2) achieve universal primary education, 3) promote gender equality and empower women, 4) reduce child mortality, 5) improve maternal health, combat HIV/AIDS, 6) malaria and other diseases, 7) ensure environmental sustainability, 8) and develop a global partnership for development. By 2015, the UN ambitiously hopes to achieve these eight objectives. A rapid
improvement can scarcely be expected, but many government organizations, NGOs, institutions, and individuals are striving to bring about positive change in the world using the Millennium Goals as guideline to measure positive progress. One category of institution is making waves in the global economic and social justice spheres: Microfinance.

Microfinance institutions directly and indirectly tackle all eight of Millennium Goals that the United Nations proposed in 2000. Most directly, MFIs work to eliminate poverty and hunger and promote gender equality and empower women. Microfinance is a relatively new type of financial service, based on lending small amounts of money to the poorest of the poor in order for the borrower to support or start a small business in hopes of creating a sustainable economic platform that will eventually add to greater economic improvement in the region. There are various types of microfinance institutions, which each have their own agendas and processes as well as differing results, making it a highly discussed and much-debated issue. According to most current information, MFIs have both succeeded and failed in their efforts to improve lives of millions of poor people across the world.

My thesis focuses on microfinance institutions’ relationship with poor women, specifically the question of whether or not MFIs empower women. I concentrate on women in my thesis because most microfinance institutions tend to target women. According to several works, women are more likely to pay back loans in time making them better borrowers than men. And other works claim that
microfinance institutions target women because they are easier to control and take advantage of. Be it a positive or negative motivation, microfinance loan more to women than to men. Many institutions taught their programs as a means for women to become empowered in their societies and at home, keeping in mind that many of the women who receive loans live in communities where they are treated as second-class citizens and do not have the same rights as men. Even in developed countries, there has always been inequality between men and women in the labor market in relation to wages and managerial opportunities. In fact, women make up the majority of those living below the poverty line. And often these women are single mothers with children who need to be taken care of. Women are the foundations of families; meaning women are the foundation of society. But many women are left with little opportunity, more so if they are unmarried, widowed, or single and without family to aid them. The fact is that many women cannot survive without a man, and even with a man’s help must struggle everyday to feed their children. This is what pushed many people to establish microfinance institutions.

Chapter II focuses on the history and current state of microfinance. Muhammad Yunus founded the first microfinance bank after several years of research on the effect of available credit to the rural poor of Bangladesh in 1983. Now, Grameen Bank has over 21,000 bank branches. Moreover, I detail the different types of institutions: for-profit and non-profit, as well as the different machinations utilized by microfinance institutions, including the media and the role of new technology. In recent years, social entrepreneurship has grabbed hold of the many
opportunities to advertise their campaigns globally. Take for instance, KIVA, a microcredit organization, which links ordinary-people lenders with borrowers throughout the world. In this case, the program is designed to encourage lenders and enhance their experience of knowing where their money is going and whom they are helping. It is a novel idea, but the successes do not always overshadow the failures in the microfinance bubble. Despite microfinance’s overall goal of helping the poor help themselves, many diverse tactics are taken by the institutions themselves to increase their chances of success.

In Chapter III, I review various works, which discuss, analyze, critique and support microfinance as a tool for alleviating poverty. As microfinance is a modern financial development, I highlight current microfinance institutions and their compulsory transformation stimulated by technological advancement and a renewed sense of global social responsibility. Most contemporary writings on MFIs are observations of the financial outcomes of the loan process. The third chapter of this thesis provides an overview of the critiques on the economics of microfinance institutions.

Microfinance as a road to women’s empowerment is debatable for many reasons. Many factors must be studied, supplementary to the financial data. Some scholars believe that microfinance is a valuable tool in order to encourage women’s empowerment. On the other hand, some scholars believe that MFIs are doing little to nothing for the improvement of women’s situations, citing various reasons for the failure. Although there are these two clearly opposing positions, the majority of the
works that I read fell somewhere in the middle, seeing that MFIs have the potential to make significant strides for women's empowerment, but have not reached that point yet. Scholars speculate that the failure of microcredit up to now is due to a variety of problems: microfinance as an idea and as a practice is relatively new so there are still kinks in the system that can be worked out; the exclusion of men is harmful rather than empowering, etc. Most agree that something must change within the program itself to help women's empowerment. Different scholars present unique suggestions, which I explain and develop further in chapter III.

In order to make any conclusions about the effect of microfinance on women’s empowerment, I need a clear definition of what empowerment is in relation to my work. Therefore, in Chapter IV, I will give my explanation of empowerment. First I will focus on the various explanations of empowerment, remembering that it is a very conceptual and malleable idea somewhat dependent on culture, different in the East versus the West. I also explore the effects of social factors such as religion and tradition, which would affect a woman’s own idea of self-empowerment. In defining empowerment in the context of my work, I will point out the factors that I observed in order to study the effects of microfinance on women. The chapter will conclude with my observations on what would affect the “level” of empowerment a woman achieves through controlling her own loan and what factors influence her realization of self-empowerment. This chapter is conceptual in that there is no unequivocal data that can tell us if a woman is empowered or not. Statistics on education, political participation, and other
measures can aid the conversation on women’s empowerment, but cannot explain it in its entirety.

In Chapter V, I give my view on microfinance and its influence on women’s empowerment. The answers to major questions that are asked about microcredit are still pending due to insufficient data on microfinance’s impact on poverty. As more numbers come in, more conclusions can be made, therefore scholarship on MFIs is constantly changing. Moreover, it is difficult for any one conclusion to be made about a subject that involves people from all over the world, who have diverse influences and objectives. The crucial question is: is microfinance worth it? ... to the borrowers, to the lenders, to the institutions, to the country’s economy? It is a big question that cannot be answered without profoundly studying the MFIs and their many consequences, observing their quantifiable failures and successes. Ultimately, microcredit is neither an absolute fiasco nor utter triumph. I provide scholars’ suggestions on improvements and changes that can be made to MFIs as well as some of my own. And in response to Chapter IV, I will cite evidence of empowerment that the female borrowers experienced.

Throughout my research, I have read and studied thousands of pages of scholars’ opinions on microfinance. But in the end, I must make my own opinion. And based upon all the information that I have learned, I conclude that although microfinance institutions have not always produced positive results in every aspect of the borrower’s life, many women in many places have been helped. Even if it is a small change, it is change. Therefore, I support MFIs. This is not to say that there is
no room for improvement. In the following paper, I strive to examine microfinance without bias.

Owing to unequal opportunity in the job market, social and religious factors and many other reasons that I will expand upon in my thesis, women remain the poorest of the poor. The fact is that women are at the bottom of the economic ladder and must struggle the hardest to improve their chances of financial stability. Microcredit is just one of the courses that endeavors to alleviate global poverty and it is crucial to know all of the possibilities and potential consequences of MFIs for poor women across the globe.
CHAPTER II. TARGETING THE POOREST OF THE POOR

I. History and Explanation of Microfinance

Microfinance emerged in the 1980s as an effort to reach out to the poor and provide them with access to finance, with the goal of alleviating poverty from the ground up. It appealed to people who saw it as an opportunity to help others sustain themselves, opposed to giving charity and expecting long-term results. From the beginning, there was hope that a sustainable, positive change would emerge from the work of microfinance institutions.

Microfinance began with Muhammad Yunus who for several years conducted a financial research project in rural Bangladesh with a class of economic graduate students. He gave out small loans to a few borrowers with low interest rates and observed how the money was used, who used it, and the economic gain from the original loan. Yunus also paid close attention to the relationships between the people who received the loans and others in their communities. After a few years, Yunus believed that the next, logical step to help rural Bangladeshis rise above poverty was to open a permanent bank that would provide loans to the poor. Today, Grameen Bank has over 2,100 branches and Yunus received the Nobel Peace Prize in 2006. The founding of the first microfinance bank inspired over 3,000 more to open throughout the world.
Microfinance has the reputation of facilitating an increase in women’s empowerment among the world’s poor. In order to understand microfinance’s impact on women’s lives, it is necessary to first understand the different levels at which microfinance operates, the different types of microfinance organizations, and how microfinance works within a global market. There are a variety of different types of microfinance institutions, which Robert Cull, Asli Demirgüc-Kunt, and Jonathan Morduch’s article, “Microfinance Meets the Market” compares and contrasts. The paper draws its information on microfinance from various sources: Microfinance Information Exchange, Mix Market, and Microcredit Summit Database. The World Bank Research Department also had access to data from Microfinance Information Exchange, which the public is not privy to that contains information on 346 microfinance institutions. Some drawbacks to the data set are that no one conducted interviews of the borrowers and some microfinance institutions absolutely declined to participate. As they note, “The greatest triumph of microfinance is the demonstration that poor households can be reliable bank customers”\(^1\)

Cull, Demirgüc-Kunt, and Morduch’s assessment is that whether microfinance will work on a larger scale to help entire communities overcome poverty or not, the borrowers who are paying back loans are reliable. Their low economic status does not translate into unreliability.

II. Different Types of Microfinance Institutions and their Unique Methods

Microfinance institutions come in different forms, work in different ways, and target different people. In “Microfinance meets the market,” the authors make a distinction between microfinance banks and nongovernmental organizations. The first, microfinance banks, are for-profit businesses. Nongovernmental organizations are characterized as non-profit. Nongovernmental organizations serve more borrowers and also serve more women than the banks. There are NGOs that only serve women and for more than half of all NGOs, women make up 85% of borrowers, whereas banks lend more to men. NGOs heavily rely on social investors, whether it is individuals who give $200 to large institutions; these investors have helped rapidly expand microfinance in recent years. NGOs tend to lend more through group-based methods, whereas banks tend to lend more to individuals.

Banks are more profitable in general and the NGOs tend to rely on subsidies, which can be problematic in the long-term growth and sustainability of microfinance. The drawback to reducing subsidies is that it is likely that the social missions of these NGOs will suffer as they try to garner more exposure and more funding. However, some nongovernmental organizations do make profit and when they do, the money goes back into the institution to further their social mission. All together, microfinance institutions reach half a billion people throughout the world.

Some scholarship suggests that both types of institutions need to raise interest rates in order to attract investors and expand the sector. There are
arguments that microfinance will fade unless it pursues commercial status and becomes profitable. There is a supposition that poor households will pay high interest rates and are able to do so; therefore, any interest rate below 100%, which most moneylenders charge is still advantageous to the borrowers, as well as the banks for which small loans are usually unattractive. “Access to finance is more important than its price.” The second argument is that subsidies are problematic for state banks, and will be problematic for microfinance institutions. Relying on subsidies is risky. First, there are not enough subsidies to develop microfinance and second, there is no promise that there will always be a flow of money into microfinance institutions. The objective of “Microfinance Meets the Market” was to explore the future of microfinance institutions. While describing how microfinance works in general and the pros and cons of “commercializing” microfinance, the authors come to the conclusion that as the sector grows, change will be necessary.

Within the infrastructure of different microfinance institutions lay some key differences that should be noted. Many microfinance institutions, like Grameen Bank, purport group lending as a crucial aspect of the microfinance process. In most group-lending microfinance situations, various acquaintances and friends from a community form a group and present themselves to ask for a collective loan. In “The Microfinance Revolution: An Overview” by Rajdeep Sengupta and Craig P.

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Aubuchon, they refer to group lending as ”the joint liability contract,”3 which takes the pressure off of the institutions and puts responsibility on the self-chosen groups to ensure that the loan is used appropriately and efficiently by every member. The group lending dynamic also encourages that the loan is repaid on time and in full. In addition to this advantage of group lending, Muhammad Yunus adds, “a sense of intergroup and intergroup competition also encourages each member to be an achiever.”4 The group lending method both protects the bank and encourages success from the borrowers.

In ”The Microfinance Revolution: An Overview,” Sengupta and Aubuchon explore the idea of individual lending as well in their paper. Although they praise the Grameen Bank in Bangladesh and the group lending that allows for transparency and later success, they note that Bangladesh is a country that has a very high poverty rate and that the poor of other countries with a different skew might not benefit from the group lending dynamic. The authors focus on a case in Arkansas with a institutions called Good Faith Fund. Unlike Bangladesh, the poor in the countryside of Arkansas did not have strong social connections; therefore, assembling a group from friends or acquaintances was impossible. Instead, Good Faith Fund established groups after a few weeks long training program. The lack of social ties and comradeship within the group negatively affected the outcome of the

loan. Good Faith Fund ended group lending and currently focuses on individual lending.

Individual lending works best in countries that are industrialized because poor men and women have the possibility of connecting with more companies and people who are financially able to loan to them. There is a misconception that microfinance institutions only function in less developed countries, but it is important to note the obvious: there are poor people throughout the world, living in Western Europe and North America, who need the financial help.

A noteworthy and unanticipated aspect of microfinance is the high repayment rates. Although microfinance loans are usually smaller than 100 dollars USD, the borrowers are the poorest of the poor, which one can assume means that the MFI has no collateral on them. Without collateral, it is surprising that the borrowers repay at all. One of the mechanisms that MFIs utilize to encourage repayment is progressive loaning, which is “the promise of future credit for timely repayment”\(^5\). This is indeed an incentive to repay, however, it does not fully explain the repayment rates of 90% that Grameen Bank reports.

In addition to this, most MFIs charge higher interest rates on loans than those of comparable size from regular banks. However, these high interest rates do not affect the number of people who take out loans. It seems counterintuitive that high interest rates on a small loan would increase repayment rates.

Along with the obvious economic appeal for the poor was the idea of microfinance as transformative in gender relations. The majority of the poorest people in the world are women and most have less power than males, especially in financial situations. Thus, many microfinance institutions target women as borrowers: their goal being to improve their social situations. The assumption that many microfinance institutions hold is that if a woman is given access to capital she will instantaneously be empowered. This supposition is not completely naive, but there is a lack of comprehension of the complex dimensions of a woman’s life that are affected by receiving a loan. A change in economic status does not automatically mean a change in a woman’s role in her family or community. A change in her social standing and well-being depends on several factors, involving her family, society, and herself. The complexity of the matter cannot be overlooked.

III. Contemporary Microfinance Institutions

Currently, there are over 1,395 microfinance institutions, which loan to over 86 million people worldwide.\(^6\) Among the thousands of MFIs, I will highlight a few that have gained the most media attention and popular interest in recent years.

The first, most notable microfinance institution is Grameen Bank, founded in 1983 by Muhammad Yunus in Bangladesh as an answer to the rooted poverty that

corroded the villagers’ lives. As mentioned earlier, the idea of small loans to poor people began as a research project in the late 1970s when Muhammad Yunus was working as a professor of economics at the University of Chittagong. From the founding of the bank, more loans were directed to Bangladeshi women. From 1983 when Grameen Bank became independent to 2009, the membership grew from 121,114 to 7,970,616 people. In 2009, 97% of borrowers from Grameen Bank were women.7

A growing global social consciousness plus technological advancement and social media has led to the success of one microfinance organization that allows real individuals to go online and loan to other individuals or groups across the globe who present their business plan on the website, Kiva. Kiva’s motto, “Loans that change lives,” reflects their belief that one small contribution will allow another person to transform their bad situation into a good one. On the front page of the Kiva website, a banner declaring, “Empower people around the world with a $25 loan,” runs across the screen. This reflects Kiva’s simple philosophy of putting good people who have the money in connection with borrowers who need the loan. The slogan also emphasizes the “micro” aspect of microcredit. Twenty-five dollars is inconsequential to a well-paid American lawyer, but to a young woman in Peru, $25 is a step towards fulfilling her goal of financial stability. Kiva works with local microfinance institutions, which they call “Field Partners” to find potential

borrowers. Their partners do most of the work on the ground, meaning they know the clients, understand the culture and work with them. Kiva is interesting in this way because it is a slightly removed organization.

SKS Microfinance began as a nongovernmental organization in 1998, which converted to a for-profit institution in 2005. Like Grameen Bank, SKS employs a group lending method to ensure that all of the members repay the loan. Only women receive loans and are responsible for forming groups of five themselves. SKS provides basic business training, educating the women about the different types of financial options, how to elect group leaders, etc. The SKS Microfinance system is very similar to that of Grameen Bank, however, the fact that it is a for-profit puts it in a different arena. Many critics question the motivation behind a for-profit MFI and wonder if the end goal of bettering people's lives that live in abject poverty loses out to turning a profit. That said, both for-profit and non-profit institutions need to be somewhat profitable in order to subsist in a macro-world. Overlooking the inner-complexities of the business of microfinance could be detrimental in understanding where microfinance fits in and its power in improving gender relations.

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There are all types of microfinance institutions in all parts of the world. Their differences are too great to enumerate every one in the following thesis. I will mainly focus on MFIs working in Southeast Asia because the most data and studies have been conducted in this region, especially Bangladesh and India.
CHAPTER III. YES, NO, MAYBE SO... THE ECONOMICS OF MFIs

I. Where are the Economics of Microfinance?

Of all the papers I studied about microcredit, the minority focused on the pure economics of microfinance because MFIs are not recognized for their profit-making capabilities but rather for their social mission to alleviate poverty. However, microfinance institutions are obviously economic devices. Microcredit has been studied as an economic mechanism in itself, but the economists who analyze it tend to completely disregard (possibly out of necessity) microcredit’s social achievements. The authors reviewed in the following chapter discuss MFIs as a socially neutral topic and broke it down to numbers.

Some economists completely disregard the economic valor of microfinance institutions. In “Employment, not Microcredit is the Solution,” Aneel Karnani refutes the idea that business begun with a loan from an MFI make any lasting change. Karnani is adamant about the importance of providing jobs to the jobless and believes that the small businesses brought about by microcredit do not provide any aid to those but the individual who takes out the loan. He is looking for macro-effects that he expects from MFIs. His focus, like that of many scholars, is to improve the economics of a country; the small economic changes to individuals and villages that MFIs bring about are unsatisfactory to him.
Karnani dismisses the efficiency and success of microcredit as an entire financial sector. But some authors believe that microfinance has the potential for greater economic success, but most tend to agree that improvements must be made to ensure that MFIs are sustainable.

II. The Sustainability Issue

For many economists, MFIs use of subsidies is a big issue because they believe it cripples the MFI and hinders the potential of the institution. Jonathan Morduch points out that the MFIs with explicit social agendas only make enough revenue to cover 70% of the cost of running the MFI.¹ Other critics mention that MFIs must become sustainable in order to alleviate poverty², but these non-profits seemingly need government aid. They cannot be self-sufficient.

One argument suggests that subsidies allow the MFI staff to become lazy and dependent on the government capital, lessening the positive impact of the loaner-borrower dynamic on the poor. Also, the distribution of monies always leads to competition between potential receivers of said money. "Credit was no longer allocated to the most productive recipients, but instead was often allocated on the

basis of politics or social concerns.\textsuperscript{3} Morduch supports this argument and states that government involvement leads to misallocation of loans to the people who need it less than the poorest of the poor.\textsuperscript{4}

Those against government subsidies understand that MFIs will need capital and suggest issuing bonds and taking savings deposits. Furthermore, Morduch and Armendáriz state that moneymaking MFIs can get funds by going commercial. Sustainability means that the MFI must make a profit; to make a profit, the MFI would need to reduce expenses per loan and increase the likelihood of repayment, meaning they will have to seek borrowers capable of taking out larger loans, leaving the poorest of the poor back where they started.\textsuperscript{5}

Like Morduch and Armendáriz, other economists encourage MFIs to switch from non-profit status to for-profit and some MFIs have already taken their advice. Banco Compartamos, a microfinance bank in Mexico transitioned from a non-profit to a for-profit in 2000. In an article from \textit{Business Week}, it is clear that Compartamos no longer works with charitable intentions. Its interest rates can surpass 100\%, a price that curtails many of the borrowers’ successes and the representatives of the bank urge borrowers to take out more and more loans, because the reps get paid per number of clients and loans. Carlos A. Danel, co-CEO

of the bank, gave this statement to the reporter: "A lot of people have suggested that financial inclusion can be a poverty alleviation tool... We're not out to prove that. We're out to provide financial services as opportunities to these clients, realizing that some people might make better use of them than others." Another proponent of for-profit MFIs is Vikram Akula, founder of India’s SKS Microfinance. He has no qualms about earning high profits and suggests that for-profit MFIs are even more ethical than their counterparts. “The notion that it’s somehow unethical to enter into profitable business working with the poor is insulting to the poor. They are not children who need our protection.” His opinion can be debated as right or wrong, but many existing MFIs are for-profit and many MFIs are transitioning to for-profit status.

“What Drives Microfinance Institution’s Financial Sustainability” by Ayi Gavriel Ayai and Maty Sene points out that although many MFIs charge high interest rates, the poor are still receiving a better deal than they would from local loan sharks. The authors suggest that in order for MFIs to be financially sustainable, they must have high interest rates. Furthermore, Ayai and Sene point out that operational costs of MFIs are extremely high and unnecessary. If the MFI were to incorporate an information technologies system and continued employee

7 Michelle Archer, “Help the poor while making a profit?” USA Today 10 Jan. 2011: 5B. Print.
training, they would be able to cut down on costs and move forward in their pursuit for sustainability. Their basic conclusion was that, “MFIs have to emulate profit-making banking practices by implementing a sound financial management and good managerial governance to assure their financial sustainability.” So, they too believe that MFIs should be for-profit or at least imitate their policies.

Although there have been many supporters of making microfinance institutions sustainable to increase the chance of long-term success, for-profit MFIs, a possible resolution to the problem of sustainability, have been at the center of criticism. Many believe that the institution will ultimately fail to achieve microfinance’s social mission of alleviating poverty because earning a profit will take precedent over helping the poor. Muhammad Yunus is one such opponent of commercial MFIs. In a 2011 op-ed piece for The New York Times, Yunus stated, “I never imagined that one day microcredit would give rise to its own breed of loan sharks.” Yunus believes that the for-profits do not care for the wellbeing of the people who take out the loans. He specifically cites SKS Microfinance in India and Compartamos in Mexico. Yunus contends that for-profit institutions’ argument that they are trying to extract themselves from the charity of other organizations and/or control of the government is not sound. In fact, he states that by turning an MFI into a commercial enterprise, the MFI will be putting the financial risks of an

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9 Ayayi and Sene 302.
international market on the poor villages of developing countries. Ironically, Yunus supports stricter government control, when only a couple months later after his piece was published, Yunus lost his job as director of Grameen Bank in a legal battle with the government of Bangladesh.\textsuperscript{11}

III. The Attention Grabbers of MFIs

In “The Economics of Microfinance,” Morduch and Armendáriz discuss the change in language and meaning from “microcredit” to “microfinance,” highlighting the growing idea that other financial services such as savings and loans are the key to individuals pulling themselves out of poverty. Some economists even argue that the poor should only be given the financial option of saving and loans should be taken off the table completely. Morduch and Armendáriz completely disagree and maintain that a mix of savings and loans is the best option for the poor.\textsuperscript{12}

With regard to MFI’s clients being mainly women, economists are ambivalent. They note it as an interesting facet of microfinance but tend to focus on loan repayment rates and other numbers as opposed to comparing and contrasting men and women borrowers. For economists, it is a nonissue. Grameen Bank is very

pro-female borrowers and has “found that not only does having a customer base that is 95 percent female improve social impacts, but it may also reduce the financial risk for the bank.” Other scholars echo this sentiment and add that women are more likely to use their income for their children and the household and repay quicker than men, who will spend more of it on themselves for alcohol, clothes, or gambling.

One aspect of microfinance that confounds economists is the poor’s high rates of repayments. Most attribute this to the group lending or joint liability method that many MFIs employ (discussed in Chapter 2). The various contributors of “Microfinance Games” see the pros and cons of group lending. He contends that joint liability is favorable for the lender because the group members will encourage loan repayment and provide back up if necessary. However, this same idea could persuade riskier behavior on the part of the members who realize that they have a group support. Currently, there is a shift towards individual lending. Some of the biggest MFIs have transitioned in order to grow with their clientele who are no longer looking to work in groups and have enough of a footing to take out an individual loan. The authors suggest that this is a way for the MFI to increase the flexibility of the loan and get rid of the possibility of risky behavior.

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13 Armendáriz and Morduch 14.
IV. What is Next for Microfinance?

In “Microfinance beyond group lending” by Morduch and Armendáriz de Aghion, the authors point out that many microfinance institutions are working in developed countries with diversified economies such as China, Russia, and various Eastern European countries. The growth of microcredit calls upon transforming the way the programs interact with the borrowers and the greater community. Because these areas do not have a general poor population living together as in Peru or Bangladesh, there has been a move from group lending to individual loans.

The main problem that economists have with microcredit is its dependence on subsidies. Many fear too much direct government persuasion via the subsidy. Others fear that the dependence on subsidies allows the MFI to slack off in their duties or allows many borrowers to slide by without repaying the loan, which in the long run would do more harm than good in the mission of alleviating poverty.

The problem with the economics of microfinance is that it misses the point of microfinance. Understandably, economists that examine MFIs avoid the social impact of MFIs’ work, but the mission to alleviate poverty cannot simply be removed from the economics of an institution. Because of this goal, MFIs will likely not be the sustainable, self-sufficient model that the economists are looking for. To complete their goal, an MFI will sacrifice profits for the good of the borrowers. If not for the goal, microfinance would never have come into being in the first place. The previous chapter focused on the economic critique of microfinance but from
now on, the focus will be on the real impact on real people that MFIs affect and not the numbers.
CHAPTER IV. THE UNTRANSLATABLE WORD: EMPOWERMENT

I. A Woman’s Problem

“Gender alone does not define risk for such assaults on dignity. It is poor women who are least well defended against these assaults.”¹ Although beleaguered in their economic hole together, poor women face a different set of obstacles than poor men.

Economists who criticize microfinance as a means to alleviate poverty often fail to observe the social consequences that can stem from a single loan to a poor woman. A poor person’s situation can be helped by a loan of less than 100 dollars. She can start a small business and earn an income. However nominal the amount, contributing financially is a source of power within the family structure. These women who are borrowing and who are starting the small businesses supported by microcredit are the poorest of the poor in the world. “Poorest of the poor” means what exactly?

Elizabeth Bremer and Matthew Krain’s “The Effects of Human Rights On the Success of Microcredit Lending Institutions,”² highlights the plight of poor women throughout the world. They note that most women have trouble obtaining loans in

the first place, due to their lack of ownership of property and lack of control over their own incomes or finances. Patriarchy, which is present in so many cultures, demands that the men in the family handle all the finance save perhaps a small allowance given to the woman to buy household necessities such as food and clothes for the children. The authors point out that collectively, women work more hours than men in the world- be it in the household, childcare, or unregulated menial labor jobs that exploit women. “70% of the world’s 1.3 billion people living in poverty are women (UN Millennium Campaign 2009).”³

In many of the countries in which MFIs work, women have little or no political voice. This could be attributed to patriarchy, cultural/religious norms, or lack of education. Clearly, economic and political rights are interconnected and are swayed by cultural influence. It has been proven by history that the more a woman is necessary for an economy, the more political rights she will have. Microfinance can help give women a chance to have economic influence.

In many countries where there are many MFIs, the people live under dangerous circumstances that foster violations of human rights, especially towards women. One such situation is war. Women are often raped by opposition soldiers as evidenced by the situation in Darfur, where many women and girls were raped and where all women and girls constantly felt the threat of sexual violence. The United Nations has called for an end to sexual violence against women as a weapon

³ Bremer and Krain 3.
of war. Although many countries do not have rape statistics, it is recognized that the poor are more likely to be victims of sexual assault.

Apart from a situation of war, the victims of deep, resilient poverty often resort to drug dealing and other criminal activities to make money. Although men also participate in the sex industry, more women than men become involved in prostitution. Even underage girls turn to prostitution in order to make a little money. As prostitution is an unregulated market, the women are not legally protected.

A less discussed issue that millions of women face is related to motherhood. Many women are expected to become mothers to multiple children for their husbands. It becomes a burden rather than a blessing meaning it is a duty, rather than a choice. Moreover, many women die in childbirth due to lack of basic health services. Maternal mortality for 2008 was 342,900, less than 1% of these deaths occurred in a developed country. Women in poor countries who have many children are increasing their chances of premature death.

The single mother, raising two daughters alone in the rural countryside; a woman whose husband beats her after a night of drinking in which he spent all his salary for the week; a teenager, whose divorce from a man twice her age left her

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ostracized by her family and community. These are the marginalized women who need microfinance’s help. Yes, these are all imagined situations, but undoubtedly these stories exist in some far off corner of the earth that we (members of a first world country) tend to forget or choose to forget.

Microfinance has not forgotten them. In fact, most MFIs focus on women and believe that access to credit will help these women’s financial and social institutions. There is a widespread claim that microfinance empowers women. The following chapter will not prove nor disprove this assertion, but rather it looks at the ways that MFIs do cause change in a woman’s social situation.

II. Understanding Empowerment

The word “empowerment” is untranslatable in many languages. This does not surprise me. As I sit down and begin to write about ‘empowerment,’ it occurs to me that I have no idea what it truly means to “be empowered.” This chapter is my struggle with understanding empowerment as an idea in itself as well as my observation on MFIs attempts to create an environment that encourages women’s empowerment. Women’s empowerment is not an easy topic to delve into. There are an endless number of factors that must be observed, not to mention that the idea of empowerment is a volatile one, meaning it does not stay constant through history nor throughout the world.

Many scholars contest the idea of empowerment through microfinance
institutions, citing that empowerment is a western concept. Coming from a western perspective myself, it is hard to separate empowerment from western ideals like a right to vote, right to buy, sell, and own property, from basic rights that all people should have. Are microfinance institutions that have the goal of women’s empowerment built into their infrastructure pushing Western ideals through their loaning?

In “Reflections on the Measurement of Women’s Empowerment,6” Naila Kabeer makes the point that it is only those who have been disempowered who have the chance to become empowered. This is an important distinction in her definition of empowerment. To become empowered denotes to be able to change. Disempowerment is “to be denied choice.”7

It is important to remember that empowerment is relative in the sense that inequalities are relative. For instance, if a woman is living in the rural countryside of a country that is predominantly patriarchic, a slight positive move in her favor such as the ability to choose to send her daughter to school, rather than work in the home is a step towards empowerment for her. In others’ eyes, this might seem unimpressive, but in the context in which she lives, she has been empowered.

Microfinance institutions are present in countries in South America to Asia. For instance, take Peru and India, two countries on the opposite side of the world: different languages, religions, cultures, and gender relations. It is logical to assume

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7 Kabeer 436.
that their idea of empowerment will differ. The western idea of empowerment means acquiring the power to control one’s own life in every aspect. Many cultures impede the western idea of empowerment, especially for women. However, there must be a meeting point between culture and empowerment of women. There are certain rights that should be indisputable for every person no matter cultural or religious differences.

In my paper, I define empowerment as a woman’s ability to choose her life’s path, which means having the power to:

- participate in political life,
- marry whom she wishes,
- get divorced,
- work and control her own income,
- access financial resources,
- contribute to the finances of her family,
- have children or not,
- attend school
- and provide educational future for their children.

This is not a comprehensive list because truly it is impossible to bullet point empowerment. The list is a mix of political and social rights that a woman is entitled to. It is the combination of choice and agency that allows a woman to be empowered. The difficulty with my definition is how to separate the extent of which a woman’s choice is a cultural brand that has been burned into her. In response to
this, I say that ideally each woman’s case should be looked at individually, as many factors of a woman’s life will help shape her path to empowerment.

If one woman in a patriarchal community were to become empowered through microfinance, there would be no great change to her country’s gender relations. Empowerment is impossible to measure by one standard, but all agree that it exists. A community like a woman can be empowered. Yes, the point of microfinance is to help the poor individual but it is also to improve the situation of her family, her village, and her country. Microcredit has placed no limit on their economic development goals, or on their equally important social goals. It might start with one or a small group, but the empowering effects of microcredit must swell to affect the wider community. I will discuss later tangible evidence of the diffusion of women’s empowerment and the hope for continued success through MFIs’ nonfinancial services.

III. Empowerment in Action/The Inaction of Empowerment

Microfinance provides credit to the poor who normally would not have access to it. Despite the critique of the financial side of MFIs, empowerment is seen as an innate part of a MFIs infrastructure. According to Susy Cheston and Lisa Kuhn, authors of “Empowering Women through Microfinance,” the respect that is given to the borrower from the bank or donor is empowering for the women because most have never experienced that type of trust. A professional relationship between
client and provider confirms the faith in the woman’s ability to succeed and strengthens her feeling of self-worth.

Many scholars that address women in microcredit note the shortcomings of MFIs to empower women. All agree that microfinance has the potential to improve gender relations, but disagree on what types of improvements can be made (if any) or if it is even possible for microfinance to be a universal or effective approach to women’s empowerment. It can be concluded that most everyone in the business of microfinance believes that there is a link between women’s access to finance and their subsequent empowerment. Although, critics believe it to be greatly exaggerated; their arguments are corroborated in many of the case studies that I reviewed. What one must remember throughout this paper is that gender relations are a complex set of unstable norms that stem from many areas of society including religion, culture, tradition, race, etc. Empowerment is not a simple subject to understand and therefore not a simple one to discuss or change. In order to study women’s empowerment through microfinance, it is necessary to define empowerment and the various ways it can be reached. Naila Kabeer defines empowerment as the ability to make decisions. “Empowerment is rooted in how people see themselves- their sense of self-worth.”

“Gender equality and women’s empowerment: a critical analysis of the third Millennium Development Goal” by Naila Kabeer believes that women’s

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empowerment stems from three resources: education, employment, and political participation. These are vital for the empowerment of women. Education is necessary for empowerment because it transforms a woman’s reputation in her community as well as the power dynamics within her own household. According to Kabeer, educated women are less likely to be in abusive relationships and more likely to be capable and confident in dealing with the outside world, be it in the marketplace or at their job. Kabeer emphasizes access to paid work as a means to empowerment. There is evidence that shows that if a woman’s contribution to the household increased, she was able to negotiate more respect in her household. Also, she gained a greater self-respect because she played a financial role. Kabeer details the setbacks of paid work for women, including the exploitative conditions and low wages. She does mention microfinance organizations as positive in the empowerment of women, but expresses doubts on the sustainability of MFIs. Political participation is the final resource that Kabeer discusses. An education and paid labor influence the amount of political participation a woman has. Increased political participation has the ability to change women’s lives on the large scale. Making education and paid work a viable opportunity for every woman is the first step to women’s empowerment.

The change in gender relations due to microfinance needs to be transformative in the sense that the changes are sustainable and can be maintained by the woman. Kabeer notes that microfinance has the ability to be transformative. “Microfinance can provide the basis for building women’s capacity for collective
action... such action can spill over into the political sphere.”9 Microfinance gives women the ability to make their own decisions and make money, because of this, more female workers feel comfortable to stand up against the injustice in their homes, communities, and governments.

Kabeer ends by saying that gender relations are complex and deep-rooted in many dimensions of life. A change in women’s access to an education, paid work, or political participation in their own rights might accomplish little if the conditions are bad or transformative policies are put in place to guarantee a shift in global perspective. She calls the international community to support women from the beginning. Something I believe microfinance strives to do.

Microfinance’s impact on female empowerment can be studied in different ways because there are many aspects to gender relations that are affected by local education, culture, local governments, and households. In “Gender Impact Assessment in Microfinance and Microenterprise: Why and How,”10 Susan Johnson discusses the ways to study microfinance and women. From the outset there are difficulties that thwart women and microfinance. The obstacles are based in gender relations not only within the culture and the household but also the woman’s own perception of the female role.

Notably, Johnson also mentions that women are not homogenous categories. Married, unmarried, divorced, or widowed women have different choices and

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9 Kabeer 23.
opportunities no matter the societal influences. If a woman has complete control of her loan, she must decide how to use it and take responsibility for it. But in many cases, the only connection that the woman has to the loan is her name on it. In fact, in many cases, a woman will take out the loan but her husband controls it. In some instances, the women expect that the man will control the money and more surprisingly, often times the NGO will also assume that the man of the household will be in control of the loan. The MFI’s overlooking and/or allowance of this are not illogical because many times the woman is under-educated and does not know how to handle the loan. (Author’s note: In this instance, perhaps MFIs should reconsider the loan process and include financial education for the borrowers.) In actuality, women primarily controlled only 37%\(^\text{11}\) of loans given out by four Bangladeshi microcredit institutions.

Households play an important role in the social inequality between male and female. Obviously, these are highly individualized and complex. Hunt and Kasynathan mention the gender relations within a household as well as the personal histories of the women as a factor in the likelihood of her controlling her loan. It is often rooted in the woman’s perception of her own capabilities; one woman stated that her husband trusts her with money because she studied to the eighth grade. Other reasons that women might control their own loans are that their husbands

are gone (deceased or migrated), or that the loan is used to foster a traditionally female trade.

A next step that microfinance sector must tackle is how to make microfinance a more effective and transformative method of women's empowerment. But the scholars that I have read tend to disagree on the best way to improve microfinance. In “Pathways to Empowerment? Reflections on Microfinance and Transformation in Gender Relations in South Asia,” authors Juliet Hunt and Nalini Kasynathan assert that for there to be any advancement in gender relations through microfinance, the programs themselves need to integrate policy into the program aimed at furthering women’s empowerment. A sustainable empowerment due to microfinance is not seen in most cases that the authors observed. The purchase of new assets bought with profits of the loan is registered in a man’s name because inheritance laws decree that sons will only receive the assets if it is in their father’s name, and daughters will only receive assets if it is in their mother’s name. The laws of this region prohibit a transformation of gender relations. This further highlights the dependency of women on men in this community and the difficulty microfinance institutions face in bringing about change for women.

According to Hunt and Kasynathan’s paper, most NGOs are not prepared to answer who is actually in control of the loan after it passes to the woman. Yet, the postulation that women are automatically empowered by access to finance is maintained or at least not questioned even among those working in the microfinance sector. Hunt and Kasynathan blatantly refute: “This link is certainly
not automatic.”

Their suggestions for improving a program’s policies on gender relations and the success of a woman's loan include more effort on part of the NGO to monitor the loan and who controls it within the household, the development of an understanding with the household of the importance of a woman having control of the loan, training that would improve a woman’s ability to control the loan, and development of understanding women’s rights and gender issues by the NGO staff. The authors end with a sense of urgency and call on microfinance institutions to invest in bigger policy changes that address gender relations at the core.

Like the previous authors, Leach and Sitaram critique the naive belief that microfinance by itself will lead to women’s empowerment in “Microfinance and women’s empowerment: a lesson from India.” In the paper, Leach and Sitaram lay out the rationale for microfinance aimed at women. First, there are more poor women than men in the world and therefore need more aid. Second, there is discrimination against women in most labor markets, leaving informal, bad jobs that do not pay enough. Third, there has been an increase in households run solely by women; the financial burden is placed exclusively on them, making them susceptible in times of crisis. Finally, women have a higher rate of repaying loans and improving their families’ lives than men.

However, they do not agree that access to finance directly leads to women’s empowerment. Leach and Sitaram’s paper focuses on an NGO project that focused

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12 Hunt and Kasynathan 42.
on empowering caste women through microfinance in the silk-reeling industry in India. Men were deliberately and completely excluded from participation. The NGO’s goal was to empower these caste women therefore they put the loan in the woman’s name and the woman carried out the marketplace transactions. It should be noted that none of the women who took loans had any aspiration to start a business at the beginning of the project; rather it was their husbands that wanted them to be involved.

As the project progressed, the women’s lives were initially bettered. Their self-esteem and mobility increased and they gained insight on how to manage their time and money. They felt the effects of empowerment. As more time passed, the women began to see the downsides; they worked long hours on their businesses which left little time for childcare and household chores, which were then delegated to theirs daughters who had to be pulled out of school (making no transformative change, and in fact hurting their daughters’ futures.) Because the women worked as a group, there were issues with them working together: the women resented sharing and as the market declined and the business weakened, there was contention as to whom the money would go to (since everyone could use it.) Five months in and the women were already disappointed with the program. Also, there was no apparent change in household decision-making, which the women never expected since making decisions for the household has always been the man’s duty. There was also the risk of the men taking control of the women’s loans. Furthermore, any problems at home between husband and wife that existed before
receiving the loan were exacerbated because the husbands felt excluded from their wives’ lives and were concerned about their newfound audacity that they had gained during the process. There is some evidence to suggest that this complete exclusion led to the men fostering hostile attitudes towards the women. It is concluded women’s involvement in microfinance has many risks including the ordinary possibility of business failure. But more importantly, microfinance endangers the relationship between men and women especially in circumstances of strict gender roles.

Leach and Sitaram suggest that the exclusion of men was at the root of the problem as well as the group’s limited education in finance and basic skills necessary for business such as literacy and numerical skills, and the group’s inexperience when dealing in the marketplace. They suggest that men be involved in the project. The complete isolation and exclusion of men yielded only negative results. Leach and Sitaram suggest that men should “cease to be seen as a ‘problem’ and become part of the ‘solution’”\(^{14}\) by including them at the outset which will succeed in them having interest in the success of the project, continue conversation with them throughout since they are involved at least at the household level, and develop an understanding of the prevailing gender relations in the community. Hunt and Kasynathan’s specific suggestions for improving a program’s policies on gender relations and the success of a woman’s loan includes more effort on part of the NGO to monitor the loan and who controls it within the household, the development of an

\(^{14}\) Leach and Sitaram 586.
understanding with the household of the importance of a woman having control of
the loan, training that would improve a woman’s ability to control the loan, and
development of understanding women’s rights and gender issues by the NGO staff.
The authors end with a sense of urgency and call on microfinance institutions to
invest in bigger policy changes that address gender relations at the core.

Most scholars have concluded that microfinance, as a transformative force in
improving gender relations is not as effective as most microfinance institutions
expect. Furthermore, most of the authors discussed the problems that they saw on
the surface. The majority of these authors only had one case study or situation from
which they drew their conclusions. Some of the works expressed suggestions for
improvements for women’s empowerment through microfinance, but most will fail
in execution in real life situations. Also, none take into account the fact that it would
be almost impossible to have one universal improvement in the microfinance sector
that would help to improve gender relations due to different cultures, different
business types, different households, etc. Meaning that any insight for
improvements to “empowerment factor” of the MFI can only be applied to the
cultures that they studied. As previously mentioned, a change in women’s situations
is relative to the situation in which she lives now. As empowerment means different
things to different people and cultures, the methods of empowerment will vary
depending on the culture.
CHAPTER V. IS IT WORTH IT?

Microfinance has faced many critics in the academic world and more recently in the media. The following chapter intends to provide suggestions and improvements to MFIs, explain the apparent failures that its critics have latched on to, as well as give evidence of microcredit's success. The question I ask is, “is it all worth it?”

I. Their Suggestions

As discussed in Chapter IV, in response to what improvements can be made to MFIs, Leach and Sitaram of “Microfinance and women’s empowerment: a lesson from India”¹ propose that men should be included in the loan process even if the loan is taken out by a woman. The authors purport that men can be involved and women will still feel the empowering effects of microfinance. The men connected to the women involved in the microfinance program felt burdened by the program rather than uplifted by the new source of income. The India Project was strife with problems and ultimately failed on all accounts. The women whose personal lives suffered quit their businesses and reverted back to being subservient in order to live a more peaceful life.

Many improvements could have been made in this case, however, what we learned from the India Project was the great influence that MFIs have on a

household. The men were unhappy that they were not involved, and their actions towards their wives who received the loans reflected this. In turn, the women were not satisfied. In the end, the women came off worse because they put themselves in risk financially and they damaged their relationship with their husbands. This is evidence that household influence holds precedence over even the most innovative ideas. In many cases, which I will discuss later in this chapter, women’s loans are controlled completely by men. There needs to be an in-between.

Moreover, in “Pathways to Empowerment? Reflections on Microfinance and Transformation in Gender Relations in South Asia,” Juliet Hunt and Nalini Kasynathan suggest that the microfinance program itself is responsible for infusing its program with the policies that reinforce the transformative power of microfinance to gender relations. I too would encourage microfinance programs to provide education for the women that teach them how to deal with the loan and their business. Also, the women should have a relationship with the bank or institution from which they take out the loan (in many MFIs, this already exists as women have to meet frequently in person to repay the loan) but also maintain a respectful distance to encourage the professional respect that fosters empowerment. Karol Boudreaux and Tyler Cowen of “The Micromagic of Microfinance” also believe that in addition to learning from the business institution,

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borrowers learn to work professionally with members of their communities.³ It is important that the MFI is seen as a business, because if it is not, there is a risk that the MFI staff becomes too involved and therefore does not allow the women to help themselves, but just gives them something else to follow instead of their husbands. Microfinance programs must have faith in the women, but must also provide them with the tools for success.

Microfinance’s economic goal is to lessen poverty. Mohammad Hasmat Ali notes in “Evaluation of Microcredit Operation in Bangladesh: A Critical Study on Grameen Bank”⁴ that poor people will be helped by an influx of money, but this does not mean that the positive consequences will be permanent. The author believes that there is the possibility that the borrower will spend all of the profits that she gained through the loan, creating a cycle of dependency on the MFI program. He suggests that MFIs ensure that the borrower has enough credit to cover all necessary expenses in all aspects of their life, not just their business. This in turn will guarantee that the borrower will only borrower from that MFI. He also believes that it is necessary for the MFI to give the borrower the tools to eventually become independent.

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II. My Suggestions

I am a believer that microfinance has the power to empower women, but I do not think that this goal is being realized by most contemporary MFI s. Microfinance's lack of efficacy can be attributed to many factors. The first that comes to mind is the problem of men. By “problem of men,” I mean that within the context of many cultures, there is an institutionally reinforced inequality between men and women. The social options and many times, the legal rights that are afforded to men, far outweigh those given to women. In relation to microfinance, many MFI s see this gender inequality and try to level the playing field by giving loans to more women than men or solely to women. Because these women that are receiving loans are wives and/or daughters and live in a patriarchal society, thus depending on the men in their lives, the idea that the women should control that money themselves is too progressive for their community. Therefore, oftentimes, the husband, father or brother will take control of the loan, but leave it in the women’s’ name. Many times, the husbands encourage their wives to take out loans with an MFI. The women are bullied into taking the loan and really have no control over it. In 1998, 80% of Grameen Bank's female borrowers were asked by their husbands to take out a loan, suggesting the societal reality of gender inequality.\(^5\)

Some microfinance institutions recognize this as a problem and have

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provided measures to protect against men’s interference. The MFI that I mentioned earlier in India, which was dedicated to helping low caste women work in the silk-reeling industry tried to fight gender inequality by completely removing the man from the loan process. The woman was to have complete control with zero input from her husband.6 This turned out to cause more social problems for the woman; the man in her life came resent her and felt hatred towards the MFI. No improvements were made; if anything, the women’s relationship with the MFI hurt their relationship with their families and communities.

Before loans are given or women are recruited, MFIs should have an understanding of the area’s culture—a cultural relativism of sorts. By this, I do not mean permitting offenses against women’s rights because it is part of a place’s tradition, rather that MFIs understand and navigate the best path to women’s empowerment within the contexts of each society. For instance, in many parts of the Muslim world, women are not allowed to go to market without a male relative to accompany her, opposed to in Honduras where women are accustomed to being more independent and are primarily those who go to and work at the markets. This is a simple example, but it must be understood for the success of a MFI.

Empowerment should be explicitly stated as a goal of the institution. Although many institutions believe that that empowerment is intrinsic in the process, a clear affirmation will strengthen the MFI’s power to empower. From my

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research, I have found that education plays a large role in empowering women. If the MFI wants to have an enduring impact on gender relations, education has to be a central part of the loan process. Many non-financial services would be beneficial to the borrowers and their families as well as the MFIs themselves, although I doubt that the suggestion to incorporate more social services will appeal to the for-profit institutions because they are less concerned with the social mission and more concerned with revenues. This does not make the for profit MFIs any less commendable in their successes, however, I believe that the institution itself needs to be dedicated to the ideal of women’s empowerment and they will be more devoted to the cause if they are non-profits. Moreover, there is evidence that non-profit MFIs are actually more successful with their clients. They gain more trust and breed enduring relationships, not to mention that there is evidence that shows that non-profit MFIs have a more successful repayment rate than for-profits.7

MFIs should strive to find the root of the poverty in a society; by understanding the causes, the MFI will have a better chance of success. With this suggestion comes the idea that MFIs be more than just a bank to the borrowers. There must be a continued relationship with them. The frequent repayment schedule and the group lending add to the relationship between lender and borrower, however, there is a move towards individual loans meaning that the

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system needs to evolve to fit the new clients.

I have named a few suggestions, but I believe that every individual institution needs to examine itself because each is unique: where it works, whom it works with, size of loans, its loaning methods, etc. They must look at the infrastructure and process by which they select appropriate borrowers and how they distribute the money. Also, the MFI must closely observe the way in which the women are using the money in her business, household, and greater community.

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There are some critics of microfinance who believe that microcredit is a Western concept thrust upon developing countries as a last chance to rule over them, squashing culture and tradition in its wake. I disagree for a few reasons. The first is that microfinance institutions are based on the goal of poverty alleviation, based not through charity but through promoting self-reliance. If the West wanted to impose its dominance over other countries through an institution like an MFI, it would not allow the borrowers to become independent. The truth is that the West would gain more from the poor staying poor and dependent on the rich. The next reason that I disagree is that this same argument of Western dominance has been posed against the fight for universal human rights in a similar way. The human rights debate circled on the precedence of tradition and culture over rights. Those who pose this argument in relation to microfinance question the imposition of the idea of ‘Western’ gender equality on patriarchic cultures. My response is the same as the human rights activists’. Basic human rights, such as gender equality, are to be
respected above cultural differences. The United Nations endorses women’s empowerment through economic means such as MFIs; their support of MFIs is their support of women’s rights.

In response to those who disparage the idea of microfinance as a sustainable means to alleviate poverty: I can only rebut by saying that even if microfinance cannot be a completely self-sufficient practice, as it stands, it aids people and this fact alone should prove its value. “The Micromagic of Microfinance” echoes this sentiment and states that even if microcredit is not rocketing people out of poverty, at least it is preventing declining and aiding the fight against global poverty.\textsuperscript{8} My suggestion to the MFIs who rely on subsidies is to cap the amount of money that they take from the government or any other agencies that offers subsidies. If the MFI only takes the minimum necessary, the government or other agencies will have less influence on how the institution is run. Government and NGO participation should help not hinder the MFI’s work. I believe this is very possible because ultimately all agree that poverty is bad for their people and want to end the suffering. This suggestion will appeal to those who believe that MFIs are taking advantage of the poor because it forces the institutions to own up to their actions. Transparency becomes necessary as the NGOs and government agencies that are giving subsidies to the MFI demand information.\textsuperscript{9}

I do not want to oversell the assets of MFIs because there is evidence of drawbacks. For instance, the effect on domestic violence against women is decidedly mixed. Many scholars believe that a woman’s role in a microlending program increases the chance of domestic violence especially in the cases of very conservative and/or religious households\(^\text{10}\). In these cases, if a woman challenges the gender role, her husband punishes her. However, some scholars believe that a woman’s participation in microcredit decreases her chances of being abused.\(^\text{11}\) Because the women now play an active role in the community and she becomes a public figure, the husband will be less likely to shame his family by abusing her. Also, if abuse is addressed in the group meetings, the risk of violence seems to decrease. This goes back to my argument for cultural relativism.

Microfinance should continue, but perhaps with a few improvements. Thousands of private and independent microcredit institutions work throughout the world and they each individually need to examine their effects on people’s lives. Although there are many criticisms of microfinance, many of which are founded upon fact, the theory of microfinance is too valuable to be left behind without further study and practice. For many institutions, simple changes in the structure of the business or the client-donor relationship would remedy the aforementioned criticisms.


III. Is it worth it?

Many economists would say that microcredit is not worth continuing. But they are only looking at the numbers. The women who have been able to earn money to support their families would say yes. And I am going to side with the women, not because I am a woman, but because it makes sense. Even if one were to assume that the cons of microfinance outweigh the benefits of it, this supposition would not negate the fact that thousands of people—women, men, and children—have benefited from it.

Although MFIs realize the importance of education, social and health services in conjunction with the loan, many are reluctant to provide them to the borrowers because these non-financial programs do not lead to the MFI becoming financially sustainable. Despite the drawbacks, many MFIs have worked to provide non-financial services or partnered with other organizations who can provide them to their clients. BRAC of Bangladesh is one of these MFIs that works to provide more than just credit to its borrowers. The system that they employ is a combination of microcredit, health education, and social development. Different staff members are specialized in each of these three sections and have a personal relationship with the village group that they work with. Later, I will go into more detail on the

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importance of these nonfinancial services to the women’s empowerment movement.

A woman who is well educated is less likely to be in an abusive relationship and more likely to earn an income. Many microfinance institutions already provide basic educational services in understanding the business part of microcredit, but the education should be expanded to include basic literacy and health. Christopher Dunford is a strong proponent of education being integrated into the microcredit process. He finds that the group-lending model is ideal for educating adults because “they provide opportunities for regular face-to-face contact; the close-knit structure and joint guarantee mechanism foster a supportive atmosphere of collective self-interest; and women’s successful management of loans tends to build confidence and readiness to adopt new behaviors.”¹³ Not only will education aid female borrowers, it will affect how they treat their children’s educations as well.

Many studies found that the newly generated income from a borrower’s loan is used for children’s education. Children of borrowers are more likely to go to school and stay in school than nonmembers’ children. Unfortunately there are some deviations from this norm as seen in India. In this MFI, the female borrowers were forced to take their daughters out of school because they became so busy with their business that they needed help in the home.¹⁴ This is a significant anecdote to make

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note of; microfinance can backfire if it is not prepared for the cultural differences. This is less a fault of the MFI, rather a reflection of the patriarchal society that encourages boys’ education over girls’. But it also points to the idea that MFIs must encourage the female borrowers to make all of their children’s’ educations a priority, no matter what gender. Again, if female empowerment had been a priority of that MFI and the staff had understood the gender relations of the region they were working in, this problem could have been avoided. In the end, it seems that this case study form India was one of the only MFIs that observed this issue.

Health education is a very important part for the poor and the microcredit institution. The MFI relies on their clients repaying the loans, therefore sickness or disease will cause problems. Reproductive health is especially important because of the high rates of multiple births in a very short time span and the risk of the spreading of HIV/AIDS in developing countries. MFIs should make health education a priority for their own sake, as well as for their clients’. As more MFIs realize their dependence on the borrowers, health education will likely increase within the infrastructure of the programs.

IV. The Happy Ending?

In Chapter IV, I enumerated nine benchmarks of empowerment that I believe to be crucial. Obviously, these are not all encompassing because ‘empowerment’ as an issue in itself is far too complex and unique to an individual’s situation. But,
there is evidence that suggests that current microfinance institutions are making strides in aiding women’s fight for gender equality and empowerment. As microcredit is relatively new, the results of the MFI programs are only now coming in. It is important to remember that empowerment is not a product it is a process. Furthermore, it must be noted that empowerment is transmittable from one woman or a small group of women to a community. And from that community, empowerment can spread to near villages. The hope of the contagion women’s empowerment is very likely especially as the microfinance movement, which is already big, continues to grow.

Even if the only step forward was a change in the mindset of a woman, it is an improvement. If the woman feels more in control over her own life then the MFI has done its job. In a case in Bangladesh, a group of women who received a loan from BRAC and Grameen Bank was interviewed and asked how many children they wanted. Traditionally, Bangladeshi women are expected to have large families of seven or more children. These women answered two on average.\(^\text{15}\) They all wanted small families and they were not thinking about their husbands’ desires. This is no coincidence; rather it reflects the growing sense of power that they had over their own futures that they nurtured through their business. Scholar Jeffrey D. Sachs goes on to state that the phenomena of declining fertility rates will lead to higher individual incomes for all Bangladeshis and bring Bangladesh to a level of relative economic prosperity. A small change on the local level can grow to affect an

entire country. Thomas Schelling also maintains this view. “The hearts and minds and motives and habits of millions of people who participate in a segregated society may or may not bear close correspondence with the massive results that collectively they can generate.\(^{16}\)

Much evidence suggests that a woman’s access to finance has increased her role in her households, and in the wider community. A changed role for women in the community indicates that the gender relations of that community will be affected as well. Because women own a small business and gain an income, their status goes up in their own household. Now that they are able to make bigger decisions for their household, their decisions affect their community. Furthermore, the economy of a destitute village is undoubtedly affected by a new business. As a business owner and a participant in her community’s economy, the woman’s right to authority in political matters increases. Whether the political leaders of the village support it or not, the woman will have an influence on the community.

Entire villages in which there are women participants of MFIs are considered more socially advanced in the rights of women. The program’s empowering effects are seen on non-participants as well as the borrower, herself. In a study comparing Bangladeshi villages where Grameen Bank worked and villages where there was no MFI, female borrowers played a bigger economic role in her family. This is no surprise. However, the other women who lived in a Grameen village, no matter if

they actually participated in the loan process employed the use of contraception more than in nonmember villages. 17 It is a small step, but it shows that the personal empowerment felt by the female borrowers is contagious in the sense that other women in their communities see them as female models of power.

Another example of the diffusion of empowerment comes from Sudha Krishnan, author of “Micro Credit and Contraceptive Use: A Review of Literature.” In her study, she discusses the change in the mindsets of female participants of nongovernmental microcredit programs: they did not want any more children. The women wanted smaller families than the societal norm. “Interestingly, nonmembers residing in program areas also expressed a desire for smaller families, implying a diffusion of norms established by credit members to other women, as a result of social influence stemming from interpersonal interactions within the community.”18” In the cases that Krishnan studied, women who took out a loan felt empowered to speak up about household choices, became aware of their contraceptive options, and had the funds necessary to acquire them.

Family planning is a good source of evidence of microfinance program’s effect on a women’s situation in her own household. Oftentimes, due to their situation of poverty combined with their husbands’ insistence and lack of health

education, the women have many children in a short amount of time, increasing the likelihood of maternal death.

In most poor areas, children serve as parents’ life insurance. If they live in a rural, unindustrialized area, the child is another hand in the field. For this reason, in many countries, boys are preferred over girls because they can do harder manual labor and in the case that they were to leave the rural area, gender inequality allows boys more educational and employment opportunities. This is reflected in families’ choices to send the boys to school and keep girls at home. “It proves to be about 3.9 times more likely that boys rather than girls are enrolled in schools. On average, girls receive two years less schooling.”19 Thus, in many poor countries, there is a surplus of uneducated girls who in turn become mothers to many children, the girls repeating the same cycle. Gender inequality is sustained through unequal education provided to girls versus boys.

Children’s education is one of the UN Millennium Development Goals. Many studies on women’s participation in microfinance have noted that the women that the women gain will spend almost all of it on their children’s education. In a study on MFI’s effect on children’s education, Natalie Holvoet found that when a mother participated in a women’s group loan, the chances of her child staying in school longer increased. Furthermore, these same female borrowers made it a priority to send their female children to school. The girls with mothers in MFI programs

receive 2.4 to 3.3 on average more years of schooling. This evidence suggests that the female borrower wants to pass on to her daughters her newfound sense of empowerment that she obtains from participating in an MFI, which is a good sign of a sustainable change in future gender relations.

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20 Holvoet 43.
CHAPTER VI. CONCLUSION

When looking at women’s situations, we not only look at the welfare of the woman herself, but also of her entire family. Poverty-stricken families throughout the world need help. That much is irrefutable. Perhaps microfinance is not the best or most sustainable approach to alleviate poverty throughout the world, but to some extent microfinance has helped many women’s situations—economic and social.

Microfinance allows its borrowers to receive capital to boost or start a small business in hopes of making a profit. What is special about microcredit is that it does not exclude poor borrowers; it seeks them out. It is a unique financial opportunity that microfinance offers to the poor. As evidenced by the influx of private and public investors to MFIs, scholars are not the only ones to see the great economic possibility that MFIs can bring about. Many economists are skeptical of its economic value, but until a better method of improving the situation of the poverty-stricken is proposed and enacted, microfinance institutions should not be hindered in doing their work.

Undoubtedly, there are limitations to microfinance’s power to bring about women’s empowerment. Plenty of critics lambast microfinance institutions for not having already produced a comprehensive change in gender relations. Their skepticism is unfounded and unfair, especially noting the short history of microcredit; these critics also forget the complexity of gender relations that differ
from village to village. Although women are still not treated equally as men, MFIIs are causing positive change among women. So, do the negative aspects of microfinance outweigh the positive leeway that they are making? In my opinion, no.

Microfinance, as it is, is not perfect. Some institutions are better than others in the aspect of profit making, just as some are better at empowering their borrowers. As a relatively recent type of financial institution, microfinance can be allowed a few flaws. With the recent surge of attention on microfinance, their failures are being recognized and pointed out; consequently, now is the time that changes can be made. My advice to the critics is to keep looking for the problems and the disappointments of microfinance institutions because that public scrutiny will pressure the MFIIs into making improvements. And my advice to the MFIIs is to listen to the criticism and make the changes that will further their goals without compromising their ethics.

As discussed earlier in the thesis, women are positively affected by participating in microfinance programs. In addition, their economic gain and the feeling of self-worth that they cultivate influence the women’s families and their greater communities. The hope is parallel to microcredit’s hope for poverty alleviation: Start small with one loan and eventually grow to bring the country to new heights of economic prosperity; Start small with a change in one woman’s mind-set and grow to affect the country’s gender relations to the benefit of every woman. It is a grand ambition and one that will not be accomplished overnight, but microfinance has at least taken a step forward in the right direction.
Sure, world poverty has yet to be eliminated and women still have to fight for gender equality, but microcredit is a weapon that can and should be wielded. In Chapter V, suggestions and improvements that MFIs could make were proposed. I am a firm believer that every MFI in its own country must be examined in the context of the society in which they work, but overall empowerment should be a stated goal of every MFI. To do this, the MFI must dedicate itself to the borrowers, foster a professional relationship of mutual trust with them, and educate the borrowers on their rights and options. Microcredit is about much more than loans and profits; almost every MFI recognizes the potential for great social impact. So nonfinancial aspects must be offered alongside credit. It might begin with a loan of 100 dollars that goes to a woman who owns a fruit stand; she is now able to buy more product and increase her family's income. But numbers cannot measure the true success of the loan and it is worth much more than the profit she gained. If the woman gains the self-confidence to stand up to her abusive husband or choose to send her daughters to school, that 100 dollars seems insignificant.

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When I first began researching for this thesis in the fall of 2010, I was excited at the prospect of learning more about microfinance, which at the time was in the media spotlight. The popularity of microfinance was gaining speed through the swell of heightened social consciousness in the United States and the accessibility made possible through new technology that allowed regular people the opportunity to connect with poor borrowers around the world (ala Kiva.) It seemed to be the
perfect solution to the devastating poverty that was worsened by environmental
and governmental disasters. In the fall of 2011, I saw a shift in media attention away
from the endless possibilities and opportunities that microcredit offered the poor to
an attack of microcredit’s economic successes/failures, ethics, and people involved.

I have waded through hundreds of pages of criticism and praise of
microcredit, but in the end I came to the conclusion that microfinance is good—it
helps people who have never been trusted with money and gives them the
opportunity to help themselves economically and socially. The positive impact that
MFIs have in this world, especially among the female population, is indispensable. I
can only hope that the microcredit movement continues to grow and aid more
people in improving their situations. Oftentimes, it is difficult to see the big picture,
especially when we are talking about loans worth less than 100 dollars. But to these
women, that 100 dollars will have everlasting consequences on their lives and the
lives of those connected to them—the reverberations of the power that they gain
will echo through their children, their neighbors, and their countries.
WORKS CITED


