

Unit 3: Gender and Microfinance

Learning Objectives

After studying this unit, you should be able to:

- Understand what is meant by microfinance;
- Understand why women are often targets for microfinance alternatives;
- Know how women have used and benefited from microfinance.

Introduction and Overview

Banks take a risk when they lend money to consumers. The risk is curbed when they know that the people to whom they are lending money have the capacity to pay it back. Since it always costs banks money to manage their clients there is a point at which they break even. Lower income people traditionally fall too far below this level to warrant the bank taking a risk on them. Microfinance and other similar financing institutions aim to provide small loans to low-income communities to help stimulate local economic growth. Typically women are considered to be the primary focus of microfinance as evidence shows that they are less likely to default on their loans than men. Here we talk about microfinance and women and the empowering impact that microfinance can have on theirs and their community's success.

Overview of Microfinance

Because, as we said, the poor, among them women, are more likely to be denied service from major banks, most lower income communities have developed local alternative loans, savings,

and other basic financial services to the poor. NGOs and other non-bank financial institutions have reached out to this community with successful loan, pension, savings and payback methods for the poor. They have shown that the poor repay their loans and are willing and able to pay interest rates that cover the costs of providing the loans. The clients of microfinance consist of female heads of households, pensioners, displaced persons, retrenched workers, small farmers, and micro-entrepreneurs.

Microfinance is considered as a tool for socio-economic development and can be clearly distinguished from charity. Families who are destitute, or so poor they are unlikely to be able to

Box 11: Microfinance Principles

Some of the principles that summarize the role of the microfinance practice's role in poverty reduction and economic development were summarized in 2004 by Consultative Group to Assist the Poor (CGAP):

1. Poor people need not just loans but also savings, insurance and money transfer services.
2. Microfinance must be useful to poor households: helping them raise income, build up assets and/or cushion themselves against external shocks.
3. "Microfinance can pay for itself." Subsidies from donors and government are scarce and uncertain, and so to reach large numbers of poor people, microfinance must pay for itself.
4. Microfinance means building permanent local institutions.
5. Microfinance also means integrating the financial needs of poor people into a country's mainstream financial system.
6. "The job of government is to enable financial services, not to provide them."
7. "Donor funds should complement private capital, not compete with it."
8. "The key bottleneck is the shortage of strong institutions and managers." Donors should focus on capacity building.
9. Interest rate ceilings hurt poor people by preventing microfinance institutions from covering their costs, which chokes off the supply of credit.
10. Microfinance institutions should measure and disclose their performance – both financially and socially.

generate the cash flow required to repay a loan, should be recipients of charity. Others are best served by financial institutions.

Microfinance and Gender

As we have said, microfinance has been widely accepted as an effective strategy for poverty reduction and economic empowerment to women. The concept originated from individuals' inability to raise adequate funds to meet specific needs. This prompted individuals who know and trust each other to form groups for resource pooling and saving for a desired goal. This is the basis of SuSu in Ghana and what is known as the Round in other countries. Every month, group members collect an agreed amount from each member and give to the group member whose turn it is to receive the collected funds. A more formal type of microfinance involves group savings, which serve as collateral for group members. A stipulated amount is collected from each group member, collectively banked and used as collateral for members wishing to secure loans. Loan repayment is on a group or individual basis, depending on the level of microfinance in question.

There are **five levels** of microfinance and knowledge of the different levels is essential for policy recommendations.

Level One: Activities undertaken to meet basic human needs, which are not income-generating.

Level Two: Involves some form of pre-entrepreneurship with Income Generating Activities (IGAs) conducted on a part-time basis and usually collectively. This group has low entrepreneurial characteristics and the income generated is normally for immediate consumption. These households are also poor but with some potential, which micro-finance service providers can improve. Participants at this level of microfinance are referred to as "the Bankable Poor," and require more entrepreneurial skills training.

Level Three: IGAs are temporary or seasonal and conducted on a part-time basis, with short-term objectives, therefore, are conducted without an eye to economic expansion. For example, microfinance could be utilized during an agricultural harvest season to raise funds to meet

school fee costs. This group is categorized as the “economically active poor” and in need of supportive entrepreneurial skills.

Level Four: Participants are micro-entrepreneurs with established premises and employing 0-5 persons. They are also characterized by a limited asset base (about US\$ 3,500) and usually make use of family labor for economic security. This group is much more attractive to Microfinance Institutions (MFIs).

Level Five: These are more established small scale entrepreneurs, who are profit and growth-oriented. They possess sufficient entrepreneurial capabilities and operate on a full time basis. They have plans and potential for further expansion.

While repayment capacity, collateral availability, and data availability vary across these categories, sustainable methodologies and operational structures have been developed that meet the financial needs of these client groups.

Parliamentarians should advocate for more and better access to credit. Instead of insisting on group borrowing, MFIs or microfinance institutions could explore ways of extending credit to individuals without compromising the repayment risk. The concept of public works programs, which entail identification of a project by a community and then employ members of that community to execute the project and receive a remuneration was suggested as a better form of empowering women on an individual basis. The remuneration from public works program would also obviate the burden of frequent repayments, which were time consuming and deprived recipients of the time to engage in IGAs.

Box 12:

Group Borrowing in Mali

The Parliamentary Centre conducted a workshop in Mali, which included a visit to two groups of women receiving microfinance. One group was at level two and the other was at level four. Both groups borrowed on a group basis as a way of circumventing the collateral problem. The positive impact of microfinance was more evident among the group engaged in micro-enterprises, but both groups reported working very long hours because of the need to balance family needs with the income generating activities. In both cases women were not concerned about working long hours, which they perceived as necessary for repayment of the acquired loan. The level two group repaid the loan on a group basis, and the level four members made individual repayments.

In light of women's citizenship status in Malian society, group borrowing was concluded to be the best option to overcome the problem of collateral. According to the workshop, the group approach was more effective because participants had intimate knowledge of each other and thus, were able to assist other members with repayments when necessary. However, there was risk of failure due to the fact that the group was formed without a project in mind. The need for education in project identification and financial management is a pre-requisite for women to benefit from micro-projects and is critical condition for their success. Education was also emphasized within the context of training women in basic financial analysis to assess the existence of real profit. It was also deemed more prudent for credit suppliers to provide a line of credit for purchase of equipment and payment of related costs, instead of advancing cash in order to maintain women's financial independence from their overbearing spouses.

Microfinance as Tool to Reduce Poverty

Financial services for the poor have proved to be a powerful instrument for poverty reduction enabling the poor to build assets, increase incomes, and reduce their vulnerability to economic stress. However, with nearly one billion people still lacking access to basic financial services, especially the very poor, the challenge of providing financial services remains. Convenient, safe, and secure deposit services are a particularly crucial need.

Although governments are not usually good at lending, they play an important role in setting appropriate policies. The key things governments can do for microfinance is to maintain macroeconomic stability and avoid interest-rate caps that prevent MFIs from covering their costs and operating sustainably. According to the World Development Report 2006, increasing poor people's access to credit helps open up opportunities for people living in poverty. Studies in India, Kenya, and Zimbabwe, among others, show that the poor pay much higher interest rates than the rich. This means the poor invest less in small businesses than they would if credit markets functioned properly.

Box 13:

Balancing Government Intervention in Microfinance

Government policies

The current subprime mortgage crisis in the US is a prime example of why the need for government regulation is so crucial, even in microfinance. Both government-failed regulation and deregulation contributed to the sub-prime mortgage crisis. In testimony before Congress both the Securities and Exchange Commission, established to administer securities law, and Alan Greenspan, who served as the Chairman of the US Federal Reserve, conceded failure in allowing the self-regulation of investment banks. However, there is a fine line between government protection via regulation and good management of financial institutions.

Including the government in lending regulation builds trust and addresses imbalances between customers and financial institutions. A country's regulatory authorities have an important mission of developing appropriate prudential regulations or adapting existing banking regulations to protect the solvency of large institutions that collect deposits and protect the savings of poor people. State-owned retail financial institutions (SORFIs) usually combine financial and policy objectives, however they often do not break-even and tend to perform relatively better on outreach than profitability. Having the state act as provider of financial services also may create unfair competition (e.g., by offering subsidized credit) and erode the payment culture (if collections are more relaxed). Although quantitative evidence is scarce, SORFIs may play a more positive role in providing payment or savings services than subsidized credit.

Source: <http://www.cgap.org/p/site/c/template.rc/1.26.4903/>

The Role of Parliamentarians in Microfinance

The extent of poverty among women is usually perceived as a problem of access to financial resources, but access alone is not sufficient to economically empower women. Instead, it is the utilization of microfinance that determines whether poverty reduction can be achieved.

Economic activities with sustainable demand have a greater potential to reduce poverty in real terms. In Bangladesh microfinance was effective in reducing poverty because recipients engaged in projects with ongoing viability, such as manufacturing LCD batteries, which are in constant demand for lighting in rural areas. Control over the use of resources determines the balance of power; therefore gender equality requires the victims of poverty to control the use of microfinance.

The lack of access to credit poses challenges to women. It is necessary for government policies to recognize and address this challenge, but the low representation of women in decision-making positions results in this issue receiving less attention than it deserve.

Parliamentarians are able to assist women's access to resources and credit facilities by:

- Monitoring the performance of institutions dealing with micro-finance to ensure that funds reach the intended recipients;
- Verifying the credibility of micro-finance institutions to ensure transparency and accountability in the disbursement and management of microfinance;
- Ensuring the existence of mechanisms for dissemination of information on sources of microfinance and training opportunities; and
- Monitoring the government's implementation of the various international conventions on gender equality and lobbying for a quota system for appointments to senior positions in the public and private sector, including micro-finance institutions.

Unit 3 Questions

Please answer each of the following questions. If you are taking this course in a group you may then meet to discuss your answers.

1. Does your government play a role in monitoring microfinance institutions?
2. Provide a local example of how microfinance has assisted women.
3. Why do some people argue that too much government intervention stymies competition?
4. Does microfinance remain a good thing when people who are lending the money make large profits?
5. What do you think about the statement that the best way to eradicate poverty is to create jobs and to increase worker productivity?

Select Bibliography

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Women in Politics Situation as of January 1, 200510

Nyamu-Musembi, C. 2005. *For or Against Gender Equality? Evaluating the Post-Cold War "Rule of Law" Reforms in Sub-Saharan Africa*. UNRISD Occasional Paper 7, UNRISD, Geneva.

Internet Resources

United Nation's Demographic and Social Statistics:
<http://unstats.un.org/unsd/demographic/products/indwm/ww2005/tab5g.htm>

CGAP: <http://www.cgap.org/p/site/c/template.rc/1.26.4903/>

http://www.nytimes.com/2009/02/21/business/21nocera.html?_r=2&ref=business