A 2020 Vision for Food, Agriculture, and the Environment

Empowering Women to Achieve Food Security

Microfinance

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PROMISES AND AMBIGUITIES

Among financial institutions serving poor households around the world, microfinance programs have emerged as important players. These programs typically make small loans—sometimes as small as $50 to $100, and sometimes as large as several thousand dollars—to households lacking access to formal-sector banks. One important achievement of the microfinance movement has been its relative success in deliberately reaching out to poor women living in diverse socioeconomic environments. Of the nearly 90 thousand village bank members worldwide that have received loans from the Foundation for International Community Assistance (FINCA), 95 percent are women. The Association for Social Advancement (ASA), one of the most prominent microfinance institutions in Bangladesh, has provided US$200 million exclusively to women borrowers. In Malawi, 95 percent of loans provided by the Malawi Muzdi Fund go to women borrowers. Since 1979, Women's World Banking has made more than 200,000 loans to low-income women around the world. Literally hundreds of similar examples can be found in Asia, Africa, and Latin America.

The premises behind such targeting are twofold: (1) that microfinance is an effective tool in improving women's status, and (2) that overall household welfare is likely to be higher when microfinance is provided to women rather than men. Women's status, household welfare, and microfinance interact in the following ways:

- A woman's status in a household is linked to how well she can enforce command over available resources. Increased ability to tap financial resources independently enhances her control, and, therefore, her influence in household decisionmaking processes.
- Newly financed microenterprises open up an important social platform for women to interact with markets and other social institutions outside the household, enabling them to gain useful knowledge and social capital. Many microfinance programs organize women into groups, not just to reduce transactions costs in credit delivery, but also to assist women in building and making effective use of these opportunities.
- Women's preferences regarding household business management and household consumption goals differ from men's, particularly in societies with severe gender bias. In such situations, placing additional resources in the hands of women is not a mere equalizer: it also materially affects both the quality of investments financed by the microfinance programs and how extra income is spent. IFPRI studies have underlined the importance of women's control of resources in achieving better welfare outcomes in food, nutrition, education, and other health statuses of children and their families.
- Women are thought to make better borrowers than men: timely repayment of loans is more likely to take place when women borrow. An IFPRI study in 1997, for example, shows that Bangladeshi groups with a higher proportion of women had significantly better repayment rates.
- Loans are not simple handouts. If microfinance programs are designed to cover all costs, a potential win-win situation emerges. Development goals related to women's empowerment and improved household welfare are self-financing and no subsidies are required.

Unfortunately, positive empowerment effects cannot be unconditionally guaranteed. In some male-dominated societies, men may use the agency of the woman to gain access to microfinance funds, diminishing women's role to being mere conduits of cash. Even if women can maintain autonomy in how they access and use microfinance services, their management of newly financed enterprises and shouldering of all attendant risks may alter interhousehold dynamics. Since loans have to be repaid even if the project fails, new activities may increase exposure to financial risks and may impose additional pressures on the already overburdened woman. Finally, in societies following the practice of female seclusion, the new pressures to interact in the marketplace may initially involve a difficult learning period and trigger negative responses. Project failures may lead to serious reprimand and additional negative sanctions against the woman, especially if household resources have to be diverted to repay outstanding debt.

EMERGING EVIDENCE

If the arguments presented thus far about the impact of microfinance on women's empowerment are ambiguous, then does empirical evidence resolve the ambiguities? While the record on outreach has been quite impressive, evidence on impact is not yet conclusive. Part of the problem is methodological. First, "empowerment" is not readily observable, necessitating the use of proxy indicators. Empowerment is most strongly manifested in the decisionmaking process; but when outcome variables—such as changes in income and education levels—are used as proxies, not much light is shed on either the decisionmaking dynamics or the mechanism of impact. Second, "empowerment" is a cultural and personal concept; the informant and the researcher may frequently have differing notions of what empowerment means and how it is expressed. Third, there is the perennial problem of bias arising out of self-selection in programs. If microfinance programs tend to attract already-empowered women, ignoring this fact will overestimate the empowerment effect. Similarly, an underestimate of the empowerment effect will result if programs attract or seek out relatively more oppressed women.

Despite these shortcomings, what does the empirical evidence on impact show? Much of the completed research on empowerment effects of microfinance comes from Bangladesh, where the campaign to use microfinance as a vehicle for women's empowerment has been most aggressively pursued. However, policymakers must be careful not to generalize findings from Bangladesh to other sociocultural settings.

The most widely cited series of studies on gender-differentiated impacts of microfinance, and one that takes special care to control for selection bias, was recently completed by the World Bank based on data collected during 1991-92 from 87 villages in Bangladesh. The study found that welfare impacts on the household were significantly better when borrowers were women. For every Bangladeshi taka lent to women, the increase in household consumption was 0.18 taka, compared to 0.11 taka when borrowers were men. Only when women borrowed was there a large and important effect on the nutritional status of both sons and daughters. Assets other than land also increased substantially when women borrowed—but not when men borrowed. Similarly, it was only when women borrowed that education of girls (rather than just boys) increased. Men, on the other hand, tended to take more leisure as a result of borrowing.

Other studies have more directly attempted to assess impact on empowerment. One widely cited study that made special efforts to construct measures of empowerment incorporating client perspectives is based on a 1996 survey of 1,300 married Bangladeshi women members of the leading microfinance institutions, Grameen Bank and the Bangladesh Rural Advancement Committee (BRAC). The study found that married women participating in these credit programs scored higher than nonparticipating women on a number of empowerment indicators such as involvement in major family decisionmaking, participation in public action, physical mobility, political and legal awareness, and the ability to make small and large purchases. An IFPRI study in Bangladesh similarly indicated significant positive impacts on physical mobility of women and increased social interactions in the community.

However, empirical studies point out that positive gender effects cannot always be taken for granted. Many women, lacking skills and confidence, lean on their husbands to make use of their loans. A 1995 study in Bangladesh indicated that while 94 percent of Grameen Bank's borrowers are female, only 37 percent of them are able to exercise control over loan use. Another survey in Bangladesh in 1998 indicated that only 3 percent of the 150 women borrowers surveyed used the money on their own. The others gave it to their husbands or other male relatives. In fact, some conclude that women's lack of empowerment is what makes it easier for program managers to enforce loan conditions, therefore making women preferred borrowers. Microfinance institutions tend to downplay this plausible but not yet widely accepted conclusion.

DIRECTIONS FOR THE FUTURE

This short review calls for a positive but cautionary assessment. Microfinance programs targeting women obviously have a strong potential to empower women whose daily lives are constrained by a pitiful lack of command over household and societal resources. Targeting does not mean simply requiring women to sign off on loan papers, since there is no automatic guarantee that this will allow women to retain control over the use of the loan. For the empowerment effect to be significant and lasting, financial products and institutional packages need to be tailored to the specific local preference and skill-base of women.

Hard-nosed market research is required to identify microenterprises in which women have a strong niche and stand to gain good financial returns. This will considerably reduce incentives for powerful male relatives to commandeer the newly available resource to their own benefit. Saving services should provide women the freedom to manage cash flow productively and safely. Women's property rights on the newly financed assets should be clearly established and enforced. The Grameen Bank in Bangladesh, for example, requires homes financed through their loans to be legally registered in the borrower's name.

Finally, the institutions used to draw women into microfinance programs have to respond to pre-existing social and cultural constraints. In Bangladesh, women's credit groups have been particularly successful in strengthening social capital and providing traditionally secluded women a non-intimidating and socially acceptable platform from which to learn and conduct business outside the house. They have also provided a critical launching pad for women to increase and exchange knowledge and assert themselves as visible and important partners in the community. Success in other sociocultural settings will require making equivalent adaptations. Innovations must also focus on reducing costs of service delivery to maintain the popular support that microfinance has so far received.

Ultimately, women's empowerment requires fundamental changes in society that call for more direct policy instruments. New policies should renegotiate property rights, replace rules sustaining gender inequality, and improve access to and quality of education. Fundamental change of this scale can hardly be worked out easily or quickly, especially in countries where gender bias has been a norm for centuries. Over the short run, microfinance programs provide a handy, potentially cost-effective, and politically feasible tool for moving toward gender equality. Group-based activities by women have served as important catalysts of change in Asia and Africa. The scale of change they ultimately catalyze will depend, however, on how seriously other social reforms bearing on women's empowerment are pursued. ■

For further reading see Naila Kabeer, *'Money can't buy me love'? Re-evaluating gender, credit and empowerment in rural Bangladesh*, Institute of Development Studies Discussion Paper 363 (Sussex, U.K.: IDS, 1998); and S. Hashemi, S. Schuler, and A. Riley, "Rural credit programs and women's empowerment in Bangladesh," *World Development* 24 (1996): 635-653.

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