

WHY WOMEN MATTER: THE STORY OF MICROCREDIT

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POOR WOMEN AS BORROWERS

Alice Amoateng of Ghana is on her second loan of around \$100 to set up and expand a clothing trading business.¹ She borrowed the money from a microfinance institution, Sinapi Aba Trust, because she had no access to credit from the banking system.² This microfinance institution was able to lend her money by using a group lending system, in which groups of women are jointly responsible for repayment of the loan.³ The loans allowed her to make her business more profitable and to spend the extra income on her children's education and her family's medical expenses.⁴ In addition to the loan, she received training in business and leadership, and she was elected to public office to represent her community.⁵

Irene Castro Quilca of Peru started with a loan of around \$250 from Confianza, a microfinance institution, to improve production on her small potato farm.⁶ She has continued to receive loans, and her children also have borrowed from Confianza.⁷ Irene has become a spokesperson for the benefits of microcredit; once she traveled to Europe to speak at a symposium during the United Nations International Year of Microcredit 2005.⁸

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1. Oikocredit, *Project Info: Sinapi Aba, Ghana*, <http://oikocredit.org> [article no longer available]. Some of Alice Amoateng's story can be found at CWM Assembly, *Small Money, Big Change*, "Ghana" (Mar. 2, 2006), <http://www.cwmission.org/features/small-money-big-change.html> (last accessed Aug. 27, 2009).

2. *Id.*

3. *Id.*

4. *Id.*

5. *Id.*

6. Oikocredit, *Project Info: Confianza, Peru*, <http://oikocredit.org> [article no longer available]. Some of Irene Castro Quilca's story can be found at Patrick Hynes, *Tackling the 'credit crunch' justly* (Mar. 28, 2008), <http://www.ekkleisia.co.uk/node/6970> (last accessed Aug. 27, 2009).

7. *Id.*

8. *Id.*

In India, Suvarna moved from begging to selling stationery by using a loan from SHARE, an Indian microfinance institution, to purchase inventory.⁹ The small loan provided Suvarna with an opportunity to improve her skills and to increase her well-being.¹⁰ SHARE's lending follows the pattern of increasing loan size as the women repay each loan.¹¹ A first, second, and third loan is used to increase the skills and income of the woman borrower, while a fourth and bigger loan may be used to improve her house.¹² Eligibility for a bigger loan along with a group lending structure encourage repayment of the loan, and SHARE, whose clients are all women, claims to enjoy a repayment rate of 100%.¹³

These three stories are from the project partners of Oikocredit, a socially responsible investment organization that accepts funds from individuals, churches, and organizations and lends those funds to microfinance institutions, such as Sinapi Aba Trust, Confianza, and SHARE.¹⁴ Microcredit is the provision of small loans to poor people to improve their productive capabilities. Microcredit institutions are concerned with both the ability of clients to repay loans with interest in order to sustain the enterprise and the social impact of the program on the poor. Microfinance extends the microcredit concept to the provision of other financial services, such as monetary transactions, savings, insurance, and remittances, to poor people. Though not originally designed that way, the primary borrowers and beneficiaries of microcredit programs around the world are women, as illustrated by the examples above. This review of microfinance literature shows that the centrality of women has been a natural if unintentional result of the central characteristics of microcredit programs and perhaps the leading factor in their success.

WOMEN AT THE CENTER?

Microcredit is firmly associated with poor women who are the principal borrowers and, therefore, the principal beneficiaries of the programs. The fact that microcredit programs predominantly serve women raises this question:

9. Oikocredit, *Meet Our Project Partners: SHARE*, <http://www.oikocredit.org/site/en/doc.phtml?p=SHARE3> [article no longer available] (last accessed Apr. 6, 2006).

10. *Id.*

11. *Id.*

12. *Id.*

13. *Id.*

14. Oikocredit, *Looking to Invest?*, <http://www.oikocredit.org/site/en/doc.phtml?p=Worldmap3> (last accessed Aug. 27, 2009).

are microcredit programs different because the majority of their clients are women, or is this merely an interesting facet of microcredit practices that makes little real difference in terms of how the programs are administered or in their impact?

Women have both reproductive and productive roles in the economy.¹⁵ In their reproductive roles, women maintain the family through bearing and rearing children. In their productive roles, women contribute to family income through household production or work in the informal or formal sectors. Many economic development programs have focused on women in their reproductive roles, such as health programs to improve maternal and infant health care; family planning programs to provide reproductive choices for women; programs on household management to improve sanitation, nutrition, and basic health care; and literacy and numeracy programs that focus on women's roles in educating children and improving the household. Contrariwise, the microcredit movement focuses on women in their roles as producers of income for the family. Credit, or the ability to borrow money for expenditures in the present that is paid off with interest in the future, can be used by women in their reproductive role to smooth consumption or in their productive role to increase output. When families borrow to cover ongoing costs or to purchase large cost items, this credit can smooth consumption by spreading expenditures over a series of payments. This type of borrowing is associated with a woman's reproductive role in managing the family's income and expenditures. The stories of microcredit told by practitioners, however, include examples of how microcredit works to improve the woman's productive capabilities: borrowers utilize their loans to purchase a sewing machine to make and sell garments, to purchase a stove to sell prepared foods, to purchase inventory to increase the size of a business, or to purchase small animals to increase and sell agricultural output. The microcredit movement differs from many development programs that are directed at female clients since it emphasizes women's productive rather than reproductive roles in the economy.

While most writers on microcredit acknowledge that women are its primary recipients, some simply ignore this feature of the programs. *The Economist*, a news weekly aimed at business and political elites, published a set of articles about microfinance focusing on why financial services have been unavailable to the poor.¹⁶ Rejecting the claim that the poor are not

15. JANET HENSHALL MOMSEN, GENDER AND DEVELOPMENT 16 (2004).

16. *The Hidden Wealth of the Poor: A Survey of Microfinance*, THE ECONOMIST, Nov. 5, 2005, at 1.

suitable clients for these services, the articles instead examine why markets have been hindered from providing the services.¹⁷ Its reasons include: regulatory failure, high costs of providing services to the poor, and a lack of information about the poor clients.¹⁸ *The Economist* sees many positive signs in meeting these challenges through government improvement in financial regulation, lower costs due to technology, and improved information through credit ratings of both microfinance institutions and individual clients.¹⁹ For *The Economist*, the key issue facing microfinance is how it can move into the financial mainstream with more access to capital, which would increase the ability to reach the poor with financial services.²⁰ Although the photos are almost entirely of women and the examples of lending involve women borrowers, the articles clearly do not acknowledge the fact that the microcredit movement is heavily focused on women clients.²¹ Consequently, *The Economist* offers no analysis of whether it matters that microfinance institutions focus on women borrowers.

On the other hand, a scholarly book on microcredit, *The Economics of Microfinance* by Beatriz Armendáriz and Jonathan Morduch, discusses the place of women in microcredit programs throughout its pages.²² Additionally, the book includes a specific chapter on gender that looks at why women are the primary recipients of microcredit and at the impact that women-funded microcredit has on society. The authors identify two primary problems facing organizations wishing to lend money to the poor: lack of information and lack of collateral.²³ The first, a lack of information about lenders, leads to the problem of “adverse selection,” meaning that a bank cannot distinguish between risky and credit-worthy borrowers and, therefore, does not lend at all or charges high interest rates to all its clients.²⁴ The second, lack of collateral, leads to the problem of “moral hazard,” which theorizes that the borrower does not have an incentive to work hard to pay back the loan.²⁵ The authors show how microcredit programs are designed to mitigate these problems through group lending, progressive lending, frequent and public repayment, and new ways of defining collateral. The authors illustrate why women

17. *Id.*

18. *Id.*

19. *Id.*

20. *Id.*

21. *Id.*

22. BEATRIZ ARMENDÁRIZ & JONATHAN MORDUCH, *THE ECONOMICS OF MICROFINANCE* (2005).

23. *Id.* at 7.

24. *Id.*

25. *Id.*

borrowers are more likely to participate in these new types of lending programs, why women borrowers have higher repayment rates for these new types of loans, and why women borrowers have a larger impact on poor families and on society.

HOW MICROCREDIT WORKS

The initial emphasis of microcredit was not loans for women but loans for the poor. The poor lack access to financial services because they do not have collateral; consequently, the lender cannot tell who would be an acceptable risk—the cost of lending is very high since the size of the each loan is small and the poor are often located in less accessible places. In lending to poor clientele, pioneer microcredit institutions determined that their most responsible borrowers were predominantly women borrowers because women were willing to borrow and able to repay.

Women turn to microcredit programs for the same reason as men—lack of access to capital through formal banking sources. Banks may be willing to lend money to borrowers, even high-risk borrowers, as long as they can charge higher interest rates to riskier borrowers to make up for higher defaults and can enforce repayment through the use of collateral or the collection of borrower property in the case of a loan default. These two problems—lack of information about the credit worthiness of borrowers and lack of collateral to enforce repayment of loans—mean that banks typically do not make loans to poor people who lack credit ratings and collateral.

Microcredit programs solve these two problems with two primary innovative institutional structures: peer group lending with public repayment and progressive lending with early and frequent repayment. Peer group lending solves the lack of information problem by having the group members provide the needed information, and solves the repayment problem by using peer pressure and public repayment. Progressive lending solves the lack of information problem by starting with very small loans with quick repayment and then developing a relationship with the borrower over time, and solves the repayment problem with the incentive of larger loans in the future.

Peer-group lending works by lending to individuals within groups. The loan process starts with some members of the group receiving loans and then other members receiving loans only after repayment of the first set of loans. In the classic group lending structure developed by the Grameen Bank, a pioneer microfinance institution in Bangladesh, five women form a group, with two receiving the initial loan, two more receiving the second loan, and

the fifth member waiting for the third loan.²⁶ The group selects its own members and decides which women receive the first loans.²⁷ Along with a group loan, this method often includes group meetings for training, encouragement, and repayment of the loan in a public setting. Since the group knows more about the credit worthiness of its members and can monitor or exclude people who might not repay, group lending solves the problem of determining the credit worthiness of the borrowers.²⁸ Peer pressure from the group serves in the stead of collateral in encouraging repayment.²⁹ The group will spend time monitoring the loans of its members, and public repayment of loans also contributes to social pressure to maintain one's good name.³⁰ The group lending method results in lower costs because the bank deals with the group instead of the individuals, which allows the lender to maintain fewer separate accounts.³¹ Group lending, however, faces problems as borrowers mature in their borrowing practices. Members with good credit ratings might no longer wish to be constrained by the group to wait for a loan, to spend time monitoring and mentoring members with trouble paying back loans, to attend time-consuming meetings to undergo training, or to maintain group cohesiveness.³²

Progressive lending occurs when a subsequent loan is larger than the initial loan and can occur in either group or individual lending. The incentive for the borrower to repay is access to a larger loan. Since microcredit loans start with minuscule amounts, access to larger loan amounts is a credible incentive to repay the loan. There is always the threat of default on some future loan; however, by then the lender and borrower have a more established relationship and the borrower has seen the advantages of access to credit and has developed the needed behavior to be able to repay the loan.³³ Along with progressive loans, frequency of repayment is a characteristic of microcredit. Repayment on loans often begins well before any expected payoff from the investment, so the borrower must either set aside the principal for early repayments, or use current income for repayments. Early repayment

26. MUHAMMAD YUNUS & ALAN JOLIS, *BANKER TO THE POOR: MICRO-LENDING AND THE BATTLE AGAINST WORLD POVERTY* 63 (2003); Jonathan Morduch, *The Microfinance Promise*, 37 J. ECON. LITERATURE 1569, 1575 (1995).

27. YUNUS & JOLIS, *supra* note 26, at 63.

28. ARMENDÁRIZ & MORDUCH, *supra* note 22, at 89.

29. Morduch, *supra* note 26, at 1575.

30. YUNUS & JOLIS, *supra* note 26, at 66.

31. ARMENDÁRIZ & MORDUCH, *supra* note 22, at 86.

32. *Id.* at 120.

33. Morduch, *supra* note 26, at 1582.

requirements indicate that this type of loan acts in many ways as a substitute for savings. The borrower has sufficient income to save for a larger purchase, but the household has no mechanism to save. The loan allows for the larger purchase, and it is repaid with current income of the household. In this manner, the loan replaces a savings mechanism.³⁴

WOMEN AND MICROCREDIT

The question of why women are at the center of this movement requires an examination both of why women are the primary borrowers and of why microcredit produces more benefits when directed at women. As researchers have shown, poor women have become the primary clients of microcredit institutions because the women were willing to become borrowers and because the microcredit institutions began to target women as clients. Women, as opposed to men, take advantage of microcredit lending for three reasons. First, women have less access to borrowing through the formal banking sector because the men in the family usually control the assets that could be used as collateral for borrowing. Second, women are willing to abide by the conditions of group borrowing, such as attendance at meetings and required training. The women could be willing to agree to the conditions because they have fewer alternatives in borrowing and because they find benefits in the meetings and training. Third, women frequently work in the type of small-scale production that could benefit from the small loans available through microcredit. Women engage in small, home-based enterprises because they are often excluded from employment in industries, or they need to remain at home to manage the family.³⁵

Microcredit institutions initially changed their focus to women clients because women had a clear advantage in repayment rates.³⁶ Economic theory indicates that those with less access to capital have the highest rate of return to investment. Since the women who are microcredit borrowers are excluded from access to capital because they are poor and because they are women, their high repayment rates might reflect the higher rates of return that accrue to the investment of scarce capital. But this reason cannot be the only

34. ARMENDÁRIZ & MORDUCH, *supra* note 22, at 161.

35. Vidyamali Samarasinghe, *The Last Frontier or a New Beginning? Women's Microenterprises in Sri Lanka*, in *WOMEN AT THE CENTER: DEVELOPMENT ISSUES AND PRACTICES FOR THE 1990s*, at 30-31 (Ken Kusterer ed., 1993).

36. ARMENDÁRIZ & MORDUCH, *supra* note 22, at 183; Nathalie Holvoet, *The Impact of Microfinance Decision-Making Agency: Evidence from South India*, 36 *DEV. & CHANGE* 1, 75-76 (2005).

explanation for the high rate of repayment of women. Other explanations stem from women's lower mobility and higher risk averseness. Lower mobility of women leads to easier monitoring and higher peer pressure, which are the tools used in group lending to promote repayment. Higher peer pressure deters fraud and misuse of funds. Risk averseness results in more conservative expenditure of funds, but this behavior also can lead to lower rates of return; so, while risk averseness may help with repayment of the loan, it may limit the benefits from the loan.³⁷

The last reason microcredit institutions have targeted women borrowers as their preferred clients is probably the most important: loans to women have a higher impact on poor families. Women's economic activities in the economy, such as women's agricultural crops, do not receive adequate investment from men; so loans to women end up benefiting women's sectors of the economy. As noted above, these neglected women's sectors and enterprises may earn a greater return, which means that the loans will have a greater impact on family income.³⁸

Additionally, research has shown that loans to women have a higher impact on poor families because women have a different spending pattern than men. Increases in women's income results in larger household expenditures on both food and non-food items than similar increases in income to men, and women spend more income on the health and education of children in the household.³⁹ Men, in other words, tend to spend more of the increased income on themselves than on the household.⁴⁰ This controversial finding of a gender specific pattern of spending with women spending more of their earnings on the family has been reported for a wide variety of countries and societies over the last twenty years of research on household resources. Muhammad Yunus, for instance, reports that women spent increased income on children and the household while men spent more on themselves, a differential spending pattern he cites as one of the reasons the Grameen Bank targeted women as customers for microcredit.⁴¹ Jodi Jacobson, in a summary article on gender bias in development, explains that raising men's income is incorrectly assumed to benefit the whole family.⁴² She cites studies indicating that women

37. ARMENDÁRIZ & MORDUCH, *supra* note 22, at 189.

38. *Id.*

39. *Id.* at 180.

40. Jodi L. Jacobson, *Closing the Gender Gap in Development*, in STATE OF THE WORLD 1993: A WORLDWATCH INSTITUTE REPORT ON PROGRESS TOWARD A SUSTAINABLE SOCIETY 61, 63 (Linda Stark ed., 1993).

41. YUNUS & JOLIS, *supra* note 26, at 72.

42. Jacobson, *supra* note 40, at 61, 63.

have primary responsibility for family welfare and contribute all of their earnings to the household while men spend some of their additional income on “alcohol, tobacco, or other consumer products.”⁴³

The large-scale study of poor people conducted by Deepa Narayan at the World Bank in the late 1990’s, *Voices of the Poor*, confirms that women spend more of their income on family welfare.⁴⁴ In the study, the poor talk about the deterioration of income and the emergence of women as family breadwinners as a natural, necessary response to their economic condition. The study emphasizes that women will do whatever is necessary to ensure their family’s survival. From one of the studies in India comes this quote: “[w]hile men are likely to spend a significant portion of their income for personal use (for instance, smoking, drinking, gambling), the women in the survey villages tended to devote virtually all of their income to the family (for food, medical treatment, school fees and clothing for the children).”⁴⁵

Increased income for women also results in better health for women and in higher use of contraceptives. Yunus claims that Grameen Bank families use family planning at twice the average rate in Bangladesh.⁴⁶ Other evaluations are more cautious because the causation may run the other way: women who are more likely to use contraceptives may also be more likely to borrow from microcredit organizations. However, Patrick Develtere and An Huybrechts review the studies on the impact of microcredit on the Bangladeshi poor and concur that women members of microcredit institutions are more likely to use contraceptives.⁴⁷ Nathanael Goldberg also reviews the studies on the impact of microcredit and concludes that while borrowers were more likely to have prior use of contraceptives, they still had an increased level of use when compared to a non-borrowers group of women.⁴⁸ Armendáriz and Morduch conclude that microcredit has been a force that has encouraged the decline in fertility and female illiteracy rates, and they use statistics from three countries that have extensive microcredit penetration—Bangladesh, Bolivia, and Indonesia—to show the rapid decline of fertility rates over a thirty-year period

43. *Id.*

44. See DEEPA NARAYAN ET AL., VOICES OF THE POOR: CAN ANYONE HEAR US? 184 (2000); see generally DEEPA NARAYAN ET AL., VOICES OF THE POOR: CRYING OUT FOR CHANGE (2000).

45. NARAYAN, VOICES OF THE POOR: CAN ANYONE HEAR US?, *supra* note 44, at 184.

46. YUNUS & JOLIS, *supra* note 26, at 134.

47. Patrick Develtere & An Huybrechts, *The Impact of Microcredit on the Poor in Bangladesh*, in 30 ALTERNATIVES: GLOBAL, LOCAL, POLITICAL 165, 178 (2005).

48. NATHANAEL GOLDBERG, MEASURING THE IMPACT OF MICROFINANCE: TAKING STOCK OF WHAT WE KNOW 8 (2005), available at <http://www.grameenfoundation.org/pubdownload/~pubid=29>.

from 1970 to 2000.⁴⁹ Bangladesh, in particular, is often cited as an example of rapid fertility decline from a fertility rate of 7.0 average number of births per woman in 1970 to 3.1 in 2000 even though it was still a very poor country in 2000.⁵⁰

Along with increasing women's income, micro loans are credited with empowering women by giving them more influence in decision-making in the household, the community, and the greater society. Microcredit improves women's bargaining power in the household because women now have access to something that is desirable to the household and because the loan program changes a woman's position in the household. Poverty is material deprivation, but it is also a lack of power or control.⁵¹ In the World Bank study, *Voices of the Poor*, the individuals interviewed often mentioned humiliation and dependency.⁵² They saw their poverty as a stigma and felt a lack of self-respect and dignity. Amartya Sen in the chapter on women from his classic work, *Development as Freedom*, claims that promoting women's "agency" is as important as improving women's "well-being."⁵³ Agency means that women are active participants in decisions about their lives rather than passive targets of policies or programs. Feminist scholars claim that women should be more than the beneficiaries or targets of economic development programs.⁵⁴ These scholars claim that women need to be included in the decision-making process for programs that promote economic development.⁵⁵ If women are present at the table when decisions are being made, programs, including the goals as well as the process, may well turn out differently.⁵⁶

Microcredit is a development policy that trusts poor people to make decisions about their own lives. The fact that women are the primary beneficiaries of these organizations does, in fact, make microcredit different from other pro-poor development policies. Women as borrowers are able to increase their own well-being, improve the lives of their children and the wider household, participate more fully in family and community decision-making, and gain more control over their lives. While microcredit programs

49. ARMENDÁRIZ & MORDUCH, *supra* note 22, at 181.

50. *Id.*

51. NARAYAN, VOICES OF THE POOR: CAN ANYONE HEAR US?, *supra* note 44, at 31.

52. *Id.* at 37-38; *see also* DEEPA NARAYAN ET AL., VOICES OF THE POOR: CRYING OUT FOR CHANGE, *supra* note 44, at 137-38.

53. AMARTYA SEN, DEVELOPMENT AS FREEDOM 189 (2000).

54. JANICE JIGGINS, CHANGING THE BOUNDARIES: WOMEN-CENTERED PERSPECTIVES ON POPULATION AND THE ENVIRONMENT 238 (1994).

55. *Id.*

56. *Id.*

were not targeted at women initially, now programs often are available only for women borrowers.

WHY WOMEN MATTER

The Microcredit Summit Campaign reports that at the end of 2007 over 3,500 microfinance institutions made loans to 100 million of the world's poorest families and over 80% of the borrowers were women clients.⁵⁷ The Campaign also indicates the areas of the world with the most microcredit coverage: access exists for 78% of poor families in Asia, but only for 24% of poor families in Latin America and for 13% of poor families in Africa and the Middle East.⁵⁸ Microcredit institutions have been remarkably successful in implementing access to financial services for the poor and in demonstrating that these services are viable both for the poor and for the financial institution. The poor are able to use the loans and repay them with interest. The loans are used for consumption and to deal with financial emergencies, but primarily they are used to increase economic production. The poor clients are able to pay back the loans with a high enough interest rate to make the transactions sustainable and even profitable for the microcredit institution.

This review of the literature demonstrates that women are the key reason why microcredit works and why microcredit is beneficial. Women, through their high repayment rates, prove that poor clients can benefit from credit and repay the loans. Women work in the types of small enterprise that can grow with small amounts of additional capital, and they are willing to participate in a loan structure that improves repayment. In fact, the methodology of microcredit loans has evolved with the needs and situations of its women borrowers. Women borrowers also increase the benefits from microcredit. Microcredit increases the economic well-being of its borrowers, women and men; however, when women borrow, their increased income improves the education and health of their children, which transfers benefits to the next generation. Moreover, microcredit seems to provide an additional push to lowering fertility rates and to increasing literacy rates in poor countries. In addition to improved well-being, much of the research on microcredit attributes to it the empowerment of women, who gain a larger role in household and community decision-making when microcredit is available.

57. SAM DALEY-HARRIS, STATE OF THE MICROCREDIT SUMMIT CAMPAIGN REPORT 2009, at 3 (Microcredit Summit Campaign 2009), available at http://www.microcreditsummit.org/uploads/socr/SOCR2009_English.pdf.

58. *Id.* at 30.

Microcredit with women as the principal borrowers is a powerful tool in the reduction of poverty and the transformation of society.