Fact and Fiction:

Examining Microcredit/Microfinance from a Feminist Perspective

By Soma Kishore Parthasarathy

Edited by Natalie Raaber, AWID

awid women's rights
Association For Women's Rights in Development

February 2012

The Association for Women's Rights in Development (AWID) is an international feminist, membership organization committed to achieving gender equality, sustainable development and women's human rights. AWID's mission is to strengthen the voice, impact and influence of women's rights advocates, organizations and movements internationally to effectively advance the rights of women.

Author: Soma Kishore Parthasarathy
Editor: Natalie Raaber
Copyeditor: Ana Abelenda
Layout: Lynn O'Rourke

Published by AWID in Toronto, Mexico City, Cape Town.

This publication is available online at www.awid.org

AWID gratefully acknowledges the generous support of Cordaid, Ford Foundation, Hivos, Levi Strauss Foundation, Oak Foundation, the Swedish International Development Cooperation Agency (Sida), the Swiss Agency for Development and Cooperation (SDC), and an anonymous contributor.

Contents

Foreword

Within development debates—and particularly discussions on women's empowerment—microcredit has and continues to be touted as a tool (indeed, at times, a magic bullet) to reduce poverty and empower women. AWID asked feminist researcher, activist, and practitioner, Soma K. Parthasarathy, to share her experiences, reflections and analysis in a primer examining microcredit from a critical feminist perspective. This paper, which draws from Parthasarathy's extensive work on microcredit (within the context of engendering development and advancing sustainable livelihoods), provides, first, a definition of microcredit, then situates microcredit both historically and within present debates on development and economics and finally discusses its impact on particular groups of women.

The paper reflects the opinions/perspectives of Parthasarathy and is intended to contribute to the debate on women's rights, the economy and development at the AWID Forum and beyond.

Introduction

Understanding any issue from a gender or feminist perspective implies an analysis of the issue's gendered impacts and likely outcomes on women. Such an analysis also calls for an examination of measures—policy, legislative, programmatic, institutional or systemic—to bring about transformative change in the status of women. Viewing microcredit (MC) and microfinance (MF) from a gender and feminist lens therefore implies an analysis of the product, the process, and the phenomenon from the viewpoint of poor and marginalized women who are the primary focus group of MC initiatives. This aim of this paper is two fold: to point to the nuances of the gender aspects vis a vis MC/MF; and to unpack evidence of how the MF juggernaut (for indeed this is what it has become in the context of rural development programming) has impacted the lives of women. Dilemmas and experiences will also be examined, in order to better understand how (and if) MC/MF can effectively benefit and change women's lives and status.

1. Getting the Terms Right: Processes and Methodologies of Microcredit

First, there is a need to distinguish between the various terms that are commonly used in discussions on MF and MC. For poor women, the process starts with **thrift**. Thrift is different from **savings** in that savings implies a surplus (an accumulation of extra money) *after* consumption, whereas thrift implies savings derived specifically from a cut in present consumption. Poor women seldom have surplus (even if their spouses do because of, among other reasons, intra-household gender disparities in the control over income and resources) and, therefore, resort to trimming present consumption to save even small amounts of money for future needs.

Most MC groups initially started as informal **thrift groups**. Women (but also men), typically from marginalized communities, would meet regularly to collect a predetermined amount of money (less than 0.50 USD each a month), forming a pool of resources. Members of the group could use the funds (with interest added) to buffer the impact of crises, meet urgent needs, and support each other in the maintenance of livelihoods. Solidarity was at the core of this grouping and these relationships. It is important here to underscore the following: women form solidarity groups not simply for reasons of savings and credit, but because of the opportunity to meet, talk, share and work on collective objectives. This underlying rationale is often lost on MC lenders.

Banks, NGOs, governments, and other agencies recognized the ability of these groups to mobilize resources to collectively address various aspects of members' marginalization. These institutions leveraged this reality, encouraging these (already formed) groups to access credit from formal institutions—and using their regularity in savings and attendance as the basis for the disbursement of loans. **Microcredit (MC),** as it is commonly understood, emerged in this way. Credit would be extended to the group and, as one installment was paid back, a larger amount would be released.[1] While the amount given was meant to be based on the needs of the group, the group's absorption capacity and its ability to manage resources gradually became ignored. Meeting lending targets became the focus, leading often to over lending.

As MC groups' potential became apparent as credit clients, other retailers of financial products began offering services beyond credit. **Microfinance (MF)** evolved to cater to these needs as a MC plus approach, with other financial products (such as micro insurance, health risk coverage, housing credit benefits) being offered to the group. With the shift in focus from thrift and credit to MC and subsequently MF, the MC model gradually shifted from a demand-based tool to a supply-based financial product. In this way, group members' needs and demands are no longer the determining entity and members, in effect, become faceless clients.

1. The money would be given to the group; the group would then decide how to disburse it to members and would determine the interest rate. The interest depended on the principal as well as the interest owed to the institution, at times also keeping a small surcharge as its own revenue from the transaction.

2. Evolution of Microcredit in a Historical Context

Savings and credit are not new phenomena. It is only in recent decades however that they have taken the form of MC, driven by trends and changes in credit markets and in the development context more broadly. Such changes have reshaped women's lives and the ways in which they are able to cope with providing for family.

From the 1990s onward, the shift to market-based economies within developing countries has led to increasing dependence on money and credit. For women, particularly those from poor households and with limited control of resources, access to such markets was minimal. As a result, thrift was used to manage household needs. Yet, given increasing poverty and the erosion of cultures of mutual support—which, one could argue, correlated with market liberalization—thrift became harder to come by and its amount inadequate to support livelihoods and basic needs.[2] Faced with deepening poverty, the inability to meet basic needs, and decreasing control over resources to manage households, women turned to MC loans. This was virtually the only option on offer for women without assets.

While market liberalization was occurring, other trends and narratives were also growing. The adverse impacts of mainstream development thinking and practice on women, particularly grassroots women, was becoming increasingly apparent. At the same time, evidence emerged of the feminization of poverty (the majority of poor were women) and the feminization of agriculture. Alongside this, positive reports of women's efficient management of finance and an essentialist view that women were credit worthy, or better able than men to manage limited resources for family and community, emerged. This led to international financial institutions (IFIs), such as the World Bank (WB) and the International Monetary Fund (IMF), together with international donors, via governments that were eager to engage, targeting women for anti-poverty programs, including credit delivery. Despite clear evidence that the nature of women's poverty lay in structural impediments, including patriarchy, racism and classism, in access to resources there remained a complete lack of engagement with the causes of poverty.

Women's empowerment also emerged as a key priority at the United Nations. This provided an opportunity for IFIs to brand women's participation in credit programs as an advancement in empowerment. Geared towards a market-based, neoliberal model of development—with credit as a key product—these trends were used to legitimize a focus on women. The burden of development was thus placed on the poor, and specifically onto women.

At the same time, there was a shift in discourse on poverty alleviation in the mainstream development community. Propelled by IFIs' influence over donor policies, the discourse and practice on poverty alleviation moved away from aid through grants to development assistance through market mechanisms. Grounded in a neoliberal market rationale of self-reliance and efficiency, and understood in the narrowest of terms, credit equaled poverty alleviation (and poverty alleviation in this way was open to market forces). Many governments and NGOs followed through, attempting to offer credit as the primary (if not sole) means to pull people out of poverty. Through the rhetoric of self-employment and entrepreneurship, governments often espoused MC as a means of promoting growth and employment. In fact, MC allowed governments to evade their duty and responsibility to ensure decent employment opportunities for all, and as a result, vulnerable workers often faced greater risks.

The MC approach to poverty alleviation was further strengthened by the approach's co-opting of the rhetoric around group formation and collective action, historically a key strategy of the women's movement. In this way, MC provided an opportunity to use women's collective efforts and labor in the service of credit markets and profit. The fact that these experiences were built collectively over years, grounded in solidarity and embedded in a people centered, transformative approach to empowerment and livelihoods was made invisible.

2. As poverty increased, the dependence on women's labor increased in rural economies. At the same time, incomes did not increase to keep up with needs and rising prices and as a result, thrift became even more difficult to come by.

3. Microcredit and Microfinance Mantras in Current Debates on Development and Economics

An assessment of MC and MF reveals a large scale spread across developing countries and, more recently, among countries which seek to address increasing unemployment and distress in the aftermath of the 2008 global financial and economic crisis. Interviews conducted in 2007 with women in Chitoor district in Andhra Pradesh, India, revealed that what was once a simple idea of poor women to help each other out with trust and dignity—that no banker was interested in—has now become such a big programme that even politicians are afraid of it (Sharma and Parthasarathy).

Since the 1990s, interest by IFIs and donors in the MC and MF sector heightened as the sector's revenue potential became apparent. As a result, the processes of flexibility (for example, interest rate waivers) and self-regulation previously adopted by groups in order to support the most marginal members, were restructured. Consequently, "the growth [of the sector] led to an over-supply of microcredit in villages and…to the over indebtedness of women, the collapse of repayments, and a capital shortage of the microfinance institutions" (Mayoux).[3]

Interest rate-profit nexus

While borrowers may show some improvement in their consumption patterns in the short term (reflecting reduced financial stress), there is little evidence to show that poverty levels have substantially decreased. Left largely unregulated, a once pro-poor initiative, MC has snowballed into a profiteering venture. Within this context, interest rates are a key issue of contention. Many MF institutions (MFI) charge borrowers rates of 24-36% (or higher) and impose uncompromising terms of collection (little or no consideration is given to the uneven cash flow of borrowers), amounting to a surcharge on women's poverty.

Often, in order to pay back the first loan, women find themselves needing to take out a second loan, leading to group members bearing multiple loans and causing crises similar to the sub-prime mortgage crisis in the United States. Rather than a tool of empowerment, MC and MF—via exorbitant interest rates, predatory lending and strict terms of collection, among other practices—have increased the vulnerability of borrowers. In turn, MFI barons have promoted the MFI model as a profit-making venture and have lured in investors on assurances of high returns. MFIs have failed to limit their own portfolios, even expanding and leveraging them. This has led to accumulated debt of women borrowers and raises serious questions of the ethical grounding of such practices and institutions.

These points raise broader questions: Is MC, in fact, the main financial service that poor women desire, or Is this all that the liberalized economy can offer? Women seek economic resilience: the ability to save; access to their savings at times of crisis (and in general); social security; and a guarantee of employment and wages. These go significantly further toward women's empowerment than MC loans.

Paradigm of distrust

While early efforts to collectively address the needs of members of savings groups were imbued with the struggles of women's initiatives, the new paradigm of MC operates on principles of distrust and control. For example, women are often coerced to take loans larger than they are able to pay back and are then pressured (or harassed) to repay on time. There is also little transparency in the manner in which interest rates are determined, or the criteria used for selective lending. Irrationally high rates of interest have driven women to suicide; MFIs are also known to have claimed insurance money for non-repayment and suicide by women members.

Additionally, MFI's governance boards are couched

3. Women would also take out several loans at once, to pay off prior loans, resulting in a vicious cycle of debt. The vicious cycle of debt and poverty related to microcredit is elaborately discussed by Mayoux.

in a pro-woman façade by co-opting women into leadership and membership positions. As a result, boards and MFIs actively cultivated an image of democratic and gender focused grassroots governance. Yet, in reality, various degrees of devolution/accountability in decision-making authority actually occurred, with questionable responsiveness to grassroots women's needs.

4. The Pros and Cons from a Feminist Perspective

Moving on to examine the question from a feminist perspective and specifically from the viewpoint of women: Do women in MC groups benefit from microcredit? For example, are members better able to mitigate poverty, to advance economic empowerment, and to assert their rights over decision-making within family and society?

While MC and MF may create access to resources, the approach seldom leads to a challenging and reordering of a patriarchal gendered division in labor, patterns of asset ownership, and decision-making. Patriarchy and power imbalances–not simply access to money —lie at the base of women's economic subordination. Therefore, while a woman may have access to credit, for example, it does not necessarily follow that she then has control over its use. The MC model fails to take this into account.

One reason women are targeted for MC is the assumption that women are more likely to use the money for the well-being of her family and household. Others include the idea that "women won't run away", "women are easy to target" or "women won't waste the money". These are based on an essentialist view of women, and on a constructed gender division of labor. Yet, why do these assumption exist? In the framework of patriarchy, men are often able to use resources as they see fit, while women feel compelled to use resources for family needs, as they are expected (through constructed gendered norms) to provide for these needs regardless of household budget size. In this context, access to credit offers a sense (albeit a superficial one) of relief, as a woman can gain control over household management. Yet, understanding control in this way conforms to the liberal interpretation of empowerment as access to resources. Women's ownership of assets and control over decision-making in critical areas of their lives remains relatively unchanged. MC fails to challenge these norms and the underlying patriarchy and power relations which shape them.

Women use the credit to smooth consumption and to provide basics for the household. Women are not using the loans to support and enhance their small business productive revenue, debunking a central argument for the use of MC. In poverty, the money is used for survival.

Furthermore, in addition to the productive work that women are expected to perform with the credit they receive, women continue to perform work —such as caring for households, children, elderly, and preparing food—that is undervalued and low-paid (if paid at all). MC seems then to enable women to perform expected roles more effectively, while further robbing women of time. MC fails to recognize this double or triple work burden of women, or its contribution to perpetuating such expectations. Instead, the MC model, offers market-driven processes of entrepreneurship and self-employment with a focus on growth (not on rights to life and livelihoods), without any consideration of the risks involved in entering a market that is volatile and focused on capital.

Despite the proliferation of savings and credit activities targeting women and purportedly advancing empowerment, levels of violence against women continue to be high. Failing to address the underlying factors of violence, access to credit has often perpetuated violent gendered societal practices: loans are often used for a daughter's dowry or for sex selective abortions. Despite its ostensible concern with poverty alleviation, MC, as it is often implemented, fails to address the attitudes that lead to violence against women and subordination, often fueling the fire.

In contrast to earlier paradigms of women's thrift groups which were grounded in mutual support and offered flexibility in the application of rules and penalties, present MC groups function through a system of forced voluntarism, driven by a single minded focus on credit disbursement and repayment. Women's MC groups have also served to discourage protest and collective action against the diminishing role of the state and corruption. Therefore, in many cases, MC groups —and the focus on repayment and disbursement—aim to distract women from the more fundamental causes of their poverty and vulnerability.

MC in its current delivery and implementation has been depoliticized of its empowering potential, and used for political ends by numerous parties. As noted by Srilatha Batliwala, "magic bullets popular in the area of women's empowerment and gender equality, [such as] gender mainstreaming, microfinance focused on lending rather than women's empowerment, and quotas for women in formal political systems…were interventions that the women's movement itself advocated, but have [in their interpretation and implementation] since been divested of the complex transformative strategies within which they were originally embedded and reduced to formulas, rituals and mantras." (Batliwala) There is growing evidence from research and grassroots experiences that mechanical and depoliticized implementation of these strategies ensures that none of these, singly or together, necessarily empower women. As a result, "these strategies in fact, merely shift greater responsibility and burden for economic survival and political change onto women themselves, as a numbers game …un able to uproot the deeply entrenched relations of power between men and women, and between the dominant and oppressed." (Batliwala).

While women may gain a public voice through their participation in MC action, it is seldom that such voices are raised in a rights context. Thus, even with access to economic resources, gender relations continue to be shaped by patriarchy. Additional transformative efforts are needed to challenge the complex causes and manifestations of women's subordination.

5. Civil Society Voices and Responses

The overwhelming focus by governments and development agencies on MF has led to several distortions in the process of development funding and the ways in which civil society organizations work to alleviate poverty.

Some changes are addressed below, although there are certainly others:

MFIs' sustainability at women's cost: MFIs have been promoted by donors as an entity that, once initially supported, can run on its own revenues from interest charged to borrowers, allowing donors to withdraw support. While this may serve the interest of donors (and shareholders, to which large returns were promised), it is based on profiting from the debt payments of the poor.

Microcredit myopia: Grounded in an assumption that MC alone will alleviate poverty, deprivation and oppression of various kinds, NGO cultures have been transformed to adopt a market-oriented approach to their work and a focus on economic gains. In order to do this, MC/MF is targeted to the "not so poor," who are better able to absorb the loans/products. As a result, it becomes even harder for the poorest (now off the NGO radar) to access benefits or gain from development interventions.

Aid flows: For developing countries there has been a significant reduction in the quantity of aid as donors cut back on previous commitments. For NGOs and other development actors, the shrinkage of finances has meant having to accept what is on offer. The manner in which NGOs work on health, education, violence, and challenging caste and gender discrimination has been repackaged in order to fulfill donor MC requirements and obtain funding. As money comes to MC it moves away from other strategies of poverty alleviation, challenging subordination and oppression. In other words, the overwhelming reliance on financial, market-based solutions to deeply structural problems has led to simplistic modes of functioning in the development sector. As a result, issues of diversities, communal tension, gender relations, human rights, and class relations are side-tracked or ignored. As noted, the aid that did come was often focused on supporting initiatives that fell within the market paradigm, including those with a focus on profit-making, MC being a prime example. In this way, aid was used to steer developing countries toward an open market regime that linked up well to global finance and capital, allowing a small global elite (including private corporate banks) to benefit from access to rural markets—while the risks were transferred to poor women.

States' Responsibilities: Where common resources and public services were earlier considered domains of state responsibility, there is now an increasing tendency to pass the burden to the citizen (the user) by using "ability to pay" arguments. Such arguments are supported by the financial rhetoric of the MC paradigm. The responsibility of the state to respect, protect, and fulfill human rights is sidelined. A similar process is occurring in relation to the use of women's collective labour. As the privatization of public services occurs and user fees are charged, it is women's collective labour that fills in the gap and indeed, subsidizes the state.

Transformation of group dynamics and purpose: The MFI rigid focus on financial credibility and repayment —relying on the group as collateral—has reshaped the ways that women interact within the group. Support groups initially formed to support members through the crisis of poverty as well as to reflect on and challenge patriarchy and other oppressive systems, have morphed into a forum simply for financial transactions and financial monitoring.

Responses

Responses from NGOs and women's organizations to these changes have varied based on their position in the political and ideological spectrum. Many NGOs have opted to expand their MF portfolios (some have become MFIs themselves; other have linked up with MFIs) and restructured their engagement with other issues through credit driven pathways, diverting their efforts from a transformatory politically embedded discourse.

While some women's organizations have chosen to align with the mainstream, others have responded to these trends by engaging critically, demanding that the sector be accountable and calling for it to align with agendas of transformation rather than those of profitability alone. Some women's organizations have resisted the pressure to shift to a profit focus, preferring instead to build solidarity structures that challenge women's oppression in all forms, with MC being only one area of engagement. Others—both NGOs and women's organizations—have instituted their own grassroots democratic structures, such as federations, linking up with mainstream banks instead of falling into the trap of MFIs.

In October 2010, 56 MC driven suicides of poor women occurred in the state of Andra Pradesh, India, where the concentration of MC is extremely high. These were not the first, being preceded by a spate in 2006, and, it could be argued, reflective of a deeper malaise of unbridled neo-liberal market driven growth. The suicides prompted agitation by opposition parties protesting the malpractices (including coercion and multiple loan disbursements followed by aggressive and threatening means of loan extortion) of MFIs in the state. This led the government of Andra Pradesh to introduce legislation to strictly regulate MFIs, and urged the central government of India and the lead financial institution and regulator to do the same.

The fact that multiple voices are now raised in resonance against the adverse outcomes of the model has led to some serious reflection about the sector and has compelled donors and governments to review their strategies. This is an opportune time for the feminist movement to reflect on and sharpen our position on women's empowerment, including the role (if any) MC can play in advancing women's leadership, agency and ability to demand their rights.

4. For example, while some women's organizations initially joined the bandwagon and encouraged members link up with MFIs, many have since taken on the role of informing women and sharing the critique of the MC paradigm – informing women (particularly grassroots women) of the both the pitfalls and benefits.

5. The Banking sector in India has also shrunk its direct engagement with women's groups, preferring the route of financing MFIs given the current policy frameworks that render this option more favorable and less risky.

List of Resources

Batliwala, Srilatha. "Walk beside us". Speech at the High Level Thematic Debate on Gender Equality and Women's Empowerment held by United Nations General Assembly, New York, March 6, 2007. Available on the web of Just Associates 2011: www.justassociates.org/srilatha_GAspeech.doc

Mayoux, Linda. "From Vicious to Virtuous Circles? Gender and Micro-Enterprise Development". Occasional Paper 3, May 1995. United Nations Research Institute for Social Development, UNDP. Web 2011: http://www.unrisd.org/unrisd/website/document.nsf/d2a23ad2d50cb2a280256eb300385855/5901781754e7c91580256b67005b6af7/$FILE/opb3.pdf

Sharma, Jaya and Parthasarathy, Soma K. *Examining Empowerment, Poverty Alleviation, Education within Self Help Groups (SHGs) - A Qualitative Study.* New Delhi: Nirantar. February, 2007. Print.