WOMEN, POVERTY AND EMPOWERMENT:
AN INVESTIGATION INTO THE DARK SIDE OF
MICROFINANCE

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Abstract
This paper aims at studying the flip side of microfinance focusing on the relationship between microfinance, women, poverty and the dimensions of women's control over loans, savings and empowerment potentials. However, the paper does make any attempt to negate the positive impacts of microfinance.

Introduction
It is claimed that microfinance has been an effective and sustainable development tool for tackling poverty and reducing gender inequalities. The importance and attention attached to microcredit was highlighted at the first Microcredit summit in Washington in 1997. Notably in 2006 The Norwegian Nobel Committee awarded the Nobel Peace Prize to professor Muhammad Yunus and Grameen Bank in Bangladesh for their efforts to "create economic and social development from below" (Daley-Harris, 2007: 1).

The impact of giving credit to women has been a controversial issue. At one end of the spectrum, some argue that microcredit has positive impacts on gender equality, women's empowerment and households' well-being. On the other end of spectrum, microfinance is thought to bring negative impacts for women (Hulme, 2000). Concerning the positive impacts of microfinance on women, microfinance is claimed to help to reduce poverty by increasing consumption among microcredit program participants and their families, improving children's schooling, nutrition, increasing income and self-employment (Khandker, 1998, Pitt et al., 2006). Microfinance can reduce intimate partner violence in the household through participation of women in the credit programs and generate social capital for the participants (Julia et al., 2007; Pronyk et al., 2008) and access to credit can enhance women's economic independence, leading to women's self-esteem and status in the households and wider community (Goetz and Gufta, 1996; Kabeer, 2001). Moreover, women participating into microcredit programs improve their ability to exercise agency in the intra-household processes, to increase women's welfare resulting in decreasing male bias in welfare outcomes in the household; to increase the contraceptive use by women (Mahmud, 2003; Schuler & Hashemi, 1994). Microfinance savings and MFIs also potentially help families in developing countries to cope with financial risks from main illnesses resulting from the cost of medical care and loss of income during illness (Gertler and Moretti, 2008).

Other studies however show the negative impacts of microfinance on women. Goetz and Gupta (1996) have proved that most of women's loans are directly controlled by male while female borrowers are still responsible for repayment. In many instances, because of pressure for enforcement of loan contracts, women have to reduce necessary household basic needs, savings to repay the loans in case men invest badly, or are not willing to give money for repayment. Consequently, women's lost control over credit has reinforced gender norms and exacerbated the welfare of women and households. Some studies even suggest that women are abused by MFIs to reduce transaction costs, thus increasing the burden for women, deepening frustration and tension among household members and in women's groups (Rahman, 1999, Kabeer, 2001). There is little evidence of radical change in the gender division of labor resulting from women's access to loan as women are still doing traditional home-based jobs like poultry raising, tailoring, paddy husking (Kabeer, 2001). Evidently the traditional jobs require intensive laboring and bring low returns, increasing the burden on women who already suffer heavy triple roles.

Apart from the positive and negative impacts as argued above, there are obviously other aspects of negative and positive effects generated by microcredit interventions in the literature. This paper will build on the above negative critiques and study deeper the flip side of giving credit to women on the grounds that a complete study of negative impacts of microfinance programs might help to unravel the mysteries, reasons behind negative effects, while not negating the significant positive effects of microcredit programs. More importantly, based on the findings related to why microfinance has failed to empower women and challenge the gender norms, there will have strong fundamentals to design appropriate and effective policies for microfinance programs and their clients. Moreover, in the present context of paradoxical conclusions proving both
negative and positive sides of microfinance impacts, it would be a great incentive to study reasons of leading to the paradoxical conclusions.

The objectives of this paper
- The aim of studying the negative side of microfinance is to consider the negative side as lessons learnt. Such lessons learnt can be used to prevent similar failures and initiate new lending, borrowing and saving technology in future microfinance programmes
- There are mixed conclusions about the impacts of microfinance as highlighted above. Therefore, it is a great incentive to learn why studies have come to such diverging conclusions.
- It is important to research whether credit alone is sufficient to empower women and to challenge existing gender norms.

Women’s control over credit and savings
Findings of an adequate number of studies show that giving credit to women can improve economic independence and enhance their threatpoints in the household, bringing about wider impacts at community level, which can change the gender norms and women’s status in the family and society. Women can use profits from loan investment or the loan itself to increasing bargaining power in the household, increasing women’s voice in the decision-making processes of the households and community. Thus the rest of this section will discuss and analyze the practical constraints that limit or block the women’s control over credit and savings.

Goetz and Gupta (1996) make a survey with a range of questions asking women’s control over productive process and use an index of loan control for interpretation from full control over the entire productive process to no control and involvement in these processes. The study shows that majority of women have no or little control over loan according to the criteria. According to this study, most of the loans are invested in male activities. Therefore, male control over the loans is in reality very likely to happen, given women’s constraints of right to control and social, gender norms over the productive process in most of developing countries. From evidence of research, the authors suggest a number of strategies, all having consequences on women, for repayment in case loans are not invested and controlled by women themselves. First, in case of a good relationship, men can provide women money to repay, but the development objectives to give credit to women may be lost. Second, if men invest badly and can not provide installments, women might pay themselves with a reduction in savings, household consumption’s expenditure. Third, in many

instances men are not willing to make repayment for the loans contracted by women, tensions and violence within the families may be increased.

There are some reasons as explained by women to refuse to gain the property right over the resources and intentionally give their loans to other members in the families. From social and cultural view, it is a shame for women to register ownership over “male” assets such as tractors, rickshaws, irrigation pumps. Men are usually seen as breadwinners of the family and are responsible for the whole household’s welfare. (Kabeer, 2001). Given pervasive gender inequalities in many developing countries, women’s ownership of productive assets is hardly recognized at cultural and legal dimensions. Legal systems do not favor women in terms of ownership and property right and women’s names do not appear in the ownership titles of productive assets. Even when women are granted the ownership right, informal social institutions still does not accept this. Therefore, with such great obstacles, there is no incentive for women to invest in productive assets when they can not hold control over them.

Moreover, according to the survey conducted by Holvoet (2006), majority of husbands alone make decision about where to pool resources, who manage the cash. Other studies show that when the size of the loan is increasing, loss of direct control seems to correlate with the increase because most of women’s investments like livestock rearing or paddy husking are too small to absorb larger cash inputs (Goetz & Gupta, 1996, Kabeer, 2001). Consequently, women’s loans are easily turned into household assets and incomes without having women’s ownership of household family assets. Likelihood is that women transfer credit to their husbands just to keep stability of families and acted as an important survival strategies (Sengupta & Aubuchon, 2008, Goetz & Gupta, 1996). In the patriarchal societies, these actions seem reasonable because family’s conflicts and tensions are viewed as humiliation from other relatives and community. Women’s loss of control over the loan can increase their vulnerability and be a further burden for women themselves. Moreover, the loss of control may occur for women living in rural areas where their mobility, occupational choice is limited within the house and village. Pressure of repayment and fear of social sanctioning from other members in the group lending are also factors that contribute to lessen their courage and entrepreneurship to take the loan and to start business themselves. Failure to repayment is considered a serious shame for women and expulsion from village is imminent (Harper, 2007). Therefore, access to credit in this sense is not likely to empower women. The loans can increase the income and consumption for the family, but it is deepening...
the resource division between men and women in the family (Garikipati, 2008).

Interestingly, Rahman (1999) uses the concept of hidden transcript\(^3\) to expose that MFIs’ officers know well that it is men who use the loan in the household and make repayment, but strategies of the local MFIs is to give credit to women, instead of men in order to make field operations and loan transaction easier. From this perspective, women’s honor and credibility seems to be abused by the lenders, making them more vulnerable to microcredit initiatives in case male members in the family fail to make installments. The loss of control over loan has many consequences on women and the whole family. Their loss of control seems to reinforce the gender norms, perpetuating women’s subordination. Positive externalities as explained in the rationale of giving credit to women would not be realized.

Due to gender norms and unequal intra-household relations, women’s contribution in the households is seen as secondary or a very small portion in addition to the source of income from the husband. In many cases, when assessing the women’s control over loan, we should see and analyze beyond the surface of microcredit borrowed by women. For example, women may have control and use over loan, but finally when they earn profit, they hand it over to husband for use and management. By doing so, women’s subordination is reinforced. This kind of facts that was not found very prominently in the literature needs to be studied and documented so that microcredit program and policy-makers can be aware of this and make necessary interventions.

**Reducing poverty for women?**

From a vantage point of poverty reduction and policy-making, it is of great importance to be aware that poverty has characteristics of a particular institutional reality, not a specific characteristic of some individuals or group of people. This institutional reality reduces the collective capacity of community to develop their economic and resource potentials and deprives people of opportunities for exchange and access to resources. The poor are full knowledgeable agents but their agency is constrained by a lack of resources, opportunities and strategic linking capacity which is likely to be guided by some types of cognitive or cultural models (Bastiaensen, 2009).

Given social and cultural constraints faced by women, it seems difficult for women to get out of poverty. It is believed that credit program for women generate positive change in household decision-making, greater bargaining power within the household, access to financial and economic resources, freedom of mobility and social networks (Swain & Wallentin, 2008). All of these factors are based on the assumption that economic independence might produce these changes for women. However, this is not always the case. It can be seen from the telling examples of women’s loss of control over the loan. Due to existing gender inequalities and gender norms, credit for women as the target of credit program to reduce poverty and increase their fall-back position turns out to be controlled by their husbands or other male members in the families. This failure may be attributed not only to the credit program themselves, but to social and cultural norms that prevent women to benefit from access to credit. Therefore, it is logical that poverty reduction may not be achieved without challenging the social and cultural norms.

Another possibility which can exacerbate women’s poverty status emanates from microcredit itself. Field staff with pressure to disburse and recover large volumes of credit may encourage women to take larger loans without further providing non-financial technical services to improve their business, productivity and market for their products. Doing so may have negative consequences on women clients, make them more indebted because larger loans may be misused for consumption needs or misused by men, which have little chance to invest in business or productive activities to have profits for repayment (Goetz and Gupta, 1996). Some countries in South Asia like Nepal and Bangladesh have seen dowries and wedding as status-defining moments. Therefore, it is very likely for women and their families to spend loans on these expensive activities (Shakya & Rankin, 2008).

As argued above, most of MFIs target the poor people just above the poverty line or just below the poverty line and give priority to urban and commercial clients who are expected to have higher returns and indirectly help MFIs to reduce the transaction costs. For MFIs’ strategies to gain financial independence and profit maximization, they prefer to serve the marginally poor and reduce agricultural portfolio (Bastiaensen & Marchetti, 2007; Sengupta & Aubuchon, 2008) because serving the poorest of the poor is more costly than reaching other segments of the market. Hence it is hard to achieve the leverage between financial sustainability and outreach (Conning, 1999). And hence most MFIs still require the help of donor and subsidies for its operations (Sengupta & Aubuchon, 2008). However, the MFIs often charge high interest rates. For example, Banco Sol of Bolivia charges high interests from 12 to 24 percent to be financially

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3. Hidden transcript refers to the invisible and covert practices and interactions that are not explicitly stated in public discourse or official documentation but are nonetheless central to understanding the functioning of a particular system or institution. In the context of microfinance, it explores the underlying social, cultural, and institutional dynamics that influence how credit is accessed, managed, and used by women. This concept highlights the complexities and nuances that are often overlooked in the analysis of microcredit programs. It emphasizes the importance of understanding the hidden or unspoken rules and norms that govern access and control over resources, particularly in contexts where gender norms and cultural expectations play significant roles.
dependent and gain a profit. Grameen Bank in Bangladesh charges an annual interest rate of 20%, which is 8% higher than the commercial bank (Rahman, 1999). It is surprising that clients of one MFI in Mexico, Banco Compartamos, have to pay 94 percent per year on loans (Cull et al., 2009). The rich can borrow the loan with lower interest rate than the poor. As a result, with the responsibility as loanees for paying the installments with high interest rates, it is inevitable women that have to work harder and face more pressure. Otherwise they have to bear heavy consequences (Kabeer, 2001).

By giving credit to women, development practitioners and policy makers expect that women may climb up the financial ladder and step out of poverty, breaking the vicious circle of poverty. This expectation seems to be far from reality. Women’s social, cultural constraints and other specific obstacles like access to the market, specific types of investment with low returns, short-term loans prevent her from expanding the business. Further, by relaxing the financial constraints of women and give them more credit, would they be successful to step out of poverty and become real entrepreneurs? Hence in this case additional finance does not allow to make an additional flow of net income, and microfinance’s contribution is just to ‘make poverty of a more bearable type’ (Bastiaensen, 2009).

In the view of the microcredit program, the poor can be entrepreneurs who are able to run a business and soon get out of poverty. However, naming the poor as entrepreneurs under microcredit program has received skepticism. The self employed make up about a third of labor force in low income countries and these own account workers work alone, hiring no paid employees. World Bank finds out that about approximately two-thirds of the own account workers should be classified as wage workers rather than microenterprise entrepreneurs, based on their ability, motivation and competitive attitude (De Mel et al., 2008).

**Microcredit and Women’s Empowerment: Ongoing Debate**

Over the past decades, microcredit has enjoyed tremendous progress starting from initiative of Grameen in Bangladesh for lending to women and expanding to many nations in the world, including both developing and industrialized countries. Given women’s constraints to credit and for the goal of gender equity, women are the main target of MFIs and have obviously become the main beneficiaries. Microcredit has been regarded as one of crucial tools for poverty reduction and women’s empowerment. Nonetheless, its potential in terms of poverty reduction and women’s empowerment are both subject to being contested and criticized. It is also needed to highlight that the potential in terms of women’s empowerment has received more skepticism than the poverty reducing potential.

Looking at the question whether microfinance can lead to women empowerment, one can refer to many outcomes of studies about microfinance and women empowerment in the literature. Many studies have shown that giving credit to women increases women’s income and also brings about other benefits like better education and health, livelihood diversification, violence reduction, self-confidence and self-esteem etc. In contrast, other studies indicate that credit borrowed by women may be controlled by their husbands, making them more subordinated and increasing domestic violence. Therefore, it is suggested that the empowerment potential is uncertain.

For reflections on the measurement of women’s empowerment, Kabeer (1999) stresses that women’s empowerment is the process by which those have been denied the ability to make strategic choices acquire such an ability. The ability to exercise choices entails three inter-related dimensions: resources including access and future claims to material, human and social resources; agency including processes of decision-making, negotiation, deception and manipulation; and achievements which are the well-being outcomes. It is also argued that the condition for women empowerment to take place is when women challenge the existing norms and culture, to effectively improve their well-being (Swain & Wallentin, 2007). In this sense, activities are considered as empowering when activities require women to demonstrate signs of resistance to the existing norms of the society in order to effectively better their lives. For example, when a woman is showing signs of resisting the restriction of her mobility by her husband or family, she is considered more empowered because she is making effort to enhance her well-being by asserting herself. Women’s empowerment can be viewed differently by the different societies and one activity in this country is considered as empowerment, but not in other countries. For example, mobility of women in public places is a sign of empowerment in Bangladesh, but in Vietnam it is a normal activity for women. In summary, activities should be considered as empowerment if women are challenging the gender and social norms to effectively improve their well-being.

In terms of measuring empowerment under microcredit program, Goetz and Gupta (1996) also use women’s managerial control over productivity: loan proposal, investment in productivity assets, labor inputs, marketing and use of profits. They find that a women’s participation in a credit program
reinforce her traditional and dominant role in the household and in some instances, the loan are controlled by her husband.

Hashemi at al. (1996) introduced and applied eight indicators for measuring empowerment. They are mobility, economic security, ability to make small purchases, ability to make larger purchases, involvement in major decisions, and relative freedom from domination by the family, political and legal awareness, participation in public protests and political campaigning. The authors have applied the indicators for a study in Bangladesh and the result shows that women’s participation in a credit program increase her empowerment level in the household.

There is general agreement that empowerment is a process which is produced in more than one dimension. And an increase in income is not enough for women’s empowerment because intra-household inequalities may prevent women from benefiting from the income increase, even when they are major contributors (Mayoux, 2002). One common dimension is women’s absolute well-being where women’s empowerment is assessed in terms of improvement in welfare of women and girls like health, education, mobility, ownership of assets, contraceptive use. Another important dimension is women’s relative well-being where women’s empowerment is seen in terms of intra-household relations like control over household income and assets, decision-making, control over loans borrowed (Madmud, 2003). It tends to support that there is an inextricable link between the two dimensions of absolute well-being and relative well-being. This is possibly because absolute well-being can lead to relative well-being. Similarly, as already indicated above, practical gender needs can indirectly generate strategic gender needs. But this process may take a long time before it is realized.

For evaluations of microcredit programs, women’s high demand for loans and high repayment rates are usually taken as proxy indicators of empowerment (Goetz and Gupta, 1996). This, however, does not reveal the right meaning of empowerment. Studies show that giving credit to women can generate women’s social and economic empowerment while other studies are showing the opposite. Microcredit can reinforce women’s subordination and produce disempowerment. Evidence has shown that an increase in income does not entail women’s empowerment because there exists gender and social norms governing gender norms in the intra-household relations which lessen women’s bargaining power and prevent their economic autonomy. It is necessary to note that an increase in a woman’s well-being is not necessarily empowering itself. For example, activities to improve children’s nutrition will enhance efficiency in the women’s role in the household. When a woman is better able to undertake such activities, her self-confidence and feeling of well-being will be increased. This may generate conditions to women’s empowerment but are not empowering themselves (Swain & Wallentin, 2007). However, from a strategic point of view, by meeting practical gender needs, microfinance can indirectly lead to women’s empowerment. This is possibly true when gender norms and inequalities are socially internalized; hence, it is not easy to change the people’s perception and requires a long process to alter the accepted systems.

Besides, it is assumed that the empowering process is triggered only by exogenous events, missing the importance of pre-conditions like socio-economic status, intra-household relationships, life-cycle situation, local practices and social norms, in shaping the environment where new experiences can or can not be empowering (Madmud, 2003).

**Conclusion with Policy Implications**

Both positive and negative impact is evident from the above analysis on the impact of microfinance. The jury is still out on whether microfinance has generated significant economic stability, women empowerment or gender equity. Moreover, microfinance is diverse, complex and context specific. For poverty reduction and gender equity, the role of the state is very vital for creating an enabling framework where development interventions including microfinance can enhance and produce expected outputs. Microfinance is not a panacea to tackle all the causes of poverty and it may take a long time to bring about gender equity and women’s empowerment. Therefore, it needs a comprehensive strategic and long-term policy package to reduce poverty and gender inequalities with the involvement and strong commitments from all pertinent stakeholders like government, non-governmental organizations, private sectors, donors etc.

Different countries obviously have different social, cultural, economic and political landscapes and women also face different opportunities and constraints in accessing to microfinance and gaining benefits from it. Gender inequalities are still persistent in many countries in the world and the degree of inequalities is quite different and highly context-specific. The differences may lead to the fact that some microcredit programs are successful in this region or this country, but not in other region or country. To avoid failure and to supply enough evidence so as to design the most suited microloan products to female clients; it is recommended to
undertake study and research on the demand and supply side of microfinance in each region and country.

Identification of specific constraints from the demand side as well as supply side will help to deal with the problems as well as develop suitable and effective products. The constraints at the demand side can be limited family resources, lack of education, entrepreneurship, experience, lack of self-confidence, lack of time, fear for being in debt, complicated borrowing procedure. The constraints at the supply side can be gender-blind microfinance policy, loan products and lack of appropriately additional and attractive non-financial services for women. Finding out specific causes for the constraints will help MFIs and government agencies to develop appropriate solutions to deal with these root causes.

Donors play an important role in shaping the development of MFIs because most of microcredit program are still receiving the financial support from donors. Therefore, donors should not support MFIs unconditionally rather than with pro-poor conditionality for financial viability and corporate social responsibility. The donor’s funding can be used for improving MFIs to develop the rural outreach and develop microfinance products for agricultural activities.

Notes
1. Microfinance is about the provision of services like credit, savings, insurance, accounts, payment services, international transfer, microleasing and microfinance targets at the unbankables excluded from formal financial and banking institutions through innovative financial technologies of ‘proximity’ such as the model of Grameen Bank in Bangladesh (Bastiaensen, 2009).
2. Triple roles are reproductive role, productive role and community managing role. For more information, see the definitions of Moser, C., at the website: http://www.ilo.org/public/english/region/aso/mdtmanila/training/unit1/groles.htm
3. Hidden transcript is about discourse & actions that take place “offstage”, beyond the observation of the power holders (Scott, 1990)
4. Net income is gross income minus financial costs.

References


