

**BANKING FOR BETTER LIVES:
THE IMPACT OF MICRO-FINANCE ON WOMEN AND THEIR HOUSEHOLDS**

Kaleigh Davis

University of Arkansas School of Law, Candidate for Juris Doctor, 2012
University of Central Arkansas, B.A., 2009
Conway, Arkansas 72035
501-539-0094
kaleighchristina@yahoo.com

Lauren Maxwell (contact)

Department of Economics, Finance, and Insurance and Risk Management
University of Central Arkansas
Conway, Arkansas 72035
501-450-5341
laurenm@uca.edu

Joseph Horton

Department of Economics, and Finance, Insurance and Risk Management.
University of Central Arkansas
Conway, Arkansas 72035
501-450-5310
jhorton@uca.edu

ABSTRACT

This paper explores micro finance: its origin, evolution, and rationale for targeting women. When loan applications require credit histories and collateral, traditional lenders make it impossible for thousands of the world's poorest people to acquire loans. Microfinance was created to reach this population by keeping loans small, targeting women, adopting group-based lending, instituting small and frequent savings deposits, and requiring high interest rates (Johnson 1997). Micro-finance was established by Muhammad Yunus, who changed the lives of the ultra-poor by founding Grameen Bank, the original micro-lending institution (Yunus 1999).

Introduction

Micro finance is the theory and practice of empowering the poor through small individual loans (Johnson 1997). Eligibility for traditional loans requires a credit history and collateral which make it impossible for thousands of the poorest people to obtain a loan. Microfinance was designed to reach this population by keeping loans small, targeting women, adopting group-based lending, instituting small and frequent savings deposits, and assessing high interest rates (Johnson 1997). The Microcredit Summit Campaign defines the poorest families as the bottom 50% of those living below their country's poverty line or those living on less than \$1 US a day adjusted for purchasing power parity (PPP). This definition of "the poorest" means that 1.2

billion people, or 240 million families, live on less than \$1 US a day (Daley-Harris 2007). For the worlds ultra-poor, the majority of whom are women, there is no collateral and no credit history. Therefore, women, those most in need, are denied loans. The creation of micro finance institutions has been a means to change this.

Why target women? Women are most often responsible for children and poverty among women generally results in physical and social deprivation of their children. Experience shows that women are a good credit risk, that women invest their capital in the well being of their families, that women themselves benefit from higher status when providing for their families (Daley-Harris 2007). This paper explores micro finance: its origins, effects, evolution, and reasons for targeting women. Figure 1 below shows the relationship between the number of families living in absolute poverty in each region of the world (i.e., those living on less than \$1 a day adjusted for PPP) and the number of families reached through micro loans in each region at the end of 2006 (Daley-Harris 2007).

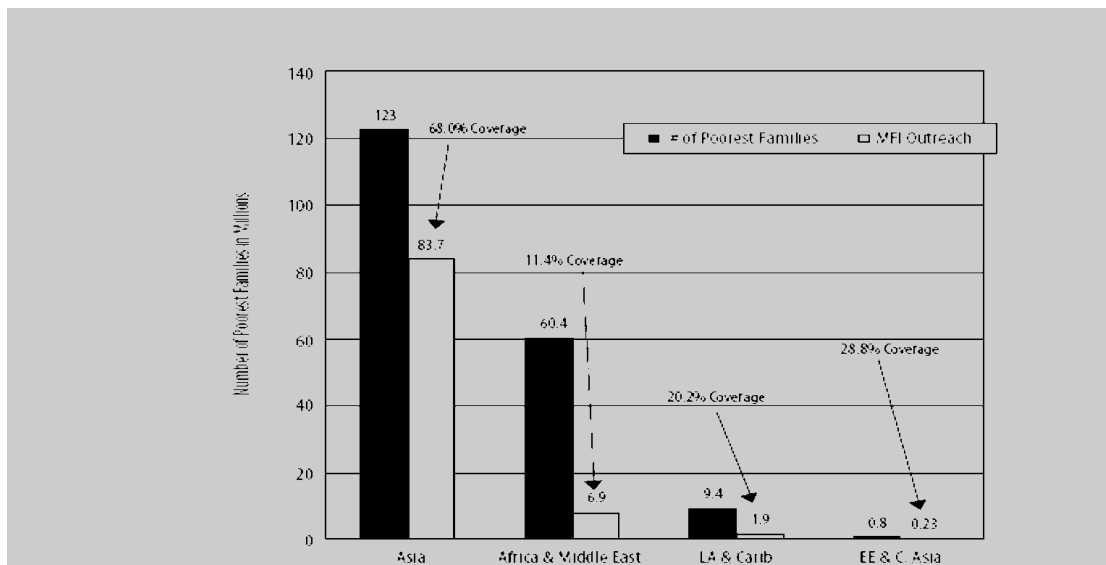


Figure 1: Regional Breakdown of Access to Microfinance, from the Microcredit Summit Campaign Report 2007 (Daley-Harris 2007). Author permission to reprint 10-27-2010.

Origin of Microfinance

Micro-finance originated in Bangladesh by a university professor, Muhammad Yunus, who wanted to change the lives of the ultra-poor, and stop the 35,000 deaths of children from hunger-related diseases which occur each day (Yunus 1999). Yunus founded the Grameen Bank, a micro-lending institution to solve the problem of poverty. This professor wanted to make a difference, additionally; he wanted his students to understand poverty from a personal viewpoint (Yunus 1999). Since its inception, a variety of institutions based on the Grameen model have been established in countries around the world.

Johannes Sannesomoen, Former Head of the Microfinance Department of the Strømme Foundation, Norway said, “In 1979 the Nobel Peace Prize went to Mother Teresa for her work to help the poor die with dignity. In 2006 the Nobel Peace Prize went to Muhammad Yunus for his work to help the poor live with dignity” (Daley-Harris 2007). Yunus felt the ability to expand home-based businesses would be of the greatest benefit to the poor, and lack of funding, not lack of skills, was the problem. He said, “Giving the poor access to credit allows them to immediately put into practice the skills they already know...” (Yunus 1999).

Traditional lending in Bangladesh is through village moneylenders who charge exorbitant interest rates. The rates were so high that many villagers obtaining a loan were barely able to break even, let alone generate a profit (Yunus 1999). For example, when a woman who makes bamboo stools buys bamboo, she must borrow twenty-five cents. In order to borrow the money, she must sell her stools back to the lender, a “middleman”, at the end of the day for a two-cent profit (Yunus 1999). This woman is wary of borrowing from a moneylender to buy the raw materials herself because they charge much higher interest, and she knows that people who deal with the moneylender often find themselves poorer. Yunus realized that for a woman to break this cycle of poverty she needed to acquire enough money to buy her own raw materials, make a reasonable profit, pay back the loan, and move toward self-sufficiency (Yunus 1999). Yunus thought that rather than requiring a balloon payment at the end of the loan as with traditional loans, Grameen Bank would require weekly payments, beginning one week after the loan was given, payable over twelve months at twenty percent interest, with mandatory group lending to increase the reliability of repayment (Yunus 1999).

With group lending, administrative costs are reduced and interest rates are kept low. The group leader is responsible for collecting payments from all members of the group, and all collections are required on the same day. The loan officer or collection agent, collects from the group leader, not from each borrower. He can, therefore, collect from more borrowers. Moreover, the simplified method of loan collection reduces costs by having loan officers with a lower skill level who require lower wages (Banerjee and Duflo, 2010).

At Grameen, group lending required a certified group of five women. A loan would be awarded to two group members and if the two made payments regularly over the next six weeks, two more members could request a loan, and so on. To be a certified group, all members must present themselves to the bank, complete at least seven days of bank policy training, and demonstrate their understanding of those policies through oral examination (Yunus 1999). Borrowers are required to deposit five percent of each loan into a group fund from which members may obtain an interest-free loan, provided all group members approved and the loan did not exceed available funds. If an individual could not, or would not, repay a loan, the entire group would be ineligible for loans until the repayment problem was resolved (Yunus 1999). Weekly meetings of the members of the group help to build the solidarity of the group and provide an opportunity for the members to learn from each other and from a representative of the lending institution. Many micro-finance institutions, including the Grameen Bank are moving away from joint liability for loans but are retaining required weekly meetings as these seem to be especially beneficial (Bannerjee and Duflo 2010).

Group lending and especially the weekly meetings act as an incentive for borrowers to help each other solve problems and to prevent problems from occurring (Yunus 1999). Groups may also request assistance from other groups in their “center”, a federation of up to eight groups in a village that meet weekly with a bank employee (Yunus 1999). A center chief is elected to manage that center’s affairs, help solve problems, and work closely with the bank employee assigned to the center (Yunus 1999).

Alex Counts, who worked with Yunus at Grameen Bank, says that the system was radical in both methods and outcomes, since there were many women in Bangladesh who had never previously touched money, much less manage it (Yunus 1999; Counts 1996). The results are also noteworthy in community involvement. For example, in the 1996 election in Bangladesh, more women than men voted for the first time in that country’s history, due mainly to encouragement from bank branches to vote in blocs in order to avoid intimidation and to ensure people would actually vote (Yunus 1999).

The development of the new lending system had its difficulties, because many opposed lending to women. Bangladesh in particular has a long history of oppression toward women. For example, women cannot initiate a legal divorce, cannot travel outside their home after puberty, have no say in savings or investments, receive frequent beatings and verbal abuse from their husbands and in-laws, and are often blamed for natural disasters such as floods, droughts, and bad harvests (Counts 1996). At the macro level, there are two major obstacles to micro lending; the leftists, who accuse micro finance institutions of robbing the poor and of ruining their prospects for revolution; and the Muslim clerics, who feel that micro lending is destroying their culture and religion (Yunus 1999).

At the micro level, there were four major sources of opposition to women receiving loans. The first source of opposition comes from husbands who want money for themselves (Yunus 1999). The second source of opposition is from religious leaders who say the bank will sell the women into slavery, dump them in the ocean, torture and tattoo them or sell them into prostitution (Yunus 1999). The third source of opposition is from moneylenders who see banks as a threat to their authority and control, and the fourth source is from civil servants and professionals who feel that men, not women, need the loans (Yunus 1999).

Target: Women

Women are the world’s largest minority and the majority of the poor, underemployed, and economically and socially disadvantaged (Yunus 1999). Women comprise 70 percent of those living in poverty worldwide and 75 percent of illiterate adults. Two-thirds of children who do not receive an education are girls, and 80 percent of refugees are women and children (Raven 2008). Women are eager and successful in improving their personal welfare and that of children and men. When micro finance empowers women, it empowers their families and communities as well (Yunus 1999). For example, in Maraba, Rwanda, less than two decades after the nation’s genocide, the area again grows Arabica coffee beans that are served globally in the finest restaurants. The people producing this crop are no longer men, but women (Faiola 2008). Officials in Rwanda note that women are more likely to invest their profits in family, home, nutrition, savings and education (Faiola 2008).

The introduction of women to the work force is changing gender views for current and future generations. Now, younger generations of males and females see the power and potential of women. A high school junior in Rwanda said, "I think that now boys and girls are different than they were. Today, women are in business; before, if a woman had some money, she would have to give it to the man. They could not compete against the man. But now, they are competing and doing better" (Faiola 2008). The Minister of State in charge of Agriculture said, "Rwanda's economy has risen up from the genocide and prospered greatly on the backs of our women. Bringing women out of the home and fields has been essential to our rebuilding. In that process, Rwanda has changed forever... We are becoming a nation that understands that there are huge financial benefits to equality" (Faiola 2008). Today, 41 percent of Rwandan businesses are owned by women, the second highest percentage of female entrepreneurs in Africa. One woman returning home after the genocide built the largest nonagricultural export business in Rwanda. Her firm sells baskets to Macy's (Faiola 2008).

Micro finance has been instrumental in coordinating social, economic, and governmental objectives. CARE, a non-profit organization dedicated to the assistance and education of women and children, operates a "Fast Track" program in Afghanistan helping over 2,000 girls complete six school grades in three years, which allows them to re-enter public schools at an age-appropriate level (Raven 2008). By employing women as teachers and principals, the schools provide employment for an additional 120 women who would not otherwise have jobs in a country where the Taliban's influence leaves millions of girls behind in school and women unemployed and marginalized. Girls benefiting from the program have stated that education enables them to be financially independent and that they plan to pay the educational expenses of their sisters (Raven 2008). The Cairo Population Conference of September 1994 noted that birth rates among Grameen families were significantly lower than the national average. These families were determined to have fewer children, better educate the ones they have, and participate in democracy (Yunus 1999).

Below is a graph from the Microcredit Summit Campaign 2007, which shows that at the end of 2006, 85.2 percent of the poorest clients reached are women. From 1999 to 2006, the growth in the number of very poor women reached increased 668 percent representing an additional 68.8 million of the poorest women receiving microloans in the last seven years (Daley-Harris 2007). Figure shows the growth in the number of poorest women receiving micro loans during the last seven years.

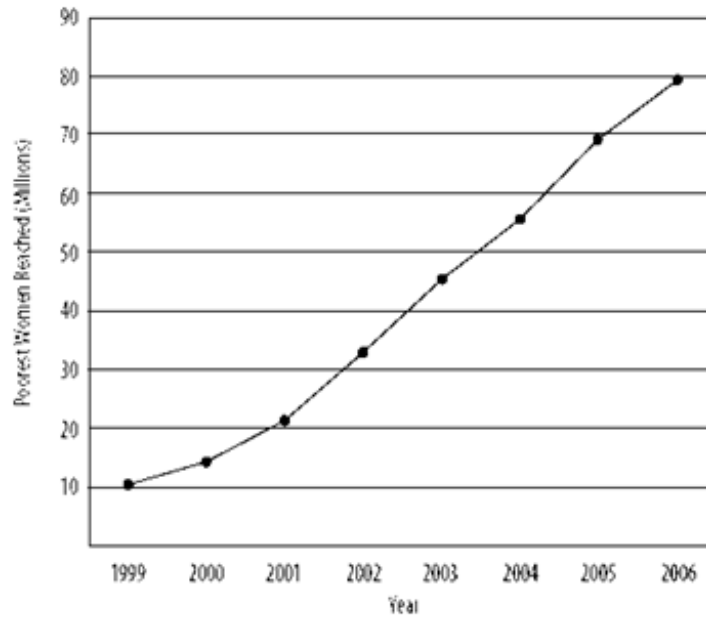


Figure 2: Growth in Poorest Women Clients Served, from the Microcredit Summit Campaign, 2007 (Daley-Harris2007). Author permission to reprint 10-27-2010.

Evolution of Microfinance

Micro-finance has spread around the world. Figure 3 below shows regional micro finance data as reported to the Microcredit Summit Campaign Report 2007.

Region	Number of programs reporting	Number of total clients in 2005	Number of total clients in 2006	Number of poorest clients in 2005	Number of poorest clients in 2006	Number of poorest women clients in 2005	Number of poorest women clients in 2006
Sub-Saharan Africa	970	7,429,730	8,411,416	5,380,680	6,182,812	3,422,825	4,036,017
Asia and the Pacific	1,677	96,689,252	112,714,909	74,330,516	83,755,659	63,934,812	72,934,477
Latin America & Caribbean	579	4,409,093	6,755,569	1,760,405	1,978,145	1,258,668	1,384,338
Middle East & North Africa	30	1,287,318	1,722,274	387,951	755,682	321,004	621,111
Developing World Totals	3,256	109,815,393	129,604,168	81,859,552	92,672,298	68,937,309	78,975,943
North America & Western Europe	39	55,707	54,466	13,318	25,265	7,862	11,765
Eastern Europe and Central Asia	21	3,390,290	3,372,280	76,166	225,011	47,856	142,873
Industrialized World Totals	60	3,445,997	3,426,746	89,484	250,276	55,718	154,638
Global Totals	3,316	113,261,390	133,030,913	81,949,036	92,922,574	68,993,027	79,130,581

Figure 3: Regional Breakdown of Microfinance Data, from the Microcredit Summit Campaign Report 2007 (Daley-Harris 2007). Author permission to reprint 10-27-2010.

A variety of successful Grameen replication programs have been created in Europe, Asia, Latin America and Africa (Yunus 1999). One source says that a key problem facing micro-lending in Africa is overlooking the contributions of small businesses and their ability to transform economies (Ford 2007). Professor Yunus said, "Micro-credit ignites the tiny economic engines of the rejected underclass of society. Once a large number of tiny engines start working, the stage can be set for bigger things" (1999).

Micro-lending in Africa also targets women with AIDS. The U.N. Development Program, in coordination with PlaNet Finance, a Paris-based micro-finance institution, launched a pilot program in Burkina Faso to improve access to microfinance projects directly supporting HIV/AIDS victims and their families (Sapp 2007). Sapp writes, "By incorporating HIV/AIDS support and education in to microfinance programs, microfinance institutions worldwide are not only addressing head-on the overwhelming financial and social challenges associated with the epidemic, but now have a financially viable way to address its toll on microfinance projects and poverty reduction strategies" (2007).

Starting small is sometimes better than starting big and having personal contact with loan recipients is rewarding. Seeing firsthand the benefit of a single loan to an individual or a small business with no previous access to financial assistance is an incredible experience. One employee of Urwego Opportunity Bank, in Kigali, Rwanda, had this experience in the summer of 2007, when the bank was visiting recipients in the countryside (Davis 2007). One loan recipient was a woman who invested in an electrical pole for her hair-cutting business and expanded her business to cover a 50-mile radius. With the profits, she was able to send her children to school, and help her husband start a bicycle taxi business. Another example is of a restaurant started by a woman receiving a loan. With the loan, she built a new home and converted her old home into a market-day restaurant where she employs additional women. Other loans to women were for items such as a cell phone to establish an international pay phone, a loom for weaving, and windows and doors to increase family health and security (Davis 2007).

In India, a wonderful example of micro finance is the Dilli Haat market in Delhi. This market offers an array of crafts, food, cultural activities, and handcrafts from all parts of the country, ranging from intricate carvings and embellished camel hide footwear, to sophisticated fabrics and drapery. The market stalls are allotted on a rotational basis to the craftsmen, usually for about fifteen days (Commerce 2007).

The Western Hemisphere has also felt the positive impact of micro-finance. A Brazilian study shows that money managed by women in poor households is 20 times more likely to be spent on improving conditions in the home than money managed by men (Faiola 2008). In Mexico, one institution's repayment rate reached 95 percent. Micro-finance banks and the loans they offer have had a positive effect in curbing illegal immigration across the US-Mexican border by funding home-based entrepreneurs (Medrano 2007).

The United States Agency for International Development (USAID), works from offices of American embassies around the world. Mr. Rafael Eduardo Cuellar, Manager of Agricultural Projects for USAID in El Salvador explains the USAID finds deserving small businesses, and lends funds from the economic department of the embassy. For example, in El Salvador, many

people are involved in the textile industry. El Salvador's national dye, a purple-blue native to the country, is used to color many of the locally produced textiles. The USAID matches entrepreneurs with loans, and regulates the investment to optimize profits. Since many of these businesses are home businesses, the USAID makes site visits to ensure the money is used for its intended purpose. USAID does not actually give money, that is the embassy's job; but it coordinates and regulates loans after they are approved (Cuellar 2008).

Grameen Bank has had US micro-lending organizations in Chicago, South Dakota, Brooklyn, Los Angeles, and Boston (Counts 1996). One of the most successful programs in the US was in Chicago where women may access loans of \$300-\$1,500 US dollars, if they agree to join a group of five or more peers. Prospective borrower's credit ratings and collateral are not considered as part of the loan application process (Counts 1996). Muhammad Yunus said, "...the relative wealth and sophistication of a society is irrelevant. The fundamental point is always the same: the worst off in any country are denied credit, the access to which, under the right conditions, can dramatically alleviate their poverty" (Counts 1996).

The technological world has also benefited from microfinance. With the Internet, micro-finance loans can be made on-line, by individuals, groups, and businesses. An example is Kiva. From the Kiva webpage you connect with and loan money to unique entrepreneurs in the developing world. By choosing a loan on Kiva, one can "sponsor a business" and assist the world's working poor in attaining economic independence. Throughout the course of the loan (usually 6-12 months), the lender receives email journal updates from the sponsored entrepreneur. As loans are repaid, the sponsor is repaid (Kiva 2008). The website allows everyone to participate in the micro loan process; one needs only a willingness to give and to be involved.

When Kiva has a qualifying loan applicant, it makes the loan or at least a commitment. It does not wait for the money to come in from investors who choose an applicant. When the investors send money for a particular applicant, that money may be thought of as replacing the original loan funds. These funds are then available for additional loans. The opportunity for investors to select a particular recipient has been a very successful method of raising funds. The cost of funds is very low since the investors are social investors who receive zero interest on their investments (Roodman 2009).

The future of microfinance is bright. Its growth may be seen in the chart below which shows an increase in the number of loans since 2005, the projected growth until 2015, and growth needed to reach 175 million by 2015. Figure 5: Growth Trajectory, 2005-2015, is below:

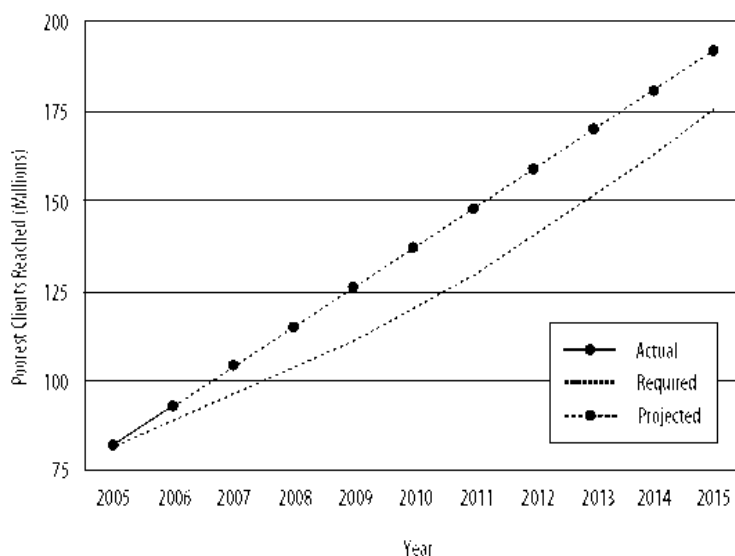


Figure 5: Growth Trajectory, 2005-2015 from Microcredit Summit Campaign Report 2007 (Daley-Harris 2007). Author permission to reprint 10-27-2010.

Any rapidly growing economic activity is likely to attract the attention of those interested in profits. Traditional microfinance receives subsidies from socially minded investors and governments which amount to about \$233 per borrower for the median lender. It is to be expected that lenders which depend on investors who are not socially minded and which receive little or no government subsidy will have to charge higher rates. For example, Mexico imposes value added taxes as high as a 15percent. However, in some cases the rates even from apparently legitimate lenders may shock many enthusiasts for microfinance. Banco Compartamos of Mexico, which says that it specializes in small loans to low income women, charges interest rates approaching 100%. Muhammad Yunus said, “When socially responsible investors and the general public learn what is going on at Compartamos, there will very likely be a backlash against microfinance” (Cull, Demirguc-Kunt, Morduch 2009). Compartamos is a large organization with more than 8,000 employees, and 1.6 million clients. It reports a non-performing loan ratio of only a little more than 2%. Its return on equity is reported as more than 40% (Compartamos Banco Reports). Despite Compartamos’ emphasis on serving women borrowers, commercial microfinance lenders have a much smaller percentage of women clients than do non-profits. In 2004 its return on equity was more than 50% (Cull, Demirguc-Kunt, Morduch 2009).

Microfinance is important and can help individuals and families overcome extreme poverty. However, it should not be the only approach to poverty reduction. Education and jobs are likely to be more reliable paths out of extreme poverty for most people, both male and female. Also, care must be exercised in terms of women’s empowerment so that women do not become mere fronts for male family members who really obtain the loans for their own purposes. Not many people actually have the temperament and abilities to be successful entrepreneurs. Jobs, even not very good jobs, are likely to be a more effective method of alleviating extreme poverty (Karnani 2010; Krugman 1997).

Conclusion

In conclusion, micro-finance banks and micro-lending theories are changing the world. "... micro-credit cannot solve society's every problem. But it can help to support those who would otherwise fall through the cracks" (Yunus 1999). Micro-credit has created a viable and realistic approach to the alleviation of poverty, a way to empower people to help themselves. Grameen Bank has provided credit to over seven million people, of whom ninety-seven percent are women, and the majority of the loans are for less than \$100 US dollars (Ford 2007). This life-altering approach to credit, and the opportunities it provides have changed the lives of individuals, especially women, around the world.

At the end of 2006, 3,316 micro-finance institutions reported reaching 133,030,913 clients, and of these clients, 92,922,574 were among the poorest when they began the program (Daley-Harris 20). Muhammad Yunus, winner of the 2006 Nobel Prize said, "Poverty does not belong in civilized human society. Its proper place is in a museum" (1999). And that museum is being built slowly but surely, as each additional ultra-poor person receives a loan, starts a business, and realizes their potential. "We have created a slavery-free world, a small-pox free world, an apartheid-free world. Creating a poverty-free world would be greater than all these accomplishments while at the same time reinforcing them. This would be a world that we could all be proud to live in" (Yunus 1999).

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