



Microfinance, gender and aid effectiveness

Microfinance attempts to address the lack of access to financial markets by the poor. It focuses on providing micro-credit - small collateral free loans – to the very poor for self-employment. Other financial services such as savings and insurance (known as microfinance) can also be provided. There are two main rationales for investing in microfinance. First, it can be seen as being part of integrated programme for poverty reduction for poor households. Second, it can be seen as a means of providing financially self-sustainable programs that increase access to finance for large numbers of poor people. In this scenario, microfinance is seen as addressing a market failure.¹

Around two thirds of microfinance clients around the world are women.² Under the first rationale for investing in microfinance (integrated poverty programme) the focus tends to be on women because they are often the poorest and are responsible for household welfare, whereas in the second, women are the focus because they tend to have higher repayment rates.

The purpose of this note is to examine the way that gender is treated in microfinance activities. It argues that irrespective of the primary rationale for supporting a microfinance activity, gender should be fully integrated into design from the beginning. This includes having a clear gender objective in the design of the program and a monitoring and evaluation system that collects data on specific gender indicators.

Possible Impacts of microfinance on women

Properly planned and implemented microfinance projects have the potential to help attain the Millennium Development Goals (MDGs). This includes MDG 3 on gender equality and women's empowerment as well as to the MDG relating to poverty alleviation and less obviously, those relating to education, health and child mortality.

However, microfinance activities that do not adequately consider the social, cultural and gender impacts of providing access to resources can harm the people that they set out to help. This is a particularly the case in relation to women.

Microfinance which targets women as clients either for poverty reduction reasons or because they tend to have higher repayment rates can generate unintended consequences. Mayoux argues the actual contribution of microfinance projects is often limited or

¹ Note: A third rationale for engaging in microfinance relates directly to empowering women. AusAID has not engaged in microfinance activities with this as a primary reason to date.

² Source CGAP: Who are the clients of microfinance? Available at www.cgap.org

produces negative gender impacts³. The literature review for the Office of Development Effectiveness Gender Based Violence Evaluation picks up on this point:

‘ Although micro-credit strengthens women’s ability to stand up to family violence, in some cases it has increased violence against women and family break-ups.’⁴

Other possible negative gender impacts of microfinance relate to how decisions are made on spending funds after women have them. For example, expenditure decisions may continue to prioritize men and male children, leaving women and daughters out. Not only does this reinforce gender based disadvantage, but it may also involve worse outcomes in terms of overall family welfare. In other instances, the responsibility of women to repay loans may absolve men of responsibility for the household, further entrenching poverty.⁵

In addition to the negative consequences micro-financing can have on gender relations within the home, other disempowering impacts come about because of poor design. For example, microfinance activities can confine women to low income activities, restrict them to inflexible methods of repayment and impose large time imposts on them as a requirement of the loan.

Microfinance projects can therefore be strengthened by specifically addressing gender issues. The microfinance projects that most successfully address the issue of women’s status do their homework first regarding possible gender impacts. They also incorporate specific gender indicators in their activity monitoring. Regular monitoring helps to track the effectiveness of the microfinance activity and helps identify potentially negative impacts on women early so that they can be addressed.

There are several guidelines available to be used at the design stage and throughout a microfinance activity which can help ensure that they work for women, see for example those developed by Johnson.⁶

Evidence from microfinance activities which have integrated gender concerns

Australia has supported several very successful microfinance activities including BRAC in Bangladesh and Capital Aid Fund for Employment of the Poor (CEP) in Vietnam. Data on gender impacts varies in evaluations of these activities due to differences in the monitoring of gender related issues.

³ Mayoux L (2006) Women’s empowerment through sustainable microfinance: rethinking best practice available at www.genfinance.net

⁴ United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP), Economic and Social Survey for Asia and the Pacific (2007) p. 123, cited in literature review for ODE Gender Based Violence Evaluation (unpublished)

⁵ Drawn from Conceptual Framework on the Effects of Microfinance on the Status of Women, Appendix 15. ADB report (cited below)

⁶ Johnson, S. Gender and Microfinance: Guidelines for Good Practice. Available at: www.gdrc.org/icm/wind/gendersjonson.html

BRAC is an integrated program of poverty reduction for poor households. It provides loans to poor women in combination with various forms of skills training, non-formal primary education for children of BRAC members, health care, social development services and the creation of grassroots organisations for the poor. An Impact Assessment in May 2007 of the North West Microfinance Expansion Project showed that there was an improvement of knowledge and awareness of legal issues among the beneficiaries, including issues around marriage and divorce. Domestic violence also decreased over time⁷. Other evaluation of BRAC activities shows similar findings in relation to gender impacts. Participation of women in BRAC was found to increase the empowerment of women, despite 53% of women handing over their loan money to their male household members for use. Overall women's participation in BRAC was found to increase their self confidence and reduce their dependence on male household members.⁸

CEP, based in Ho Chi Minh City, formally targets poor households, not poor women. The decision on who to fund is entirely financial, and 75% of CEP's clients are women. CEP is an example of an approach aimed at addressing a market failure in access to finance. The program has a gender objective, and a recent completion report cites evidence of the high proportion of women clients as evidence that this objective is met.⁹ In addition, a 2005 CEP impact assessment survey of 243 female clients found that since joining the CEP program they had participated more in decisions made by the household and community, 52 % of women reported they had more confidence and a more significant role in decisions taken in household and community.¹⁰

Evidence from a recent Asian Development Bank evaluation of five microfinance projects supports the importance of considering gender in all aspects of microfinance projects.¹¹ Despite mixed results overall, the evaluation found that the projects had positive effects on women. In particular it found that women had:

- A greater role in household generation of cash
- Greater involvement in major expenditure decisions and generating cash savings
- Ability to generate more income on their own and greater role in business decisions
- Acquisition of more skills and expanding their network of friends and support system
- Increased acquisition of assets.

All of the projects in the ADB evaluation were found to have specifically considered improving the status of women in their design and implementation. Designs included measurable indicators and targets for participation of women and activities to help develop

⁷ Barua P and Sulaiman M (2007) Draft Impact evaluation and client satisfaction of North West Microfinance Expansion Project, Research and Evaluation Division BRAC.

⁸ Halder S R The BRAC Micro-finance approach and its impact at individual household and beyond household levels: A synthesis, Research and Evaluation Division BRAC.

⁹ CEP (2008) Completion Report available on www.cep.org.vn

¹⁰ CEP (2006) An Impact Assessment of the Microfinance Institution Capital Aid Fund for Employment of the Poor

¹¹ ADB (2007) Effect of Microfinance Operations on Poor Rural Households and the Status of Women

entrepreneurial skills. The role of women in their societies was analysed to identify gender issues. This is reflected in good results in relation to women's empowerment. In some projects up to 70% of women felt empowered after participating.

The examples highlighted in the above two sections show that microfinance can have positive impacts on women, but that these cannot be taken for granted. The downside of not undertaking gender analysis in activity design can be that women and girls' disadvantage is entrenched and overall poverty alleviation targets are not met. In practical terms for donors - ensuring that this does not happen means incorporating explicit objectives around gender in activity design, greater investment in analysis, collection of baseline data and careful monitoring – particularly of issues such as domestic violence.

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