Microfinance and Gender Equality: Are We Getting There?

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1. Introduction

This paper is written in conjunction with and drawing on the paper entitled: '"Just the Facts, Ma'am": Gender Stories from Unexpected Sources with Morals for Microfinance' written by Susy Cheston for the Microcredit Summit 2006. Cheston's paper does not focus on the issue of how microfinance contributes to gender equality, but directs readers to useful material that has ably covered this topic since the Campaign commissioned reporting on women empowering in 2002, and particularly the paper in the book Pathways Out of Poverty[1] or on the Microfinance Gateway.[2]

Cheston's paper rides on the recognition of women as a market to be served and as a force in the development of their own communities. She attempts to go beyond this to address a series of questions: How well do we "see" this previously invisible market? Do we believe that it's truly worth serving and that it can be a profitable market? And do we know the market as well as we should in order to serve it well?

2. Lessons from the 'hard facts'

Using case studies with demonstrated 'hard facts', Cheston gleans lessons that can be applied to microfinance activities, and especially with regards to gender equality:

- Serving women is a profitable business. The Wells Fargo Bank found this to be true.

[1] Susy Cheston & Lisa Kuhn, "Empowering Women through Microfinance," Pathways Out of Poverty: Innovations in Microfinance for the Poorest Families, (Kumarian Press, 2002).
[2] <http://www.microfinancegateway.org/content/article/detail/3240>

- The market was barely served and therefore was available as seen from the Wells Fargo example. There was hardly any competition and so provided easy entry.
- Women bring valuable perspectives of assets, needs and challenges. These become critical in designing appropriate products that will be accepted by the market.
- Women leadership also avails wider spectrum of talent, creativity and diversity
- Serving women from a development perspective creates broader benevolent effects. Incomes accruing to women usually benefit their families through improved nutrition, health, education, etc.
- The microfinance industry has proven that women tend to be better payers and so improve repayment rates for microfinance institutions.
- It has also been proven that women work better in groups and so help create efficiencies for institutions.

Cheston posits the conclusion that gender equality improves the bottom line of development. Literature on gender equality endorses this view. Microfinance has therefore been seen almost as a panacea for improving livelihoods and especially when a gender dimension is included, with particular focus on targeting women.

3. Is microfinance getting there?

This paper recognises the benefits that accrue to households as women are better empowered financially, but also laments the need for more radical approaches to counter what might seem like inertia to fully engage women empowerment in microfinance. In this context, women's empowerment relates to increasing access to credit and other financial services that enable women to increase their incomes so they can better improve themselves and their families.

This paper will engage with the practitioners' view in the extent to which they can fully embrace approaches that are steeped in gender sensitive thought processes. There is enough evidence that designing gender sensitive products will add to the development bottom line, which to all intents and purposes should be equal to the mission of any pro-poor microfinance programme. Some questions remain cardinal though: Why isn't the microfinance industry doing better in gender equality? What needs to be done to improve this situation?

4. The debate thus far

It is important to note that the discussion on empowering women in microfinance often attracts diametrical views depending on the premise, enquirer and/or reader. This paper recognises that the debate tends to crystallise at the point of clearly attributing impacts to microfinance and in particular women's empowerment.

There are critics who hold strong views that approach that group women to access loans do so only to support their product design. They argue that microfinance institutions can reach sustainability by using the advantage of critical mass and still empower women, thereby ensuring congruency of purpose. However, the question remains whether strategic gender interests can be achieved while MFIs are trying to attain sustainability. It has been noted that there are negative consequences of this double-pronged approach and that these consequences might not necessarily inform improvements to product design and packaging.

While this paper will not dwell on this debate, it is important to note that microfinance does in fact impact both the institution and its beneficiaries. Over the years, tension has been created in terms of prioritising between the impact on the institution and that on its clients. Both ends of the debate have strong viewpoints. The whole essence of microfinance is to create access to client-useful financial services for the ultimate purpose of improving livelihoods. The targeting of women is a forgone conclusion in terms of maximally impacting the family. Stakeholders have driven the agenda to see empirical evidence of this impact though this has not been without its criticisms due to the fact that the unpredictability of people's attributes makes it difficult to scientifically measure impact.

Apart from the discussion on empowering women, donors have been pushing MFIs towards sustainability to reduce operational subsidies. In order to significantly reduce operational costs towards this end, MFIs have had to carefully work with approaches that reduce these costs. Commercialisation in recent years has seen discussions that focus largely on the organisation's bottom line in order to create more robust operational frameworks.

Regulation has also propelled MFIs into the regular financial sector realm with regulatory expectations. Issues of the right operational systems, professionalism and a strong business case have come to the fore. The industry is being propelled into the regular financial landscape where rules are more defined and non-compliance can be disastrous for the MFI.

Consequently, two discussions emerge that seem separate: impact on the client and impact on the institution. This is the gist of this paper's discussion.

5. The issues

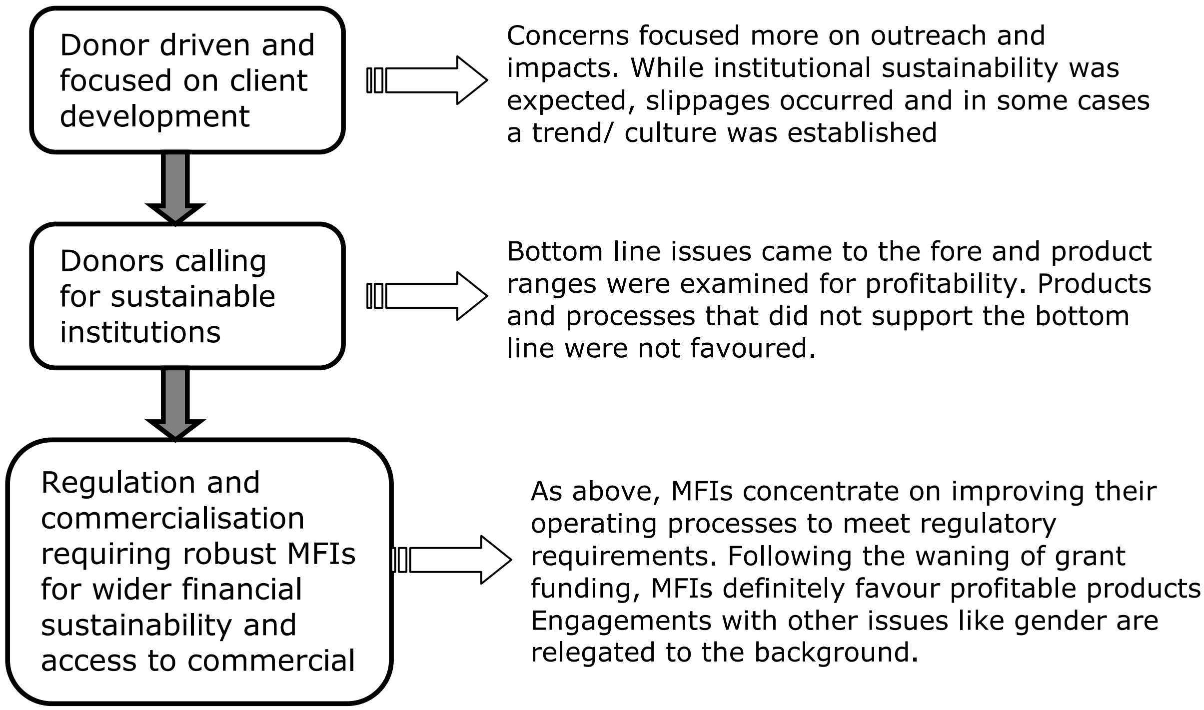
Gender dimensions and subsequent relevant interventions in microfinance are crucial for improving livelihoods in a sustainable manner. However some institutions have not fully integrated gender issues in their practical operations. We will examine some fundamental reasons for this and stake specific issues against the success stories presented by Cheston in the earlier paper.

5.1 The need to survive as an organisation

MFIs that have not reached sustainability are often under pressure to deliver primarily to that goal such that gender dimensions take a background role. Lip service is paid to this discussion regardless of the other compelling factors that suggest that gender-sensitive financial products can actually improve the bottom line of the institution.

In the Wells Fargo case, the bank was already in operation as a profitable concern. One can assume that they started with a strong business case and rode on that to define a new 'niche' in serving women. It was therefore a conscious decision based on the bank operating as a profitable organisation. The steps taken to secure the new market were deliberate and paid off.

If we look at the trends in microfinance, the development pattern for some MFIs has been as follows:



MFIs that followed this development pattern, more often than not, crystallised some organisational behaviours that did not then support changes with regards to regulation and commercialisation. A few of these MFIs are grappling with change processes to fit into a changing microfinance landscape. The following challenging discussions emerged:

5.1.1 Enhancing a culture of sustainability

Where previously practitioners were more concerned with impacts on clients, they now have to worry about keeping their organisations afloat. Quick remedies have been to identify profitable products that are less risky. Inadvertently, this has tended to factor out women clients and smaller loans. In some contexts, group loan methodologies have become a threat to the sustainability of the MFI, yet it is known that more women are served through this methodology. Some MFIs have had to make painful choices of avoiding risk altogether by shifting their focus to salary backed loans in order to manage delinquency.

5.1.2 Embracing professionalism

The microfinance employment market is not yet as vibrant and securing professional staff continues to be a challenge for most MFIs. This then impacts the bottom line as the quality of service fails to meet expectation. These institutions then grapple with staff turnover and gender discussions fall by the wayside.

5.1.3 Securing funding for continued business

With the waning of donor support, MFIs need to secure funds either through loans or equity largely from social investors. Both of these require closer inspection of the operations of the MFI and therefore the need to ensure robust operations including a good quality lending portfolio. Of necessity therefore, MFIs opt for products that will afford minimum risky exposure and assured profit margins by eliminating delinquency. Unfortunately, women clients tend to get caught in the segment that gets left out.

5.2 The Situation of the Women Clients

Poor women inadvertently find themselves in the marketplace because of the immediate needs to provide a livelihood for the family. Usually they position themselves in an already vibrant informal sector with scanty preparation for their work. The business performance is therefore often dismal. Parker argues that entrepreneurs who had the necessary training and business know-how actually grew their business. On the other hand, she notes that women-run businesses in Zambia showed the shortest life cycle, averaging exactly four years. This she attributed largely to the education and experience levels of the entrepreneur (Parker 1996: 24, 40). This could be true in other environments as well.

Sometimes women lack business acumen to grow their businesses and so access to credit may not necessarily produce exponential growth. In some cases study has shown that these businesses de-capitalise and hence start having difficulties paying the last instalments of the loan (Musonda 2006:27).

In the Wells Fargo case, it appears that the bank, in some of its strategies, linked with organisations that were dealing with women entrepreneurs. The question of strategy has to be addressed here. MFIs in some contexts deal with clients who are petty traders and might not have had a lot of training or indeed business acumen, save for their desire to do anything that will sustain the family. As Musonda found out in one study, the businesses de-capitalised. This increases the chances of default and adversely impacts both the client and the MFI. MFIs are then apt to drop this clientele as a target market.

5.3 Levels of Entrepreneurship and Ambition

In some contexts, there are cultural connotations to this aspect. Where culturally, the husband is expected to go off to work and earn a living for the rest of the family, a woman's contribution is regarded as merely supplementing that effort. Even where a husband is no longer in gainful employment, the woman's effort may still not be viewed as long-term means of sustaining the family. Consequently, the woman's business is dictated by that level of ambition: as a stop-gap measure. It is almost as if there is a glass ceiling and the business can only go so far.

A survey found that some clients rarely took time to reflect on how best to utilise borrowed funds. In this sample, 57% attributed delinquency to poor business planning (Musonda p27). Because clients become delinquent, the chances of them getting another loan become slimmer from the MFI's perspective.

In this case, business development services might be the logical process to get clients more focused on growth enterprises. Usually MFIs who are focusing on surviving may not integrate this into their work.

5.4 Market Conditions

Sometimes the market conditions determine the survivability of the enterprise. Where the general macro-economic outlook is that of minimal growth, market vibrancy is lacking and the micro-businesses are affected. Where there is seasonality in the market, clients will lead a hand-to-mouth existence. Business growth will be at a minimum such that the MFI will actually reduce lending to such clients.

Studies have again shown that it is often the women clients who will be much affected by instability in the market. Slowing down the lending does not help respond to this problem, but simply helps the MFI to manage its portfolio without addressing the client's situation.

This might be a key ingredient in the success of the Wells Fargo story worth researching.

6. Mutual Compatibility

The Wells Fargo story shows double-pronged benefits to the institution and the women clients. The case study says it is possible to target women and be profitable. Yet microfinance discussions introduce a seeming dichotomy: clear benefit to the development bottom line, but insecure institutional bottom line. Could there be mutual compatibility between the two? Can targeting women build on to the MFI bottom line issues of sustainability?

In order to respond to these questions, it is important to do a priority rating from the perspective of an MFI manager. Given the complexities of managing an MFI in a changing environment, issues of survival become paramount. As long as the MFI is dealing with the issues of its own sustainability, gender dimensions will remain overshadowed. Approaches to mainstream gender in MFIs will not be taken seriously if there is no clear indication of how these will add to the MFI's bottom line in the short-run. It is rather seen as added responsibility that might even be costly. Until the discussion develops a business case around gender dimensions, this will remain interesting talk only for some MFIs.

7. Learning from Gender Audits in Zambia

In 2004, HIVOS, a Dutch aid organisation, commissioned gender audits with two microfinance institutions in Zambia. These are Christian Enterprise Trust of Zambia (CETZAM) and PRIDE Zambia. Both audits were done on the following understanding as articulated in the final reports:

> "Gender audits of MFIs have the objective to contribute to the improvement of the MFIs' performance, by ensuring that services are equally attractive for men and women, considering the different needs, priorities and characteristics that women and men have. Moreover, the gender audit aims to contribute to

improving the internal organisation by recommending adaptations that could create a better working environment for both sexes." (Athmer 2004:4)

Some of the findings of both audits were as follows:

CETZAM

- Mission statement did not include a gender dimension. Therefore in light of survival issues to do with the organisation, female entrepreneurs as a specific target group went out of focus.
- Management did not deliberately monitor realisation of targeted numbers of female clients in their outreach.
- CETZAM needed to recognise the position of women in the context of the family and levels of control of loan, assets, power and triple roles of mother, spouse and entrepreneur. CETZAM needs to find ways of supporting its woman client to overcome these obstacles.
- While CETZAM's interest rate was seen as reasonable, however the loan processes were onerous and complex for clients.
- Clients did not appreciate the business character of CETZAM, considering them more as a charity organisation.

PRIDE Zambia

- PRIDE's female and male clients would like to have more flexible and diverse services in smaller groups or on an individual basis, faster and timely disbursements and a reduction of the clients' risk of losing their savings
- The collateral requirement is the most disadvantageous for women, as well as the question asked to women if they informed the husband. Existing gender inequalities are reinforced, as married women do not control the household assets and have to ask permission.

- For men and women involved in businesses, spending lot of time in meetings is problematic. Due to women's multiple responsibilities, her time tends to be scarcer.
- However, they (women) do not feel that their decision power on household decisions increased after having received loans.
- There is clearly no common understanding of what gender sensitivity at the organisational level entails.

Both organisations benefited from having some feedback from clients. The real question is how useful this feedback can be in terms of addressing organisational as well as client issues from a gender perspective.
The microfinance industry in Zambia has not grown to expectation and the two institutions represent the bigger institutions. Issues of weaning off donor support and positioning themselves in the financial markets are topmost, yet these can only be envisaged in the context of sustainability. Furthermore, the Central Bank has recently introduced microfinance regulations. This means therefore that management of these institutions will prioritise organisational issues of sustainability and meeting regulatory expectations. Audits of this nature, though providing useful information, will not be given the desired attention.

It is the author's considered view that the key reason for this is that the findings, though meant in part to improve the performance of the institution concerned, do not necessarily create a business case. A dichotomy is essentially created where the findings call for efforts to improve outcomes on clients' lives, without making the link to how this will positively impact the bottom line.

Management of these institutions will therefore not see the connection that is evident in the Wells Fargo experience. The useful information from this study therefore goes unutilised because it does not address the key institutional issues.

8. Targeting for specific impacts- the Ethiopian Experience

The Ethiopian experience recounted in Cheston's paper, shows that targeting for specific impact can actually produce desired results. Data out of studies that are disaggregated are now showing specific impacts on women. The question is how this information is used to inform decisions on how to serve poor people from a gender perspective that will also improve the MFI.

For instance, the Zambian Central Statistical Office conducted a Living Conditions Survey in 1998 and the results were that 83% of the people in rural areas were poor compared to 56% in urban areas. The incidence of poverty also revealed that persons in female-headed households were more likely to be poorer than those in male-headed households.

The survey showed that 77% of all persons in female-headed households were poor compared to 72% in male-headed households. In terms of food poverty, 61% of female-headed households faced food shortages compared to 52% of male-headed households. Furthermore, female-headed households had longer spells of food shortages. The impact of food shortages was more evident in child malnutrition with higher percentages of stunting and underweight in children of female-headed households.

Microfinance institutions wishing to serve these communities should be able to use this information in a way that allows them to design products that not only address these issues, but solidify the institutional bottom-line. This has not necessarily happened. The impact weighting for the client as well as the MFI should be almost at par or indeed infused in order to trigger pro-active MFI engagements.

The rural areas of Zambia are the least served by microfinance institutions. This can only mean that a large segment of women are not served.

Microfinance activities do not suggest that this is a growth niche market for MFIs, yet it is available. A number of MFIs in Zambia are now supporting the working poor against salary guarantees. The question remains: can we create a framework that allows development of business cases around gender dimensions in microfinance for different contexts?

9. Issues to Consider in a Business Case Framework

If all microfinance practitioners accept that MFIs have to be run as businesses, then we need to strategise likewise. Picking from Sahlman in the Harvard Business Review on Entrepreneurship (Sahlman- p31), the business model has to think through the 'key drivers' of success or failure. What are these in microfinance? Take-up rate of products by clients, segmenting by geographic/demographic considerations, product mix, gender considerations?

What are the break-even issues? What drives profit and at what rate? What product will be subsidised and why? What are all the benefits to the MFI and the client and how does each one of them impact the bottom line?

The Sahlman framework presupposes the following considerations:
The people: The right team to drive the organisation; their experiences, exposures. How well do they know the industry? How long will their learning curve be? For MFIs that already exist, the challenge will be to determine whether the current team will drive the MFI forward in a changing environment and whether they will be able to sit in a change process.

The Opportunity: A profile of the market and the growth areas. The MFI will need to define its specific niche and how issues of gender for instances can be integrated to get optimum benefit.

The Context: The bigger picture context will be critical. To what extent does the macro-economic environment impact the business? The MFI will have to define issues in the external environment and how these will impact the business.

The Risks and Rewards: What could go wrong and what could go right? How will the team respond to these? At this point, the MFI will be considering risks and rewards as an integrated focus on both the client and the institution. Hopefully, gender dimensions will be covered.

10. Conclusion

Given that gender dimensions are important, this author would like to suggest that there need to be champions who are helping MFIs fully engage gender issues with a focus on:

- MFI structural set-up. There will be a need to enshrine gender issues in the actual mission of the organisations and ensure regular evaluations even at governance levels. Can the Microcredit Summit provide an incentive for this?
- MFI sustainability. From evidence adduced (Wells Fargo), it is possible to run profitable institutions that are targeting women. MFIs should not see the gender discussion as that of merely promoting women's issues, but that which provides a holistic approach to differentiating product composition and delivery to meet identified needs of both women and men.
- Lobby donor engagement to help struggling MFIs focus on a mutually compatible focus of gender differentiation and organisational sustainability.

Those MFIs that have successfully integrated gender in their work and are having institutional bottom line successes should be encouraged to provide learning lessons for those that are struggling. It is clear that the benefits cannot be overemphasised.

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