MICROFINANCE, GENDER AND DEVELOPMENT*

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As highlighted at the World Summit on the Millennium Development Goals, microfinance is an appropriate tool to promote development and to enhance the integration of women in the social, economic and even political world. This article reviews the works that confirm the potential of this instrument.

Introduction

From September 20th to September 22nd 2010, New York held the World Summit on the Millennium Development Goals (MDGs). The summit's final resolution, with the slogan *Keeping the Promise*[1], contains a first part in which a series of generic statements or commitments are reiterated or renewed, and a second one in which the concrete actions that could help meet each one of the objectives are specified.

In paragraph 12 of the resolution of the summit, gender equality is recognized. The greater empowerment of women, the full enjoyment of all their human rights, and poverty eradication, are essential for economic and social development, including the achievement of all the MDGs. Even though progress has been made in achieving gender equality and empowerment of women, it is still a key objective for development, as an important means of achieving MDGs objectives.

In the second part of the declaration, microfinance is specifically portrayed as one of the essential vehicles to progress towards meeting the MDG 1 (to eradicate extreme poverty and hunger). Specifically, it aims to facilitate the expansion of microfinance institutions, an expansion that would allow the development and promotion of mechanisms that would give access to financial services to the poor. In addition, the section on MDG 3, promoting

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1. The document is available in http://www.un.org/es/comun/docs/

gender equality and empowerment of women, emphasizes the need to facilitate women's access to affordable ways of micro-finance, including microcredit, which may contribute to the eradication of poverty, to gender equality and to the empowerment of women (General Assembly, 2010).

Considering the above, we assume that the United Nations (UN) considers microfinance as a tool which is capable of assisting women in the process of social, economic and even political integration. In this line, this article tries to briefly explain the role played by the microfinance sector in promoting social change aimed at gender equality.

The work is structured as follows: section 2 discusses the importance of microfinance in development; section 3 features gender and microfinance, and finally, the conclusion.

Microfinance and development

Expanding access to financial services is not explicitly mentioned among the goals or indicators of the MDGs. Nevertheless, the outcome of the World Summit in 2005 recognized "the need to ensure access to financial services, particularly for the poor, including through microfinance and microcredit". Celebrating 2005 as the International Year of Microcredit, the United Nations had already recognized in other documents the impact of microfinance in the MDGs (see UNCDF, 2005).

From the academic point of view, Littlefield *et al.* (2003) showed a number of examples of how microfinance do contribute to the MDGs and how, therefore, in his opinion, a "critical factor with a significant impact on the achievement of the MDGs".

But we ask ourselves: is microfinance really a powerful tool to encourage or stimulate development? There are many studies that show that a more developed financial system can help to combat poverty and inequality (Beck *et al.*, 2009; Roodman and Morduch, 2009; Unceta Goiri Satrústegui and Gutierrez, 2009; Baqui Khalily, 2004, Claessens, 2006; Gbezo, 1999). Even so, it is difficult to calculate the exact impact of microfinance in terms of development of a country or region, or its effect in poverty alleviation. Although efforts are being made to overcome the measuring problems (see analysis in Larrue, 2008), the studies that evaluate the outcomes of microfinance programs are in most cases (almost inevitably) biased by the difficult choice sample, which can lead to positive bias (where respondents were the most accessible, and probably the most dynamic), or in the other hand, negative (if it comes to measuring the impact on the poorest of the poor).

In this line, and avoiding too conclusive assertions, Song *et al*. (2010) claim that the results we finally get in their study, even though they are always positive, vary with a number of parameters such as the amount and terms of credit, educational level or gender. Similarly, Zhou *et al*. (2009) suggest that the success of programs that promote microfinance systems depend on their ability to integrate, at some point in the local economy's value chain, the low-income groups for whom they are addressed.

Acknowledging the above, it is necessary to highlight two issues. These two issues, together, will allow us to discuss the impact of microfinance in the well-being beyond any official measure of development.

The first one would be what we call "micro impacts". Even if there has been no reflection of poverty reduction on the national statistics or international measuring bodies, the impact of microfinance in the economic reality of those who "struggle to juggle in their ever complicated financial situation " is obviously positive (Cull *et al*., 2009).

The second one consists on externalities arising from the receipt of a microcredit or the ability to maintain a micro-savings. When a home takes more control of their financial resources, it makes its members more immune to a possible economic crisis, and it surely improves nutrition and family health and, quite possibly, lead to greater autonomy and participation in family decisions by women[2], or provide access to the education of family members (which may also involve the removal of children from labour). Littlefield *et al*. (2003) had reviewed the literature that had been compiled up to that point by those who dealt with these issues, and defend the repercussion of microfinance[3] in the achievement of MDGs other than the first one. This idea would be repeated later on in UNCDF (2005) detailing how different outcomes of microfinance can be noted (and quantified) in six of the eight MDGs[4].

2. See examples in Selinger (2008) or Marbán Flores (2008).

3. In this sense, is key that we go from the concept of microcredit to the broader concept of microfinance, as the latter includes a range of services, including savings instruments, insurance, transfers, and even "micro pensions" and provides a flexibility that allows other projects, or meets other needs (see Marbán Flores, 2007).

4. OMD2 education (through student loans or the use of micro-savings for children to attend school); OMD3: gender (percentages of women who have accounts or loans in their name, institutions who design specific products for them); OMD6: epidemics (micro health insurance, the use of savings, or the possibility of receiving an emergency microcredit when needed, loans for doctors willing to serve the poor); OMD7: environment (improving households of the poor, specific support for business that are environmentally sustainable); OMD8: partnership for development (percentage of countries receiving support to build a financial sector, foreign institutions that offer financial services to the poor).

Microfinance and gender

Different investigations by the United Nations Development Programme (UNDP), United Nations Development Fund for Women (UNIFEM) and the World Bank, explained that gender inequalities in developing societies stifle the economic growth and the development of these countries. One of the reports by the World Bank confirms that societies that discriminate on the basis of gender pay the cost of higher levels of poverty, which is reflected in a slow economic growth, in a weaker Government and in a lower standard of living of its citizens. The UNDP found a strong correlation between their measures of gender empowerment and the development indicators related to gender and the Human Development Index (World Bank, 2001).

This fact was also taken into consideration during the drafting of some MDGs that were pursuing gender equality in developing countries. While MDG3 aims to eliminate gender disparities in primary and secondary education, MDG 5 is aimed at reducing maternal mortality and universal access in to reproductive health. Both objectives aim to reduce or even eliminate the social exclusion of women trying to improve their quality of life and welfare.

The first microcredit programs, which emerged in the early 70's, took into account the harsh reality faced by women in developing countries and focused their activity in this group. After three decades, microfinance programs continue to focus on the poorest and most vulnerable, who are the women. Women constitute a 70% of total borrowers (Microcredit Summit Report, 2009).

However, we should take a step further and ask ourselves about the impact of the sector on the welfare of women and their families. In this sense, many studies examine the positive impact that microfinance can have on giving a greater empowerment to women (Baqui Khalily, 2004, Diniz *et al*, 2008; Morduch, 2009, Banerjee *et al*, 2009). Financial inclusion through microcredit gives many women the chance to start a business that will generate profits for themselves and for their families. Not to mention that microfinance can have psychological effects on self-esteem of women. Many of them had received money before, and the confidence that the financial institutions have had in them will lead to an improved self-esteem and will ease the ability to cope with small problems that may arise from their micro businesses, and make them involved in decisions both at work and at home (Baqui Khalily, 2004; Marbán-Flores, 2007).

Something to reflect on

It is obvious that no political action or action on its own will succeed alone in taking the developing countries out of poverty, nor they will manage to eliminate gender inequalities in these countries. The poorest need, above all, employment, access to basic services, education and health systems.

Access to financial services is not on that list because it is not an end in itself but a basis for the other interventions to stand on. Even though Microfinance's impact may not be evident in macroeconomic terms, it is powerful as a tool and improves the lives of many people. In addition, this tool is actually contributing to the integration of millions of women, who are able to create businesses that give them some independence and decision-making at home and at work.

However, we cannot give for granted that microfinance will be the ultimate solution to the problems of inequality faced by these women, is just one of many tools that can help reduce gender inequality. Therefore, governments and international agencies should include microfinance in their policies as an instruments that promote the integration of women. In this line, the UN included aspects related to gender equality in the design of the MDGs (MDG 3 and MDG 5). 10 years have gone by since the establishment of the MDGs, and we can still say that much remains to be done. As a matter of fact, in 2008 there were about 342,900 maternal deaths in the world, less than the 526,300 that occurred in 1980 (Hogan *et al*, 2010). This figure is significant enough to carry on pursuing the MDGs.

The challenge facing international agencies, governments of developed countries (through their agencies for international cooperation) and governments of developing countries, is to continue their fight to eliminate the social exclusion, the financial exclusion and even the political exclusion that millions of poor women are facing in the world. In this sense, microfinance programs can be an important ally, without forgetting that they must go hand in hand with other policies and actions that promote the integration of women in all areas.

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