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The 'Feminization of Poverty' in Developing Countries and the Role of Microfinance in Poverty Reduction

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Introduction

In many societies today, the concept of womanhood still conjures up imagery of the nurturing and caring mother, the all-encompassing keeper of the household. The perception of the "traditional" woman and her "traditional" role within society still strongly impacts many of today's cultures, and it is still not commonly recognized that women are an integral part of any economy.

The African Women in Economic Development Work Group highlights that "The role of women in African societies has greatly evolved: they are no longer only active in the domestic sphere and survival activities. They now play an obvious part in market and monetary systems." [1] The group also points out however that "this does not imply that their domestic and reproductive roles have evolved."[2] Many societies, especially in developing countries, are paying a high economic and social price for inhibiting women from participating fully in economic activities. Perhaps the persistence of the more traditional views of womanhood is why the effects of women's role in the economy have been traditionally and ruefully underestimated.

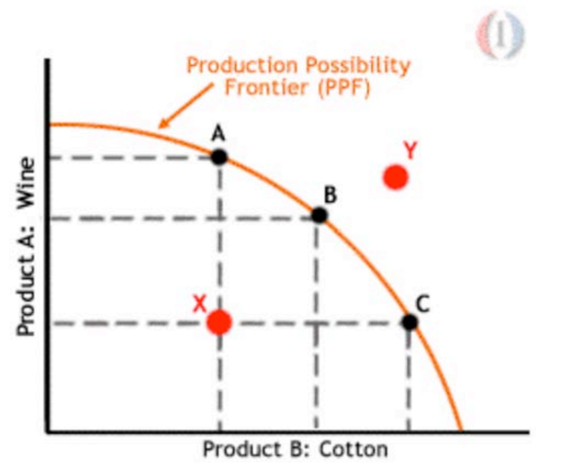
Over the past ten years, many developing countries have seen a reduction in development assistance in real terms. As sources of aid dwindle, developing countries need to focus on resources available domestically for economic resurrection and growth. As the World Bank has consistently argued in recent years, economies that narrow the gender gap and improve the status of women grow faster.[3] It is time that the world realizes, as the Chinese revolutionaries in 1949 did, that "women hold up half the sky."[4]

This article is by no means a comprehensive analysis of the differences in the economic roles and impacts of men and women in different societies. It serves as a brief overview of the place of women in the economies of the developing world. Without question, women have an active economic role in developing economies. However, the more pressing question is the extent of the role of women, not just as mothers or caretakers of the future, but also as the keys to economic resurgence. This article examines the economic costs of gender discrimination to societies, especially to the economies of developing countries, and then briefly examines the reality of women's economic contributions. In addition, the anomaly between the perception of women's economic contributions and the reality of their contributions is discussed. Finally, this paper explores the role of microfinance as a tool to be used to better reconcile women's economic potential and their roles in the formal economy.

The Economic Cost of Gender Discrimination

Societies as a whole pay both socially and economically for discriminating against any particular social group. Globally, women as a group have historically been overwhelmingly marginalized and undervalued, a discrimination which in many countries has severely disabled economic growth and improvements in standards of living. A recent World Bank report argues that "societies that discriminate on the basis of gender pay the cost of greater poverty, slower economic growth, weaker governance, and a lower living standard of their people."[5]

The macroeconomic production possibility frontier, or PPF, though only an imprecise analogy of functioning economy, enables a depiction of the degree of efficiency in an economy.



To function at maximum economic efficiency, an economy should operate at any point along the line of the production possibilities frontier (i.e. A, B or C). An economy functioning at any point inside the frontier is functioning at a point of economic inefficiency, or not at its full potential. Given that at least fifty percent of the population of any given country is female, the exclusion of the participation of women, half of the available human capital, from the formal economy translates into an economy functioning at an inefficient rate. Due to the crippling exclusion of women from economies, many developing economies are operating at point X on the production possibility frontier, or no where near their full potential.

The obsolete idea that women should play an informal or household role in the economy is also pervasive in many of the industrialized economies. However, in developing economies, the effect of the misconception that women are outside of the economy is more evident. Cultural constraints, legal barriers, and lack of access to education and health services, among many other hindrances, have created social, economic, and political obstacles which prevent women from being able to assume the same economic contribution as men. Additionally, in many developing countries, the view that female children are liabilities leads to girls often being deprived of education, healthcare, and property rights. This in turn perpetuates the notion of the 'worthlessness' of the female child. She is now more susceptible to neglect, illiteracy, and economic, political, and social marginalization, perpetuating her exclusion from economic participation.

Discrimination in access to education and healthcare are two of the most critical components of the exclusion of women from the economy in many developing nations. The United Nations Development Program (UNDP) annually publishes a Human Development Index, or HDI, which ranks every country in the world according to three factors: income, education, and healthcare. One third weight is given to each of the three factors. Countries with higher per capita incomes, higher literacy rates, and higher life expectancies rank higher on the index. Reviewing the 2003 Human Development Index we find a strong positive correlation between a high percentage of female literacy and countries ranking highly on the index.[6] The number drops precipitately as we examine countries of medium and lower human development ranks. Similarly, we also find signs of gender discrimination within the life expectancies of females and males. With equal access to healthcare, women tend to naturally live longer than men. In the countries ranked highly on the Human Development Index, the life expectancy of women is expectedly higher than that of men. However, in countries with lower human development indicators, the converse occurs: men's life expectancies are higher. Though this could be attributed to many causes, a likely explanation is the lack of healthcare available to women, especially at childbearing ages, when it is most vital.

Access to education and healthcare are the bedrock of development and excluding any particular sector of society adds substantial costs to the society. The UN 2000 State of World Population Report highlights that "the contribution of women's education to economic growth has been witnessed in the economies of several East and Southeast Asian countries that grew at unprecedented rates from the 1960s through the 1980s, averaging as much as 8 percent per year. This process benefited greatly from early investments in health and education, especially for women…Birth rates fell rapidly, and in the 1980s, these countries were able to invest more in stimulating economic growth."[7] A recent World Bank article highlights cross-country studies that "suggest that if the Middle East and North Africa, South Asia, and Sub-Saharan Africa had been as successful as East Asia in narrowing the gender gap in education during 1960-1990, GNP per capita in those regions would have grown by 0.5 and 0.9 percentage points higher per year, substantial increases over actual rates."[8]

Anomaly of Reality

The reality is that women can be described as the missing component of Adam Smith's "invisible hand" in many economies. According to statistics from the World Food Program, "in one out of three households around the world, women are the sole breadwinners."[9] The anomaly that exists between the reality of women's contributions to economies and the perception of women's contributions is hardly reconcilable. Indeed, the idea of economic empowerment for women is hardly recent or unfamiliar to the international community. At the 1986 annual meeting of World Bank and International Monetary Fund, Bank President Barber Conable observed, "women do two thirds of the world's work…yet they earn only one tenth of the world's income and own less than one percent of the world's property."

In their "Focus on Women" website, the World Food Program describes women as the first solution to hunger and poverty. The report reminds us that 80 percent of people engaged in farming in Africa are women, 60 percent in Asia.[10] A recent World Bank article argues that in Africa, "improving rural women's access to productive resources including education, land, and fertilizer could increase agricultural productivity by as much as one-fifth."[11]

In addition to the fact that women are indeed already contributing to the household and the informal economy as much as if not more than men, statistics undeniably show that women spend more of an earned income directly on the health and education of their families. The Entrepreneurship Development Trust Fund in Tanzania reports that "55% of women's *increased* income is used to purchase household items, (at least) 18% goes to school and (at least) 15% is spent on clothing."[12] A similar study by Sylvia Chant, a researcher at the London School of Economics, revealed that men typically contribute only 50 to 68 percent of their total income to the household.[13] In contrast, women were more apt to hold nothing back for themselves, contributing all earned income to the household.[14] The result of a financially active woman is an increased multiplier effect within the family and therefore within community. The resulting outcome of economically empowering women as a whole would affect families, community, and nations by an exponential magnitude.

In the past, the continuing exclusion of women from the formal economy in many developing countries was often unknowingly encouraged by international development organizations such as the United Nations or the World Bank. Experts and consultants sent in to teach local communities different strategies for economic operation too often focused on the men in the community when designing and implementing development projects, ignoring the role of women in the local economy. The Third World Network-Africa notes that "economic reforms driven by the (World) Bank and the International Monetary Fund (IMF) in Africa over the last 20 years had exacerbated the gender-based constraints that accounted for women's economic subordination and unequal status on the continent."[15] Similarly Handelman notes that while women in developing countries actively engage in traditional male roles, "'the myth of the ever-present male head', is still embraced by the experts, consultants, trainers, administrators and planners."[16] While things have certainly changed over the past decade and international development organizations have adopted a more inclusive approach to development, the gap between women's economic potential and economic reality is still immense. New solutions and approaches need to be embraced.

Microfinance as a possible solution

Microfinance is the practice of lending small amounts of money, ranging from single-digit dollar amounts to triple-digit amounts to the poorest of the poor, people who are most likely unable for social or economic reasons to borrow from traditional financial institutions. Microfinance Institutions, or MFIs, extend small loans and other financial services such as savings to very poor people for self-employment projects that generate income, allowing them to care for themselves and their families.

Microfinance has traditionally focused mainly on women as women too often constitute the poorest of the poor. It is also women that have historically been the most marginalized from access to traditional credit and savings sources. The World Bank's World Development Report 2000 reported that almost half the world's population, 2.8 billion people, live on less than $2 a day. Of these people, 1.2 billion live on less than $1 a day.[17] Of these people, seventy percent are women.

As the popular maxim prescribes, "Give a man a fish, he eats for a day. Teach a man to fish, he eats for a lifetime". For many years, development aid embraced the philosophy of 'give a man a fish'. Efforts in the developing world were comprised of charitable gifts; gifts of schools for the uneducated, gifts of food aid for the hungry, gifts of clothing for the needy. More recently, development organizations have focused on the philosophy of 'teach a man to fish'. Trainers, extension agents, specialists, experts and consultants have been sent out into the developing world to show governments, communities, and individuals 'how to develop'. Development aid has been tied with 'conditionalities', only offered to countries and communities as long as they 'adjusted' they way they governed or ran their economies.

Microfinance differs from either of the above development efforts as it recognizes that many people in the developing world do not need to be 'given a fish', nor do they need to be taught 'how to fish'. Microfinance recognizes that most people already posses the skills they need to pull themselves out of poverty. What they do not have, often due to a variety of social and economic barriers, is the tools needed to employ these skills. Microfinance is about recognizing that people already know 'how to fish' and all they simply need is a net. Microfinance tries to address the social and economic barriers which keep million of people from obtaining the tools their need to fully employ their skills.

For the 1.2 billion people living on less that $1 a day, saving the $20 or $50 dollars needed to purchase the tools required to employ valuable skills is simply in no way possible. In addition, legal, social, and cultural barriers often marginalize these poorest of the poor from any access to traditional sources of credit. Typically, the poor own nothing of financial value, and therefore have no collateral with which to access credit. In addition, the poorest of the poor rarely have had any access to education, and illiteracy becomes another barrier to accessing traditional credit services. For many of the poor, simply being female is reason enough to be marginalized from financial services.

The Microcredit Summit Campaign, an umbrella organization for Microfinance Institutions, highlights that "In many developing countries, the self-employed comprise more than 50 percent of the labor force. Access to small amounts of credit…allows poor people to move from initial, perhaps tiny, income-generating activities to small microenterprises…microcredit allows families to work to end their own poverty."[18]

Microfinance Institutions recognize the barriers that the poor face and therefore and capitalize on other forms of capital that the poor possess. Most Microfinance Institutions use the idea of 'social' collateral, or what's referred to as social capital. While some Microfinance Institutions offer credit to individuals, most MFIs only offer credit to groups typically comprised of five people, a strategy used by the Grameen Bank. While only one person in the social group receives the credit, all members of the group are responsible for the timely repayment of the loan. The social pressure of the group on the one member to replay the loan acts in place of traditional collateral. The Microcredit Summit Campaign reports that "Microcredit programs around the world, using a variety of models, have shown that poor people achieve strong repayment records—often higher than those of conventional borrowers. Repayment rates are high because, through a system of peer support and pressure used in many microcredit models, borrowers are responsible for each other's success and ensure that every member of their group is able to pay back her loans."[19]

Microfinance Institutions have now been established in almost every country of the world. However, one of the very first of Microfinance Institutions was the Grameen Bank in Bangladesh. Founded by Muhammad Yunus in the 1970s, the organization's philosophy is that "if individual borrowers are given access to credit, they will be able to identify and engage in viable income-generating activities - simple processing such as paddy husking, lime-making, manufacturing such as pottery, weaving, and garment sewing, storage and marketing and transport services." [20] The Grameen Bank primarily lends to women who have, as the Grameen Bank argues, "proved not only reliable borrowers but astute entrepreneurs. As a result, they have raised their status, lessened their dependency on their husbands and improved their homes and the nutritional standards of their children."[21] Over 90 percent of Grameen Bank's current clients are women.

La Maman Mole Motuke lived in a wrecked car in a suburb of Kinshasa, Zaire with her four children. If she could find something to eat, she would feed two of her children; the next time she found something to eat, her other two children would eat. When

Notably, there has been an evolution of the word “microfinance”. Initially, organizations such as the Grameen Bank offered ‘microcredit’, or mainly the provision of credit. Today, microcredit has developed into a more dynamic philosophy, including other financial services such as savings and business development services. Because of the more holistic approach, microcredit is today known as microfinance, reflecting the range of financial services such as savings, investment, insurance, and the business training services offered. With many Microfinance Institutions, clients are now required to attend mandatory monthly group meetings on various topics such as healthcare, nutrition, and other educational lessons. In addition, business development training is offered in areas such as management, marketing, accounting, and products development.

The watchword for poverty alleviation is sustainability. The idea of microfinance embraces a holistic and sustainable approach to poverty eradication. The strategy of microfinance is to utilize the inherent power of survival in the victims of poverty to self-propel themselves into sustainable lifestyles. Unlike traditional forms of development aid, microfinance far surpasses monetary donations or one-time gifts, as it also address both the economy and social aspects of poverty.

Conclusion

The focus of all development is to reduce absolute poverty. With women comprising 70 percent of the 1.2 billion people who live on less than $1 a day, in order to reduce poverty we must focus both on embracing women’s economic potential and on removing the economic and social barriers that women in the developing world face. It is all too evident that societies which marginalize the female half of their populations bear the cost, both economically and socially. Microfinance is a tool which in essence recognizes and supports women in the economic roles they already hold. With support for sustainable programs such as microfinance and a global a concerted effort, the goal of reducing of absolute poverty could be one step closer.

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