



**FROM TRANSACTIONS TO
TRANSFORMATIONS
IN MICROFINANCE**

Collapsing the Divide between the Economic and the Social

Joy Deshmukh-Ranadive

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A Perspective Paper

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Introduction

Microfinance has potential: The potential to transform communities by alleviating poverty and empowering women through whom it is routed. Microfinance also has possibility: the possibility of remaining as a vehicle of transacting credit to and from client to service provider. Currently microfinance is seen as the market solution to the development issue of poverty alleviation. It is perceived as a win-win situation where both clients and service providers gain. Hence in microfinance, the business model is gaining precedence over other 'developmental' models. Within this model, financial sustainability is important and this is achieved through efficiency in product design, appropriate services and cost effective operations that reach as many clients as possible. Scale, outreach and repayments ensure that providers remain in business. On the side of clients, the need for financial services, particularly credit, is acute for poor households. Their lack of financial inclusion into formal financial systems leads them to informal sources of credit such as money lenders. Microfinance providers provide credit and at times other services such as insurance and business development capacity building to ensure better absorption of credit. Hence the business model of microfinance is needed if it has to sustain without subsidies and attract mainstream players of the finance markets. Poverty alleviation is the said intent of microfinance but with the advent of venture capitalists there is somewhere the stunting of the intent of microfinance to the supply and demand of financial services with no concern with the outcomes of the transactions.

There are two kinds of ways that microfinance can be practiced. One is the transactory approach and the other the transformatory approach

This perspective paper argues that there are two kinds of ways that microfinance can be practiced. One is the transactory approach and the other the transformatory approach. The transactory approach of microfinance consists of service providers providing financial services (within the appropriate regulatory frameworks) to poor clients. Clients are in a position to pay for the services at market determined prices and supply providers can sustain without resort to subsidies and grants. Within this approach, there most often is a mission of poverty alleviation where service providers mostly believe that with access to financial services the poor will be able to pull out of poverty through the efficient use of the services, usually micro credit. Other financial services, like insurance and support services like business development or marketing services are commonly used to ensure loan repayments are paid regularly and on time. The transformatory approach of microfinance practice in contrast seeks to transform the lives of poor clients by addressing the reasons for poverty. The *outcomes and processes* of accessing financial services and how the poor use them are important within this approach. Here, financial services and support services are directed towards empowering clients so that they are better equipped to lead households out of poverty as against being loan protection devices.

It is not as if the business model cannot lend itself to transformatory microfinance. It needs however to take cognisance of factors that the transactory approach currently does not pay attention to. The business model of transactory microfinance is centred on the financial sustainability of service providers. Clients are seen as markets that can be harnessed to earn profits. And, wherever there exists a mission of poverty alleviation on the side of the service provider this mission is called a 'social' mission and the impact of microfinance upon clients in terms of poverty alleviation is also considered 'social performance'. The paper argues that this divide between what is considered as economic and what is considered as social does not allow microfinance to rise to its potential of being transformatory. Poverty is a composite of socio-economic factors and the alleviation of poverty needs to be addressed holistically. The business model framework is incomplete and also misplaced if it only considers the financial sustainability of service providers. There has to be a parallel concept of financial sustainability for the household too. While this concept completes the 'economic' picture of microfinance, it is based on an understanding that economic behaviour and economic demand on the part of clients is socially determined. The 'economic sustainability of the poor household' - leads toward a systematic analysis of the socio-economic factors hindering poverty alleviation. A livelihoods approach is required for pathways to be designed that can financially sustain households to move out of poverty.

Further, since women are the conduits through whom microfinance is routed, it is imperative for the sector to understand gender issues. A lack of understanding of the differences in the world of work of men and women in poor communities will skew the appropriate designing of services, products and operations thereby impinging upon the financial sustainability of service providers and also taking its toll upon their missions. Unless these factors are addressed, microfinance cannot move from being transactory to being transformatory. A mere separation of issues into economic and social as is currently done is likely to cost the microfinance sector its ability to produce development outcomes.

1. Transactory Microfinance: The Economic and Social Divide

Microfinance rests within the domain of economics since it is about the transacting of small sums of money between service providers and clients. Money changes hands in activities such as: taking credit, repaying interest and the principal, depositing savings and earning interest. However, since the stated mandate of microfinance is to alleviate poverty and poverty is socio-economic there is the social dimension of microfinance. *However there is a tendency within the sector to keep the economics and the sociology separate.*

Consequently the financial sustainability goal of the MFIs is seen in their economic performance but the goal of poverty alleviation is seen as social performance. Essentially service providers have to perform on both counts in order to be effective. The impact of their activities upon the communities they work with is translated through indicators that measure the movement of households out of poverty.

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Microfinance at the retail level is provided by microfinance institutions (MFIs, NGO-MFIs, Cooperatives, MACs, etc.) and banks (public sector banks, private sector banks, regional rural banks, cooperative credit institutions, etc). MFIs provide (largely) credit to poor households by ensuring group peer pressure through the formation of joint liability groups or Grameen groups. They are not allowed by legal stipulations to hold deposits hence if they address the savings needs of the poor it is by linking the poor to banks. MFIs have also been harnessed to become Business Correspondents and Business Facilitators to further financial inclusion by linking each poor household with formal financial systems through no-frills accounts. Banks feature in the microfinance sector as the link with savings and credit groups like self help groups, by holding their savings and also giving the groups sums of money to be distributed as credit. Banks, particularly cooperative banks such as SEWA Bank, also provide financial services directly to individual women clients. But this is more in urban areas. Further under the differential rate of interest scheduled commercial banks are supposed to provide credit at subsidised rates to low income households. The role of non governmental organizations (NGOs) is significant within the microfinance sector. NGOs have been working closely with communities around various issues that are related to poverty alleviation. This could be work related to livelihoods, health, education, water and sanitation, environment, local self governance, etc. Experience has shown that without income generation, several of these issues are not adequately addressed. It is in this light microfinance is often linked within the work of NGOs. Again microfinance is used so that poor communities can avail of water and sanitation, health, education, etc. A holistic linkage of microfinance with livelihoods work is currently also the learning from the experience of NGOs, where livelihoods in itself encompasses a complete understanding of the interconnections of the above mentioned issues. Linking microfinance with sustainable livelihoods is in fact seen as the most appropriate way to address poverty alleviation. The other stake holder on the side of supply is the government or state itself. The state promotes self help groups and is also a supplier of credit to groups. The state also promotes linkages of these activities with its other poverty alleviation initiatives. Venture capitalists are the new entrants into microfinance where they bring in the kind of equity that is needed for MFIs to scale up operations into heights that were unimagined earlier.¹

The need for financial services of the poor is a well documented fact. That they operate within the informal financial sector to meet these needs and are exploited by it is also known. The microfinance sector currently no longer sees the poor and their demand for financial services within a development framework. Instead it is within the framework of a business model that the provision of financial services to the poor is perceived. Profit and poverty alleviation are seen as legitimately going hand in hand and not working at cross purposes.² Hence the need of the poor for financial services be it of credit, savings, insurance and / or remittances, is seen as a huge market which can be tapped to the benefit of the service providers. The fact that there is a market potential means that it is lucrative business for the service provider and there is little need for grants or subsidies to run the business. Women are seen as the most effective recipients of microfinance services. They have been proven as good managers of money and are prompt in repayments. Hence routing micro credit through women has essentially ensured the safety of the finance for the service provider.

Service providers see the role of the poor as an articulation of demand which is ascertained by different methodologies of market research. The poor then receive the financial services either individually or in groups which are mobilized specially for the purpose. The nature of the group is also determined by service providers and the reason for doing so is to minimize operational costs since reaching the poor individually is an expensive proposition. Group mobilization is essentially of two kinds. The first kind is self help groups that require a longer process of mobilization, procedure and consistent sustenance before they are actually actively participating in the sector. Compulsory thrift is the initial step whereby self help groups are initiated into the microfinance sector. The second kind of group mobilisation is joint liability groups and Grameen groups that are assembled so as to route and ensure effective repayment of credit. Hence what can be seen is that delivery channels are created through which the poor receive microfinance. Where facilitation is by NGOs, who are closely linked with field reality, participatory methodologies can result in designing systems that work both for the service provider and the clients.

Hence it is evident that the relationship between demand and supply (particularly of credit) is driven by demand but determined by supply. This is so since the methodology has to ensure the financial sustainability of the service provider.

Community based microfinance that works through self help groups and federations are known to better address social issues. However even in these cases, social issues are mostly taken up since they cause default of loan repayment. For example, alcoholism among men causing loan money to be diverted and not productively utilised, can lead to a local campaign against alcoholism. These models also tend to keep the economic side of transacting loans separate from the social side of particularly addressing gender and social stratification. Savings are carried out in the nature of ensuring eligibility for credit or as a means of rotating the sum amongst members. However if the collective mobilisation is of good quality then the chances of it having a socio-economic impact are greater.

¹ In 2004, Mr. Vinod Khosla , a venture capitalist, called it (microfinance) 'one of the most important economic phenomena since the advent of Capitalism and Adam Smith' and used an Indian Microfinance organization, SHARE as representative of the larger evolution of Indian microfinance. (Abstract, Inverting the Pyramid, The Changing Face of Indian Microfinance, Intellect, IFC,

² The business model paradigm of development has caught the imagination of also those working for financial inclusion and those seeking to provide information and communication technology for the purpose of poverty alleviation.

2. Transformatory Microfinance: Collapsing the Divide

The matching of an economic categorization of activities on the supply side with a social categorization of impact on the demand side takes its toll in terms of mission drift and the skewing of the objectives of microfinance.

Microfinance tends to make clear distinctions between economic and social categories. There is on the one hand financial sustainability and on the other social performance. Poverty alleviation and empowerment of women is seen as connected to 'social' missions. The skills required to run a microfinance service providing institution are called 'hard' and/or 'technical' skills. The skills required to understand issues of poverty, gender or health are called 'soft' skills and are not seen as 'technical'. In reality, the latter are as much technical expertise as the former. The matching of an economic categorization of activities on the supply side with a social categorization of impact on the demand side takes its toll in terms of mission drift and the skewing of the objectives of microfinance. It also limits the transformatory potential of microfinance programmes.

The argument made is that a consideration of the so called social issues increases costs of delivery and makes designing services and products exercises in complexity. However if microfinance is located within the framework of development then the outcomes of poverty alleviation through the financial sustainability of households is imperative. Again, if the model is a business one, then the matching of supply to demand can happen only when demand is understood not as numbers and figures but as reflections of economic realities of clients that behave in manners prescribed by socio-cultural norms. *Paradoxically, economic behaviour is often socially determined.*

It is not as if the socio-economic character of poverty has not been understood by the microfinance sector. The presence of several NGOs and even 'for-profits' that are led by development professionals ensure that the 'social' factors enter the program at some stage or the other. The business model has been gaining precedence within the microfinance sector for a while now. It is in sync with the tenets of globalisation and is directed by the principles of market-led capitalism. Within the development sector in general there is talk of creative capitalism³ and in the microfinance sector in of social business⁴. The mixed use of terminology signifies economic principles being realised along with social objectives. The intent behind such terminology is to bring together hitherto separate domains of economic (profit) and social (investment in human beings and their well being). These are the reasons why the 'plus' components are built into microfinance programmes.

³ This term was introduced by Bill gates to denote Advocates of creative capitalism (previously known as corporate social responsibility) have usually insisted that it ultimately serves both shareholders and society at large. There are debates however on whether it is possible to marry sentiment and self interest.

⁴ According to Dr. Mohammad Yunus, social businesses are run as 'non-loss' and 'non-dividend' operations. They need to have social objectives: e.g. health, education, poverty or environment; it needs to be owned by the poor or disadvantaged, e.g. women, young people or long-term unemployed men; investors may not, after having had their investments paid back, take profits out of the enterprise.

The 'pluses' can be listed as follows:

- Micro credit plus insurance services, savings services etc.: Micro finance⁵
- Micro Finance Plus: Business Development Services (BDS) and Institutional Development Services (IDS). The Microfinance Plus initiatives often veer towards promoting micro enterprise. The idea is to take clients to a higher stage where they further graduate from production loans to enterprise loans. The capacity to take risk is critical for enterprise and the role of insurance products is hence important. Again information is pivotal in strengthening capacities of clients to be able to kick start and then sustain enterprise. Herein the role of BDS and IDS services is paramount.⁶
- The Labor Plus: Health, Education, etc. The instrumentalist approach in micro finance places the financial sustainability of the lending body above all else. Hence impediments to loan repayments, be they in leakages due to death etc. or inadequate access to markets are addressed with services that strengthen the weaknesses or plug the leaks. Similarly, since it is the client that provides labor and enterprise, when human capital is weak, it can cause a threat to loan repayment and its productive utilization. Hence issues of health and education then become important to micro finance interventions. Consequently, a 'plus' in terms of health services and information capacity building, particularly in financial literacy and management, become integral.
- The Development Plus: Empowerment with Poverty Alleviation. The intrinsic value perspective views development as a right and sees the empowerment of the poor as part of poverty alleviation. Such a perspective places the well being of micro finance clients as central to development.
- Development Dividend Plus: In an attempt to expand the financial services and products micro finance programs extend loans to clients for the education of their children. The concern of most 'successful' clients, particularly women who have been successful at repaying loans on time, on taking repeat loans and also in earning enhanced incomes, is for their children. There are also interventions that reach children through their mothers. Women clients are encouraged to take loans for children's education.⁷

Today the 'pluses' have to coexist alongside the need for a business model to have microfinance that does not need subsidies. The debates centre around whether the business model can include the pluses or it is the mandate of grants and 'socially' inclined organisations. While the costs are the reason for these debates what has to be realised is that the business model by itself needs to factor in all the 'social' dimensions and cannot be justified without doing so. **The business model can draw upon the larger framework of supply being directed to accurately located demand, and with the right prices, the entire exercise worth the while of service providers as well as creating positive spirals for poor households.** However if we deconstruct the above sentence it will be seen that 'accurately located demand' cannot happen unless the socio-cultural determinants of economic behaviour are understood. Further, 'right

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prices' will require the dissolving of subsidies and in that remains the question of how the welfare component in microfinance through differential rates of interest, through the priority sector lending of banks, through the apparent competition of scheduled banks with MFIs and their uneasy truce through the Business Correspondent relationship. Can synergies created by the Business Correspondent and Business Facilitator model merge the business model magic for Banks, MFIs and NGOs simultaneously? Again, 'worth the while of service providers' can take place only if service providers are financially sustainable. This depends upon the success of the business model and the success of the service providers meeting the financial needs of their clients. It is here that the sector is currently orbiting. The above logic works for community based microfinance interventions too. All routes, be they in leveraging funds or reaching women clients are focussed upon making it worth the while of service providers to be in the sector. The last part of the sentence has the words, 'creating positive spirals for poor households'. These positive spirals lie in the financial sustainability of poor households and the empowerment of the women through whom this sustainability can be reached.

The paper suggests the following factors be addressed for the divide between the social and the economic to be collapsed in such a way that the composite socio-economic character of microfinance can yield development outcomes.

⁵ Interventions like those carried out by SEWA and several other organizations realized that when the poor took loans for enhancing incomes and livelihoods, there were leakages in their income and resource base which threatened not just their survival but also the repayment of the loans. These were death, illness, weather, floods, etc. Hence insurance services were introduced to plug these leaks. Other financial services such as savings services were also included and from merely the giving and taking back of loans micro credit graduated into micro finance.

⁶ Take the example of Bandhan in West Bengal. Bandhan works with landless and assetless women. These come from a household/ family of 5 members with a monthly income less than INR 2500 in rural and INR 3500 in urban; and those who do not own more than 50 decimal (1/2acre) of land or capital of its equivalent value. Bandhan offers micro loan to its borrowers. Bandhan follows a group formation, individual lending approach. A group of 10 – 20 members are formed. Weekly group meeting is a regular feature of Bandhan's microfinance operations. After the members have attended the group meetings for successive four weeks, they are entitled to receive loans. The group has a role to play in this regard. The loans are disbursed individually and directly to the borrowers through the group. The product is non collateral based one. One simply has to be a member of Bandhan's organized women's group before accessing loans. However over time Bandhan realized that there were members who wanted to expand their business.. These clients demand a much higher loan cycle which is not at present covered by the present core product of Bandhan. Bandhan decided to cater to their needs by going in for minor modification of its core product and introduced the Micro Enterprise Program (MEP) in January 2006.

⁷ MAHASEMAM in Tamil Nadu lays emphasis on targeting poor women as the better way to reach their poor children. This is an attempt to ensure access to quality education for children from poor families, stopping dropouts happening at elementary level etc. The members are motivated to utilize part of their savings generated out of the various income-generating activities or a loan to educate their children. Further interventions like those in the Working Women's Forum, Chennai use micro credit loans so that households can release their children from bonded labor in the Kancheepuram area.

2.a Completing the Economic Model

The financial sustainability of service providers is an important dimension in the sector. MFIs in particular have to prove that they are financially sustainable for their survival in the sector. Their capacity to attract the flow of funds depends upon how far and how deep they can reach clients, transact credit productively ensuring high levels of repayment, whilst keeping transaction and operational costs to the minimum. According to the World Micro-Credit Summit Campaign held in Washington DC February 1997, four core themes were stressed as part of a 55 page Declaration and Plan of Action. These were, reaching the poorest; reaching and empowering women; building financially self-sufficient institutions; and ensuring a positive, measurable impact on the lives of clients and their families. These four themes still remain centre stage. However the third theme of financial self sufficiency of institutions lends itself to reinterpretation. So far it has been the financial sustainability of MFIs (and to an extent that of self help groups and particularly federations) as service providers that has occupied the sector. The poor household/family is as much an institution that needs to be financially self sufficient in order to move out of poverty. The financial sustainability of households rests on their ability to stabilize by mitigating risks that make them vulnerable and prone to risky financial behaviour; and their ability to use financial services such as credit, savings, insurance and pensions to generate resources for the present and the future.

There is a critical need for the sector to consider whether microfinance programs are designed to move poor households toward financial sustainability. For this to be so there are three stages that the poor household needs to graduate through. The first is of minimizing the risks that make it vulnerable to sliding back into poverty, even after strides have been made in income generation. This is the stage of stabilization. The second is of maintenance where the stability is maintained and surpluses are generated that convert surpluses into assets and investments. The third is of self sufficiency where the household is altogether more resilient. It is now capable of maintaining itself and reaping the benefits of assets and investments to move upwards out of poverty. This is when the household will have reached financial sustainability.

Let us take each one of these steps separately, to ascertain all those components that are needed to make households financially sustainable. The underlying assumption is that there is always some income being generated by the household.

1. Stabilisation: Minimizing the risks that make households vulnerable to sliding back into poverty even after strides have been made in income generation.

Poverty is an experience that moves households from coping with one risk after another. The poor have to spend much of their incomes on food since as received economic theory also tells us, the poorer the household the more will incomes be spent on necessities. Very poor households do not consume enough food and their nutrition levels are low, thereby the quality of human resources in terms of health is also low. They also suffer from chronic hunger, malnutrition and hence illnesses. The immediate need for such households is money to buy food. Since

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Stabilisation;
Maintenance;
Self sufficiency.

their incomes levels do not cover adequate food intake, recourse is taken to credit. It has been debated within microfinance sectors on whether it is worthwhile for service providers to even contemplate giving credit for such needs as food, health, shelter, etc as these are 'consumption needs'. The operative logic lies in the fact that if the household is too poor to eat then it is too poor to repay the loan that is consumed as food. On the other side of the debate is the argument that food in such cases is productive since it goes into the maintenance of human resources and increases their productivity. It is also felt that the primary need of such households to obtain a minimum floor level of food intake, is actually the responsibility of the state. Human rights activists lobbying for the right to food have led numerous such campaigns in India. Hence poverty alleviation programmes such as the National Rural Employment Guarantee, Food for Work, etc are in this genre. Since women are the custodians of care of households, it makes complete sense to direct such credit and programmes towards women. Studies have shown that resources in the hands of women have raised the overall levels of wellbeing of families.

Microfinance practitioners tend to identify households and women clients who are already economically productive and functioning in the market economy to give credit to since this ensures that loans will be repaid. Even so there is every chance that credit taken for economic activities will get spent on food, health or other socio-cultural commitments. Such 'leakages' lessen the chances of repayment, which if it happens bodes ill for the service provider. Or, on the other hand it can lead to the recycling of loans where households take credit from a second source to repay a first source and this bodes ill for the household. Hence it is either the financial sustainability of the service provider at risk or that of the household. The sector has recognized these gaps and hence the 'plus' components of microfinance build in various types of inputs that will plug leakages and minimize risk pockets for households. What is most significant, however, is that because the entire system is determined by the supply side, it is the protection of the service provider that takes precedence. In as much as risk mitigation for the household ensures the financial position of the service provider, the household's interest is included. And therein lies the danger of mission drift. A clear policy implication from the first stage of household financial sustainability is that insurance, particularly health and life, is probably more important than credit for micro businesses. Insurance only to ensure loan repayment will not be able to ensure risk mitigation of households as it will cover just that much leaving the household to the mercy of more risk once the purpose has been served.

What is most significant is that because the entire system is determined by the supply side, it is the protection of the service provider that takes precedence.

2. Maintenance: Within this second stage, the earlier attained stability is maintained and income generation increases so that surpluses are generated which are converted into assets and investments.

The second stage focuses upon the need of poor households for credit, savings, and insurance, pension and remittance services, as a bouquet of financial services. Currently regulation within the sector has caused different providers to be able to deliver these in degrees of varying efficiencies. It also points to the need for livelihood programmes that take a holistic approach to income generation. What has to be remembered is that the second stage also includes the maintenance of stability. When incomes increase it is important for wise financial decisions

to be taken. Women, particularly, always have the interests of their children as priority. Education in this light features as an important reason why savings and investments will be made. Microfinance programmes have to factor in the need for financial literacy of the communities they work with. Transacting money without understanding the implications causes financial distress for poor families. Women have always been good managers of money, they are prone to thrift and as has been said above also think of the future of their children. Financial literacy that builds the skills of women in money management will have far reaching impact upon the transformation of surpluses into assets.

Policy wise too, if there can be provision to ensure the ownership of assets by women it makes for better financial maintenance of households. Legal literacy and leadership management programmes for women in microfinance is required for the second stage of households' movement out of poverty. These skill building programmes ensure that women participating in microfinance programmes develop a larger vision of their productive lives and how these can be harnessed to move out of poverty.

3. Self Sufficiency: At the third stage the household has become more resilient and has started reaping the benefit of assets and investments to move upwards out of poverty.

This stage is also the weaning-away-from 'micro' finance stage. When the household graduates to this stage the need for financial services will still be there but will be of a meso or macro nature.

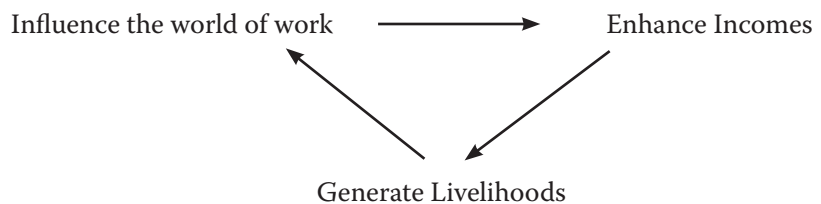
Social performance seeks outcomes. These outcomes can be found in the financial sustainability of households. Households cannot become sustainable unless they have moved through the three stages mentioned earlier. The movement from stage one to two necessarily requires increases in nutrition levels, improvement in health indicators, and protection against sudden crises such as death, accident, illness and natural calamities. The movement from stage two to stage three requires all of these outcomes plus the building of sustainable assets and livelihoods. All of these graduations are possible if policy recognises the vulnerability of poor households vis-à-vis lack of resources and social stratification, and delivery channels are sensitive to addressing these needs. There is also need for facilitating non governmental organisations who work with self help groups and federations, to factor in the financial sustainability of the poor households they work with. Further, given the socio-economic character of financial behaviour, community based interventions should not be separate economic and social issues into two compartments and address them separately.

The routing of microfinance through women has tremendous potential since when gender issues are built in sensitively and women are empowered by design and not default, the movement of households across the three stages will be more possible. The outcomes of microfinance have to be in terms of development, and ratings and indices have to look in the direction of having development performance measured.

2.b A Gender Perspective

Microfinance as an intervention places money in the form of credit in the hands of women. Whether this money is used for consumption or production, and whether it is used by her or a male/other member of her family is uncertain. Microfinance does not make it mandatory for women to determine the use of the credit. It only routes the credit through women. The fallout often is that women take the credit, it is then used by men or other members of the household, but repaid by the woman. Further the woman does not have control over the income generated through the use of the credit. Again the instrumentalist determination of delivery systems that suit supply providers is evident.

Microfinance programmes that actually take into cognisance women's economic participation also tend not to investigate the world of work that she inhabits. They merely identify credit needs and meet them. In actuality interventions seek to influence the world of work of clients through the supply of credit for productive purposes. Microfinance seeks primarily to do the following:



World of work does not lie only in the realm of economic activities. The world of work of men and women is governed by socio-cultural norms and is gender specific. Hence even the most basic credit programme needs to factor in an understanding of the gender division of labour within the world of work. Gender considerations at this level cannot be assigned to a 'plus' component that sequentially features into programmes at later stages.

Gender⁸ determines the world of work. There is an inherent gender division of labour both within households and in labour markets. There are also two parallel economies that function simultaneously. The world of work is divided into production within the market and care economies. The market economy is visible and governed by the economic rules of supply, demand and price. Herein men and women are assigned to occupations and livelihoods that are gender appropriate. The other economy is the care economy that functions within households. The care economy consists of the reproduction, care and upbringing of new human resources (children), the maintenance of existing human resources (adult persons) and the care of depleted human resources (the aged). Cooking, cleaning and caring, form the central activities within the care economy. The work in the care economy is unpaid and unaccounted for in gross development product and does not feature in the accounting of 'productive' work. This work, as per the gender division of labour within the care economy, is mostly carried out by women and girl children.

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Two parallel economies function simultaneously and the world of work of women and men is divided into production within the market and care economies.

In the framework of human capital where capital is 'produced means of production' it is the domain within which human capital is primarily created. Hence the care economy provides an important factor of production to the productive system of the economy. It is a parallel economy that contributes to the gross national product of the national economy at large. It also nurtures and puts in place basic value systems of honesty, adherence to norms, compliance to rules and acceptance of punitive action. In fact most of the values of trust on which a market economy essentially rests are nurtured within the care economy. These value systems are central and critical to the smooth functioning of the market economy since markets rest upon trust. The links between the market and care economies are very important. Both require people to work within them, so as to keep them functioning, and both require productivity. In fact they also depend upon one another for this productivity. A malfunctioning in one results in a drop in productivity in the other. For example when incomes are not adequately generated the human resources within the care economy get impacted upon and the quality drops. This has a spiral effect upon the productivity in the market economy.

When a programme seeks to augment incomes by increasing economic spaces like access to credit, it has to take into consideration the world of work of the client. The interconnection between the care and market economies also determines the pressures that women face in productively using the credit and repaying it. Again delivery systems need to understand how women balance their work in the two economies so that operations can be designed to address the needs of women clients.

This paper also argues that even a business model approach to microfinance needs to have a gender perspective as long as services are routed through women and poverty alleviation is the mission. The sector should not bypass gender by categorising it solely as 'social'. Microfinance programmes (even basic credit programmes) need a gender perspective. A gender perspective comprises the following: a) Gender Integration where gender is more than an 'add women and stir' approach. In fact since microfinance works largely with and through women it is often thought that gender is addressed. However women do not equal gender. b) Gender Mainstreaming where gender gets addressed within all the layers and folds from design to orientation to analysis. It is part of every project and in the focus of every personnel. c) Gender Planning since gender has to be deliberately integrated and mainstreamed. It does not happen automatically and requires technical expertise. d) Gender Analysis where outcomes are analysed on the basis of gender disaggregated data. Gender disaggregated data is different from merely sex disaggregated data, asking the right questions about access, control and decision making.

A gender perspective comprises the following: Gender Integration; Gender Mainstreaming; Gender Planning; Gender Analysis.

⁸Gender is different from sex. Sex is a biological difference between men and women. Gender talks about inequities that are caused by virtue of perceptions about what is appropriate for men and for women. Gender is a social construction and its manifestations vary socio-culturally. When programmes work with and through women it does not mean that gender issues are addressed. However if the needs of women are to be addressed it is imperative to consider gender issues.

The balance between similarities and differences has to be understood. Guidelines enhance the ability to understand and respond to gender issues amongst those involved in the planning, implementation, and evaluation of microfinance programmes. However a programme has to focus on generic similarities of expressions of gender discrimination while being alert to contextual and region specific differences in the way these play themselves out. For example, the mobility of women is usually taken to be an indicator of an improvement in their lives. But there are contexts within which women walk miles to fetch water. Thus there are areas and times within which mobility is socially legitimate and others it is not. While generic indicators of gender discrimination can be somewhat similar, contextual specificities can be ascertained, only by community and individual participatory methods.

A gender perspective has both an instrumental and an intrinsic value for enhancing

A gender perspective has both an instrumental and an intrinsic value for enhancing programme outcomes. In its instrumental value, having a gender perspective benefits the program in ways that make for more efficient outcomes. They reach women not just in terms of numbers but in ways that make for a better quality of life for them. But it must be remembered that gender is not a woman's issue. It is a development issue. In the context of development work, gender analysis seeks to understand more widely how women and men might be affected differently by any particular problem or intervention. A classic example of the instrumental value of a gender perspective is that when women have better access to employment, credit and livelihoods, children's health and levels of nutrition improves. It also realigns the power equations within the household. The intrinsic value of a gender perspective lies in the fact that it focuses on issues of equity. It requires rising above socially defined roles and recognizing the right of every person to be human.

A positive gender framework is inclusive as against divisive. It sees the involvement of men and boys and gate keepers as essential to addressing gender issues.

There is an alert that has to be sounded regarding a gender perspective. It usually begins with a negative conceptual framework since gender focuses on discrimination, vulnerability and social exclusion, as identifying mechanisms. This can become problematic for programmes as it can slip into a 'victim mode' and divide women from men. This is dangerous since it labels women as victims and men as villains. It can also pitch women as enemies of women. However the fact that gender is determined by social norms, it actually victimizes all persons, men and women alike. Patriarchal norms create both patriarchal men as well as patriarchal women. In contrast, a positive gender framework is inclusive as against divisive. It sees the involvement of men and boys and gate keepers⁹ (men and women) as essential to addressing gender issues. Further, entire communities have to be involved in programmatic interventions for there to be a real integration of the gender perspective. Both the instrumental and intrinsic value of such a perspective can be useful to get the buy-in of men and boys in addressing women's issues.

To take an example from the experience of the Indian School of Microfinance for Women, in the field, it was found that the isolation of women in capacity building exercises within microfinance proves counter productive because the source of unwise financial behaviour often rests with the men in the family. In our financial literacy trainings in interactions with women in the community it was found that what is termed as 'wasteful expenditure' is often the expenses that the men make. Hence making only the women financially literate does not always work.

It is for these reasons that financial literacy modules for couples as against only for women clients, have been taken up by one of our partners, Village Welfare Society, in Kolkatta. If the financial product is so designed that it is directed at women, two repercussions can be seen. One is that the onus of saving/repayment falls upon her and when the opportunity costs are high in terms of money is diverted away from food and nutrition, women and girl children bear the burden. The second fall out is - her efforts are countervailed by the inappropriate financial behaviour of men in the household especially where alcoholism is rampant. Hence gender issues are important while designing appropriate financial products. Consequently the involvement of men, boys and other gate keepers of women clients is a better way of addressing capacity building. Again, given diverse contextual realities in India, the method of involving men and boys in a program is not linear. In Rajasthan we learnt that the involvement had to be immediate. PEDO, in rural Rajasthan invites husbands to self help group meetings from the first day itself. The organisation realised that unless this was done the women would not be able to reach the meetings at all. It was found that in the beginning the men were curious, later they got bored and would retire to another room and smoke bidis. But with time there was also a turn around and now one of the women members' husband (they take turns) deliberately attends meetings to help with logistical support! When the question of the involvement of men and boys was put to the head of an MFI, SWAS in urban Andhra Pradesh she informed us that the cultural milieu was such that if men were involved right from the start there was no chance that the women would ever speak and articulate their needs, hence they prefer involving the men at a later stage. What has to be remembered that since physical spaces for women in Andhra Pradesh are not as restrictive as in Rajashtan, such a method would not stop the women from attending meetings organised by the MFI.

Further, the gender perspective has to accommodate compounded vulnerabilities. It has to recognize that all women are not homogenous and hence do not suffer discrimination in the same way. Other vulnerabilities like, caste, class, disability, age etc make, certain persons/ women and groups more vulnerable than others. Once a gender perspective is built it has to be operationalised which requires specialized technical expertise and a close relationship of the programme with the communities being addressed. The involvement of communities is necessary for intended outcomes of empowerment.

Even in the narrowest of interventions that, say, only give credit, gender sensitivity will ensure a better targeting of credit, a better designing of repayment and a better designing of credit instruments. When the intervention broadens to microfinance, there are more complexities and gender sensitivity allows for insurance and other services to take into cognizance the life cycles of women (and men) there by better addressing their needs. In the case of Microfinance Plus interventions, gender barriers do not allow women effective access to BDS and IDS services. Hence through gender facilitated targeting the roadblocks created by gender discrimination can be navigated. The Labor Plus frameworks that focus on issues

⁹ Gatekeepers are those members of families and communities that guard the adherence to social norms particularly of women and girls. For example, mothers-in-law in the context of, daughters-in-law.

Even in the narrowest of interventions that, only give credit, gender sensitivity will ensure a better targeting of credit, a better designing of repayment and a better designing of credit instruments.

like health, food, water, nutrition and education need a gender perspective since access to the above is gender biased. Due to discrimination, girl children and women receive less food, suffer poorer nutrition; and can access less health services and education than do boys and men. If the intervention does not take cognizance of these factors to align gender discrepancies, it will be detrimental to the outcomes of the micro finance intervention too. The Development Plus frameworks are those which overtly focus on gender issues, and thus emphasise women's empowerment. This could be because micro finance is routed through women clients (an instrumentalist perception) or else because women's empowerment is a development issue (an intrinsic value/rights based perception). The Development Dividend Plus also needs to have a gender perspective since a mere consideration of the next generation does not automatically mean that girls will cease to be discriminated against. Gender check lists have been devised which can help to integrate gender into micro finance programs. Further gender equality can be pursued through change in infrastructure and organization on the supply side within a micro finance intervention. An intergenerational framework of livelihoods will necessarily be more sustainable and effective in fighting poverty. Narrow or broad, instrumentalist or intrinsic, whichever framework the micro finance intervention is located within, a gender perspective is required for better outcomes. Besides having a gender integration that sensitizes the suppliers of micro finance, there is need too for behaviour change communication on the demand side so that the road blocks that cause restrictions in women's lives can be negotiated or even removed.

2.c The Empowerment of Women

It is possible for household sustainability to be attained and poverty alleviation to move forward if the large numbers of women through whom financial services are routed, are empowered by design. The empowerment mandate of microfinance has been stated as one of the themes of the Summit and there have been evaluation studies that claim the positive effects of access to financial services in the lives of women. Empowerment is a complex process that involves the expansion of several spaces in a person's life: these are physical (geographical and body); economic; socio-cultural; political (public and private); mental. Spaces influence a person's capacity to act and his or her behavior both within the household and outside it. The stimulus is when something changes in the person's life that expands spaces, allowing for place/freedom/margin to do what s/he intends to do. Conversely, a constriction of space takes away capacity to act and narrows the number of alternatives for behavioral decisions¹⁰. In many parts of the world in India, women live lives where all the above mentioned spaces are restricted due to socio-cultural norms. Patriarchal ideology and unilineal kinship systems that see the progression of generations through the male, accords lower social status to women and girl children. The latter are the custodians of family honour and their sexuality is tightly controlled so as to ensure purity. Hence women have limited mobility outside the home, and are found in segmented labour markets doing work that is socially prescribed as appropriate for them. They have little control over their bodies, reproductively and also in terms of labour. Women hardly own land, homes or assets. The incomes they earn are often controlled by men and other gatekeepers of their families. And in the public domain there are few women in positions of leadership and influence.¹¹

Access to financial services particularly credit, has enabled women to finance small businesses and graduate over time with repeat loans, from very small loans of two and five thousand rupees to ten and twenty thousand rupees. This has led to expansions in several spaces for women. Particularly when the intervention requires collective mobilisation, as in the formation of self help groups, there is an expansion of physical spaces through increased mobility, and also increased respect in families and communities thereby expansion of socio-cultural spaces. When women become leaders within self help groups and federations their public political spaces also expand. Advocates of micro finance claim the very process of forming self-help groups is empowering and creating a critical mass which can be harnessed to pull households out of poverty traps. The corresponding side of the debate around this issue is that, the same critical mass can be usurped by larger political and economic interests to promote their own mandates; women become instruments and are further disempowered. Moreover, empowerment cannot be achieved through the handling of just money since credit by itself does not bond women together enough to unleash a process of empowerment. Other social and development concerns are required to cement groups so that they can metamorphose into vehicles of empowerment. The other issue of debate relating to micro finance and women's empowerment is that credit can only address practical gender needs and not strategic ones,¹² hence one must not be over-ambitious about the goal of empowerment. The process of a micro finance programme does not directly affect structures within households or attempt to change hierarchies within it. Hence membership within a self-help group does not automatically carry the dynamics of empowerment into the household even if they have begun within the group. No doubt, women can be empowered by virtue of membership in a group that is struggling towards a common goal of equity. However, often these processes isolate them from the household and there are increased tensions within the family.

Even so what has to be realized that microfinance programmes even when they merely route credit through women, have had a minimal by default empowerment effect.¹³ If the micro credit intervention has caused changes within domestic private spaces that lead to violence and aggravation of gender-based discrimination, then it is a result of the unchanging nature of socio-cultural spaces. Domestic power dynamics can be altered due to an increase in incomes in the hands of women or because of a change in their roles, by them becoming livelihood generators. Also, it is necessary to examine the distribution of responsibilities within the household. The burden of repayments, of generating livelihoods, of proving to be financially sustainable, of functioning as a member in the self help group (sometimes as an office bearer) and also of continuing to be responsible for household work of rearing, caring, cleaning, cooking etc generally falls upon women. If the responsibilities are not shared, then on the surface it seems as if the responsibility of the household has increased, while in reality the burden upon the women has increased. Hence, in a poor household, women's lives become even more stressed with compounded discrimination.

Microfinance programmes even when they merely route credit through women, have had a minimal by default empowerment effect.

¹⁰The concept of 'spaces' can be used to categorise and analyse power and empowerment. For an elaboration see, Deshmukh-Ranadive, Joy. 2002, Space for Power: Women's Work and Family Strategies in South and South-East Asia, Rainbow Publications, New Delhi.

A study¹⁴ that looked into the impact of microfinance on women's empowerment was the CASHE program of CARE. The Strategic Impact Inquiry on women's empowerment in CASHE was an effort to help CARE get a better idea of the impact of CASHE on gender inequity and the social exclusion of women. CASHE, the largest micro-finance initiative of CARE India aimed at significantly enhancing the incomes and economic security of the poor, and making available a wider range of microfinance services. This seven-year project, implemented in the rural areas of Andhra Pradesh, Orissa and West Bengal and within 2005 the project expanded its operations to the state of Madhya Pradesh. The project has reached out to over 2.8 million women clients in more than 20,000 self-help groups. It supported the development of community-based and community-owned women's microfinance federations, provided access to capacity-building services, helped identify and incubate microfinance innovations and to build a pro-poor institutional framework by influencing policy and regulation at both state and national levels. Many of these activities are still continued by the local partner organisations through whom CASHE operated.

The Strategic Impact Inquiry (SII) was conducted with three CASHE partner NGOs in each of the three CASHE states. It was based on a review of research studies carried out in these three states with additional field work. The study was premised on a multidimensional empowerment framework that views empowerment as a process having personal, economic, social and political dimensions, with personal empowerment being the 'core' of the empowerment process. The study establishes that microfinance programmes can create empowerment-promoting conditions for women to move from a position of being marginalised within the household decision-making process and exclusion within the community, to one of greater centrality. Microfinance initiatives based on self help groups are significantly improving members' access to credit and savings products. This has an impact on the quality of life in a poor household. Basic and urgent consumption needs are met more easily than before. Money is available to set up some household level income generating activities.

¹¹ It is only due to the 33 percent reservation that women are now found in local self governing bodies in the country. For an elaborate discussion of the links between poverty empowerment and micro credit see, Burra Neera, Joy Deshmukh-Ranadive, Ranjani K. Murthy, edited, 2005, *Micro-credit, Poverty and Empowerment: Linking the Triad*, Sage Publications, New Delhi.

¹² Practical gender needs are those that do not challenge existing power structures but address immediate needs and are short term. Strategic gender needs challenge power structures and need to be addressed over time.

¹³ For example, Pitt and Khandeker (1995) found in their study that credit was empowering since the outcome 'increased income earning time spent in credit-based activities' was assumed to automatically increase women's influence in household decision making. ["Household and Intrahousehold Impacts of the Grameen Bank and Similar Targeted Credit Programmes in Bangladesh', Paper presented at the workshop on 'Credit Programmes for the Poor: Household and Intrahousehold Impacts and Programme Sustainability', World Bank and Bangladesh Institute of Development Studies, Dhaka, May 19-21.]

¹⁴ CARE, *Enabling Empowerment STRATEGIC IMPACT INQUIRY*, MARCH 2006

Microfinance through the by default empowerment effect strengthens a woman's position in the family by giving her access to money. It is clear that microfinance interventions can effectively supply the basic needs of the family for income and security by: providing savings and loan facilities for consumption as well as income generation; enhancing the capacities of women so that they can generate more income/improve the stability of income; creating social access for women through their groups/networks.

However, there are concerns about the pressure imposed by microfinance on members of self help groups. In addition to the responsibility of meeting the basic needs of the family, they are taking on the burdens of: saving regularly, despite other pressing needs; maintaining repayment schedules so that chances of further loans are not jeopardised; conforming to the group's norms in addition to family and societal norms; and meeting additional demands on their time to attend group meetings, etc. Thus, microfinance consolidates and builds on the socially acceptable mode of supporting the primary role of women as homemakers. It gives women the freedom to fly as long as they remain bound to their primary responsibility towards the family. Its benefits do not address women's personal needs such as health, leisure or education. It imposes heavier responsibilities on women as they try to go beyond traditional roles. Income generating activities impose a burden, which is increased by enterprise development. There are also demands on time and commitment if they try to claim their space in the community. Microfinance impacts men's lives in a different way. Their responsibility for providing for the basic needs of the family is reduced. The family benefits, including men, children and women (possibly in that order). However, some men feel threatened when women discover a voice in the family and in the community. By implication, microfinance services have a liberating effect on women if their families, recognise the addition to their burdens and support them meaningfully, but adds to the burden of women when such an understanding is lacking or not offered.

However for household sustainability, it is imperative that women be empowered by design. Empowerment by design requires gender sensitive `capacity building that expands spaces in women's lives, especially mental spaces. Mental spaces are expanded with access to collectivization and access to information. Community based microfinance through self help groups and federations have a stronger chance of empowering women. Group-based micro-credit interventions targeted at poor women, offer a greater potential to expand endowments of women, exchange outcomes for women's labour and produce, and consumption outcomes for women, than the groups focused on the poor in general. This is because group based micro-credit interventions with women, offer the space to break women's isolation, expand their access to credit, assets and income independent of men, and their bargaining power within the family and outside.

Since most micro finance clients are poor women, their empowerment particularly in the context of a developing country like India, links to the existing state of disempowerment that they live in. Their lack of mobility, restrictions due to socio-cultural norms on their participation in public life, in market driven activities, etc then become impediments to successful micro finance, micro enterprise and

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livelihood generation. Hence programs cater to their needs for capacity building by bringing services to them rather than have them reach services, basically circumventing socio-cultural structures. The idea in such efforts is to enhance the reach of financial products and services without actually questioning or addressing the norms that govern women's lives.

On the other hand, when interventions delve into the reasons why women have differential access to opportunities, resources, assets, thereby resulting in differential outcomes of health, nutrition, education, and ability to take risks in business; and when issues of domestic violence are addressed, gender implications are taken into consideration. At such time, capacity building includes leadership development, trainings in life skills, working with gate keepers and behaviour change communication, etc. These all serve to ease the road blocks that do not allow women to participate fully as equal actors in the market and to adequately use their loans to enhance livelihoods and to increase their productivity. Taking cognizance of gender biases and designing interventions that address them, helps to fine tune programs for better reach and outcomes. ANANDI is one such organization that has a holistic approach. It is a non-political secular organization working with women's organizations and partner NGOs to promote an empowerment approach and gender mainstreaming throughout development activity works with the poorest women of the tribal and other marginalised communities in Saurashtra and Panchmahals-Dahod district in Gujarat and also networks with other national and international NGOs. It has a large field programme to facilitate and support women's groups and form self managed women's federations addressing health, food security, livelihoods, savings and credit and capacity building of women panchayat members. Gender neutral programs are in reality gender biased since they further the discriminatory structures in which women's lives are located. Such programs often miscalculate the reach and impact of their interventions and create newer frictions in women's lives.¹⁵ In Andhra Pradesh, under the government initiated *Velugu* project it was found that although women were participating well in the microfinance programme nothing much had changed fundamentally in the household. During an exposure visit,¹⁶ conversations with personnel in the field, brought to light how in some areas, the hostility within the household increased because of the importance that women got in the public space through membership in the groups. A case was reported where a husband had violently killed his wife who was extremely active in the savings and credit group.

¹⁵ A study by Goetz and Sen Gupta in Bangladesh found that since male relatives used loans and women lost direct control over loans, credit in fact was disempowering, moreso, as it also aggravated domestic violence. See, Goetz Ann Marie and Gupta Rina Sen, 1996, 'Who Takes Credit? Gender, Power and Control over Loan Use in Rural Credit Programs in Bangladesh, World Development, Vol. 24, pp45-63, January.

¹⁶ Experience Sharing Workshop: Emerging Practices across the DPIPs in India, February 25-28, 2002, at Hyderabad.

¹⁷ As has been rightly pointed out by Mayoux, 'women's ability to use micro-finance to increase incomes and control these incomes are also affected by design of micro-finance products: types of collateral requirements, modes of disbursal, loan size and timing, types of savings product and so on.' Linda Mayoux Designing Micro-finance Products for Empowerment; Source: <http://www.genfinance.info/5Products.htm>;

When empowerment is, by design, products and services will take into consideration not only the needs of women but the differing needs among women.¹⁷ Individual women also need a range of different types of savings and loan product for different purposes, including but by no means only:

- Repayment schedules and interest rates to maximize contribution to increasing incomes.
- Registration of assets used as collateral or purchased with loans in women's names or in joint names and applicable in both loans for women and men. Incorporating clear strategies for women's graduation to larger loans. Loans for new activities, health, education, housing.
- Range of savings facilities, which include confidential higher interest deposits with more restricted access to enable them to build assets protected from demands of other family members.
- Loans to reinforce and strengthen male responsibilities for household well-being, including that of their wives and daughters e.g. loans for daughter's education and for a daughter to take with her on marriage.

Further, empowerment by design pays particular attention to capacity building through generating awareness, imparting information and building skills. This is true for both MFI models as well as community based ones. The realisation of this potential seems to depend on whether addressing the household's and women's poverty is part of the goals of the organisation, extent to which the goals area shared at different levels of the organisation and different associated stakeholders, the gender and social relations (age, caste, headship etc.) sensitivity of the leadership, the extent to which the organisation is process driven and staffed accordingly, and whether the orientation of the organisation stretches beyond profit maximisation.

2.d Holistic Capacity Building

There is a need for capacity building in the sector that is holistic and socio-economic in character. This is true both for the sides of service providers (supply) and clients (demand). This capacity building is imperative for the financial sustainability of service providers and households, as also for poverty alleviation. On the side of service providers there is need for foundation courses that impart a socio-economic understanding of microfinance so that human resources that join MFIs, banks, Non Banking Financial Companies (NBFCs), etc understand the composite character of microfinance. The sector needs professionals of all kinds. Managers of the highest quality are required to oversee the financial domain of service providers, operations, design of products and services, and organisational development and governance. These managers have to have sharp technical skills in their own respective areas with a gender sensitive understanding of the communities they serve. The sector also needs leaders and senior policy makers in organizations, government and banks that understand microfinance as a development intervention. The danger of pursuing the business model line of thought is that the 'economic' return could well become the goal of microfinance. The transactory type of microfinance is also turning away from poverty alleviation missions with the advent of venture capital and private equity.

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The 'returns' that sustains both sides of microfinance have to be social and economic since it is only such returns that build the GDP of countries. The economic growth of nations rests upon the socio-economic development of its people and the fastest way to get there is to empower women to lead these processes. Women's leadership programmes are required that equip women to negotiate the tensions in their lives caused by their participation in microfinance interventions. These leadership programmes will prove useful not only for women in formal leadership positions but for all women participating in microfinance programmes since their abilities to take the lead in their own lives empowers them to move beyond being mere conduits of financial services.

Service providers tailor products and services in accordance with the financial requirements and financial behaviour of clients. This behaviour and these needs are determined socio-economically. And at times these prove counter productive to the poverty alleviation mandate and financial sustainability of households. It was such a realization that led SEWA Bank to think about financial literacy for the poor. This endeavor is currently also being taken forward by the Indian School of Microfinance for Women. Financial literacy builds the skills of poor clients to introspect upon their financial behavior and examine the decisions they and their families take. Such trainings can bring out the full implications of financial behaviour that meets immediate needs with little thought for future repercussions. The social determinants of economic behaviour even shape what is perceived as essential expenditure and what can be classified as 'wasteful'. In spite of long years of advocacy against ostentatious expenditure on marriages and other social rituals, SEWA Bank has not been successful in altering the perceptions of communities significantly. The reason for this lies in the high social cost of non compliance with social norms. In fact social norms are a simultaneous system of jurisprudence that judges lives, pronounces culprits and also metes out punishment.

On the demand side there is need for behaviour change communication components to be built into all kinds of programmes.

Hence on the demand side there is need for behaviour change communication (BCC) components to be built into all kinds of programmes. These BCC components have to factor in gender and the socio-economic constraints to productive economic behaviour. An experimental BCC project, 'Gender Equity in the Family' was conducted in the district of Mahbubnagar, Andhra Pradesh, under the Andhra Pradesh District Poverty Initiatives Project's (APDPIP) which used folk theatre to open up the family and household for questioning before entire villages. This project was initiated since it was observed that the formation of micro credit self help groups aggravated household tensions since women were becoming economically independent and also held positions of power outside the home by lieu of being in the groups. The theatre performances addressed issues of gender division of labour in the house, relations between women such as mother in law and daughter in law and son preference. The purpose of the project was to alter perceptions within households so that mental spaces expand which would then lead to an alteration of established hierarchical socio-cultural spaces.¹⁸

¹⁸See, Deshmukh-Ranadive Joy, 'Placing Gender Equity in the Family Centre Stage: The Use of Kala Jatha Theatre' in Joy Deshmukh-Ranadive, (ed) 2008, Democracy in the Family, Insights from India, editor, Sage Publications, New Delhi.

Impediments can be removed, bypassed or negotiated and depending upon this, products and delivery operations can be designed. It has been the experience of a bank like SEWA Bank, driven by a mission of poverty alleviation and women's empowerment, that in spite of providing affordable and doorstep financial services to poor women clients there still were deadlocks in the progress of households out of poverty. This was then found to lie in risky economic behaviour such as living without a thought for the future, borrowing for a productive purpose and using the credit for social commitments, not recognizing the fungibility of money, not planning for expenditures in accordance with life cycle needs, etc. Such a realization points to the fact that the financial behaviour of poor clients is determined not just by economic factors but largely by socio-economic factors. It defies given logic to think that a person who is already vulnerable and facing risk will actually invite further risk through, for example, taking money from informal sources at exploitative rates of interest. But there are several social layers to this seemingly illogical economic behaviour which has been brought out by research. The dependence of poor families upon money lenders for example is not just related to them being able to give credit at short notice for all kinds of purposes but also to the social hierarchies and relationship of familiarity that they have with each other. All microfinance programmes have an initial input of communicating with communities in order to familiarize them with the services that are being offered and to understand the needs of communities. In such communication it is not enough to only zero in on the client. It is important to work with communities, households and clients either together, or sequentially.

Financial literacy has particular significance in the light of the nation wide drive of commercial banks to include the poor and open no frills accounts on their behalf. Again, the role of MFIs as Business Correspondents and Business Facilitators does not bypass the need for bankers to develop a gender sensitive perspective towards addressing the financial needs of the poor.

Empowerment processes are closely connected with interventions that consolidate the future for people. Asset building and social security play a crucial role in these processes. If microfinance products and services build assets for women, the impact is far reaching for households. Women's leadership needs to be built even for those women who are not in formal positions of power. This is so since women who cope with multiple roles as workers in the market and care economies, and also negotiate public domains in society through their participation in microfinance, have to walk multiple tightropes. Given gender specific norms of appropriate behaviour, women are often at the receiving end of violence due to these tight ropes. Leadership modules need to address women's needs to better manage their multiple roles and emerge as effective users of financial services and products. The transformatory nature of microfinance will be seen if women are so empowered through their access to these services that they can alter the power relations within which they are placed in society.

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3 Conclusions and Recommendations

In conclusion it can be said that the microfinance sector needs to take into account factors that can move it towards the transformatory potential it has. It will otherwise remain transactory with inadequate understanding of the outcomes of these upon the lives of the poor. It is not as if there is not enough concern in the sector about poverty alleviation and social performance. However the business model focusing on the economic agenda of the financial sustainability of service providers receives precedence. While this is necessary for a business model, the pathway toward achieving the mandates of poverty alleviation and empowerment do not lie in matching economic performance with social performance. The missing segment of the financial sustainability of households is required. When the socio-economic character of demand for financial services is considered products and services will be so designed that also transform the lives of clients. Consequently the following recommendations are made:

- There is need for the microfinance sector to fill in the missing piece in the business model framework, that of the financial sustainability of the poor household to improve their overall resilience to risks and shocks. The financial sustainability of poor households requires stabilization, maintenance and self sufficiency. Financial products and services that consolidate the future for the poor, such as savings, insurance and pension need to be addressed as priorities since these stabilize households. A livelihoods framework is necessary for income generation that addresses the socio-economic dimensions of poverty.
- A gender perspective is not a plus component. It is integral and critical to even a basic credit programme. The gendered world of work, involving both care and market economies, needs to be understood by the sector and by policy makers. An understanding of the interconnections and interdependencies of the care and market economies will build fresh perspectives of 'consumption' and 'productive' loans.

- Household sustainability can be better built if programmes empower women by design. The link between financial sustainability, poverty alleviation and women's empowerment is one of interdependency. Women's empowerment has to be addressed primarily for poverty alleviation.
- Women's empowerment lies in their access to financial products that can help them to build assets and secure their future. Empowerment is closely linked to information and collective mobilization. Hence community owned initiatives of microfinance, like the self help group and federation models, need to be nurtured with capacity building that equips them to participate in the 'business' domains of the sector. Women's leadership capacities have to be build irrespective of whether they are in formal positions of power, as poor women have the ability to lead their households out of poverty. Women's leadership modules have also to blend the understanding of the 'private' and the 'public' domains that women need to negotiate to be able to effectively participate in microfinance programmes.
- With the synergies that are being built between the banking sector and MFIs, between capitalists and development practioners, the need for understanding microfinance as being socio-economic in character, is even more acute. The altering character of NGOs and MFIs that convert into Non Banking Finance Companies (NBFCs) require managers for microfinance that have a holistic perception of the sector and the communities they work with.



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