

## **EMPOWERING THROUGH INCLUSION: EXPLORING THE IMPACT OF MICROFINANCE INSTITUTIONS ON WOMEN'S EMPOWERMENT**

Rima Menon

Reedy High School

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### **ABSTRACT**

This research paper examines the relationship between Microfinance Institutions (“MFIs”) and women's empowerment, demonstrating how these companies serve as catalysts for positive change. Beginning with an overview of MFIs, the research paper introduces you to three MFIs analyzed more in-depth: FINCA (Foundation for International Community Assistance), WMI (Women’s Microfinance Initiative), and the World Bank Group. Second, this paper describes the process in which MFIs tackle gender diversity through their primary goal of increasing financial inclusivity. Third, the paper also recognizes the resistance to the MFIs, by describing the reasons for opposition and why people might not be as receptive to such a novel program. Following that, the paper will provide more information on the effectiveness of MFIs on gender development on a larger scale, and then focus on individual case studies to give others a feel of the personal impact these corporations attempt to strive for. Finally, the paper introduces an anecdote to provide a more distinctive perspective of the thought process one might have when approached with the idea of MFIs and their use. In summary, this research paper offers an analysis of the use of MFIs in piloting a new generation of women who successfully utilized micro-credit tools.

**Keywords:** Developing Countries, Financial Inclusivity, Microfinance, Poverty, Women Empowerment.

### **1. Introduction**

The microfinance industry (“MFI”) has grown exponentially in recent years. MFIs are companies or banks that provide financial services to low-income individuals who would not otherwise have access to such services (CFI Team, 2023). MFIs target the advancement of the world’s economies by looking at the issue through a complex lens. Rather than the typical donor-receiver transaction that we all know of, MFIs utilize capital efficiency by implementing

solutions that can revolutionize the financial well-being of a country. Examples can range from nonprofit organizations, mutual funds, or commercial companies. They provide loans that are often smaller than traditional banks and educate people on financial literacy (Kagan, 2023). MFIs' goals to alleviate a country's poverty through financial inclusivity consists of various programs that act as a catalyst to help local entrepreneurs create a more efficient product-customer relationship. As a result, their local economies can flourish and become more robust (ADA,2023).

The first reported issuance of smaller loans is accredited to Bangladeshi entrepreneur Muhammed Yunus in 1983. After witnessing multiple women who owned a bamboo stool business make 2 cents a day, he decided that smaller loans must be made available to lower income entrepreneurs. After issuing the women a 27 dollar loan,, the business owners were able to recuperate their financial losses and escape a cycle of debt (CFI Team, 2023). After the success of this venture, Yunus created Grameen, a system which offered small loans to poverty-stricken populations with no repayment plans required in return. Grameen was primarily advertised to women, a population historically underrepresented in financial systems (Paribas, 2017). The Grameen Bank turned out to be an international success. Revolutionizing the economy of Bangladesh, the bank also served as an example for nonprofits and banks to implement microfinance programs of their own. The late 1980's and 90's saw rapid growth in the number of MFIs, which coincided with a decline in poverty. There are now approximately 10,000 MFIs worldwide serving more than 70 million borrowers and savers (Gundaniya, 2023).

A core tenant for many MFIs has been women empowerment in business and finance. This research paper will examine the mission of three international MFIs to mitigate third-world poverty through the financial empowerment and inclusion of women.

## **2. Research Methodology/Literature Review**

To evaluate the effectiveness of MFI's in alleviating poverty through the advancement of women, this paper will examine 3 international MFI's: FINCA (Foundation for International Community Assistance), WMI (Women's Microfinance Initiative), and the World Bank Group.

FINCA International is a nonprofit organization that also operates as a microfinance bank. They work with enterprises that deliver quality products at affordable prices in order to provide the best interest of those countries (FINCA, 2023). Their work creates economies in such countries that, after some time, can independently create markets of their own. FINCA's mission to eradicate poverty involves implementing sustainable solutions to start trade and networking as evidenced in FINCA Uganda and others.

FINCA Impact Finance is a global network of microfinance banks and financial institutions that provides financial services to people in third-world countries. FINCA's first microfinance bank opened in Ecuador in 1994 and has since grown to operate in more than 40 countries (FINCA, 2023).

When FINCA opened a new branch in Jordan in November of 2007, their client base grew rapidly, with over 2,300 microloans dispersed mostly to women. Jordan's Queen Rania, a FINCA board director, voiced her support for microfinance by comparing it to a "sound investment" rather than a "charity" (FINCA, 2023).

Many aspiring business women do not have savings or access to credit from the established banking system, so they often turn to microfinance services. With the majority of microfinance consumers being women (e.g. FINCA Jordan's clients at least 98% female), many MFIs, in addition to providing loans, also provide specialized education to women on how to succeed in business and save money (FINCA, 2023). Another such microfinance institution is the Women's Microfinance Initiative (WMI, 2023). WMI's objective is for borrowers to amass assets, enhance their standard of living, and ultimately receive financial autonomy (WMI Website, 2023). Founded by a network of women in Washington D.C., this nonprofit organization began in Uganda serving the Buyobo women. It has since expanded to the rural areas of Tanzania, Uganda, and Kenya. Essentially, WMI has created a loan program that is managed by and for village women. In the program, WMI educates program participants to run local operations. They are given access to affordable, collateral-free loans by WMI to help them establish and expand microbusinesses that produce money for essential family expenses, healthcare, education, and savings (WMI Website, 2023).

In fact, the Women's Microfinance Initiative provides a comprehensive loan program called the "Transition to Independence Program" (TIP) that offers rural East African women four successive interest-bearing, collateral-free, six-month term business loans ranging from USD \$100 to USD 250\$ (WMI Website).

Similarly, the World Bank Group has also pledged their support for women entrepreneurs in small-to-medium enterprises (SMEs) by creating the Women Entrepreneurs Finance Initiative (We-Fi) which has enabled more than \$1.0 billion U.S. dollars in financing to improve access to capital, provide technical assistance, and invest in projects and programs that support women and women-led SMEs in World Bank Group client countries (World Bank Group Website, 2023).

The World Bank also launched a microloan program, which has issued \$2.0 million U.S. dollars to 322 women entrepreneurs (McCourtie, 2013). The bank also opened its first branch

exclusively dedicated to women, aiming to reach 4,300 women-owned SMEs and USD \$458.0 million in loans by June 2013 (McCourtie, 2013).

MFIs' have internally prioritized the hiring of women, which has yielded positive results for the efficiency of their companies. Indeed, in a study conducted by MixMarket, a data hub for MFIs to share institutional data, researchers analyzed the relationship between the proportion of female workers and the financial performance of the MFI. Each institution's financial reports, rating reports, and webpages were analyzed to determine gender-specific independent variables, such as the number of female loan officers, managers, and board members, and the resulting financial performance of the MFI. The size of the economy and the number of board members were controlled for so as not to confound the analysis. After running a regression analysis using 5 econometric models, the researchers found a positive relationship between the proportion of female loan officers or board members and the institution's performance at the 10% significance level (Gudjonsson, Sigurdur, et al 2023).

By employing teams of strictly female loan officers, MFIs are encouraging women to stay active in the workforce. FINCA, for example, operates on "a village banking model" seeking to register 30 or more women in each bank (FINCA Website, 2023). About 80% of the FINCA village banks were formed from previously existing women's educational groups. In addition, the WMI partners with rural Ugandan women to cater to their needs, and employs a board of previous participants to aid in their mission of spreading microfinance (WMI Website, 2023). MFIs' hiring of women adds to their goal of establishing women in higher positions.

### **3. Results**

The goal of this work was to analyze the effect of MFI programs on women empowerment. Specifically, we sought to assess the impact of MFI's on the financial advancement of women in developing countries. By examining numerous academic databases, econometric models, and interviews, there appears to be a direct, positive correlation between employing and empowering women and the overall success of the MFI.

In looking at the effects of the WMI, they have seen their client's incomes increase 100-400% after the first six months, contributing to a greater GDP in East Africa (WMI Website, 2023). Furthermore, savings have increased by 500% (WMI Website, 2023). Even domestic violence in households in East Africa has decreased substantially, with husbands and wives being financially independent but working together to increase their incomes (WMI Website, 2023). In addition, from 2008-2015, only 2,979 women had graduated from the WMI borrowing program. Last year alone, over 10,000 women had graduated, with 10,970 loans being issued equalling over 1 million dollars.

Using the World Bank's panel data, carried out in the 90's in Bangladesh, minister Abdul Karmin Khandker found that microfinance raised per capita consumption, with respect to non-food and household non-land assets and thereby increased the probability that the participants might lift themselves above the poverty line (Khandker, 2005). He also discovered that microfinance programs were the cause of 40% of the country's rural poverty decline (Khandker, 2005). This sharp reduction is truly unprecedented and a sign of the true power microfinance has in pulling a country out of poverty.

In addition to Bangladesh, Ethiopia saw a similar effect. In 2019, a study was conducted using 35 items that would indicate a woman's income, assets, saving, and decision-making. A questionnaire was used to obtain such information from 346 participants and these participants were randomly sampled from various parts of the country. After multiple linear regression tests were conducted and any outlying data points such as education, age, or marital status were excluded, the regression results revealed that educated clients of microfinance were better placed than their peers (Abebe, Kegne 2023). These clients were more successful in the usage of credit and achieving economic empowerment resulting in a raise in their economic status. Ultimately, one can conclude that microfinance plays a great role in improving women's assets, income, and savings.

### **3.1. Case Studies of Individuals Impacted by Women-direct MFI Initiatives**

In looking at the effects of this women-centric solution, it is important to look at individual people, to establish the full extent of how lives are being changed.

Miguelina, a 31-year-old FINCA client, graduated college and owned a successful business as a baker. Noticing the business's success, gang members followed her daughters to school to intimidate Miguelina. Miguelina was forced to pay a monthly fee to the gang for not killing her children. Miguelina turned to FINCA for assistance, who aided her in getting the money she needed to mitigate the dangerous encounters with criminals. Like this story, many business owners in El Salvador are forced to close their businesses in order to avoid conflict with gang members. With little room to prosper, FINCA's microfinance loans are a great help to these struggling entrepreneurs, dealing with extenuating circumstances like Miguelina (FINCA Website, 2023).

Before receiving financial assistance from WMI, Sylvia, a woman from Buyobo, would have to use loans to buy food to feed her family, pleading with the vendors that she would pay them back at a later time. This practice created an enormous amount of stress, so she searched for a way to get a business loan to help her. She was hesitant about taking out a loan, but she thanks the WMI community for, in her words, "removing my fear surrounding loans" (WMI Website, 2023). The

WMI was very open to assisting her with her lack of financial knowledge and forming an ultimately strong bond with her. She was able to focus more of her time on her pharmacy business rather than her struggle for money (WMI Website, 2023).

After extensive research on MFIs, I decided to introduce this idea to my mother and gauge her willingness to participate in it. I asked her if she believed such a program would have helped her, to which she responded that she would have participated in it if she had the opportunity. She expressed that she would have definitely taken advantage of the opportunity, if she had the chance.

*“I think such a concept would have helped other girls like me especially in a country like India, where poor people often have the means to pay for only one of their children - and that child is usually a boy. Girl’s education is often sacrificed in lower income countries where they don’t have money to pay for it. Had I known about such a program, perhaps it would have lessened the burden of college. Which is why I like how MFIs target financial autonomy for women while increasing access to financial services. In countries like my own, having financial autonomy quite literally saved me from poverty (Menon, 2023)”.*

I was also curious about the apprehensiveness of people in third world countries to trust their money to a MFI. My mother responded,

*“I’m not entirely sure my parents would have blindly taken loans from such a program. If such an institution existed when I was younger, I think it would have taken a lot of convincing for them to agree. ”*

Today’s MFIs work to build the kind of trust my mother was looking for, with FINCA making it a mission for their staff to develop bonds with their clients so that suspicion isn’t an issue.

In addition to education, I asked where else MFIs could have helped her in her journey to financial stability. She responded,

*“Well, coming to America was not easy as well. We had to start from scratch in America, and perhaps having access to loans that MFIs provided could have helped us in that way. The journey to America was extremely tough. We came here with absolutely nothing but our jobs. We had to figure out how to navigate through buying a home, paying bills, and supporting our infant baby with a meager wage. Microfinance would have been a source to rely on if that was an option” (Menon, 2023).*

Oftentimes, microfinance programs are tied to uplifting women entrepreneurs. Yet, their use is not limited to just that. MFIs have loan programs available to women of all occupations. For individuals who have newly transitioned to a new country, these programs can be a life-saver.

#### **4. Discussion**

The results show that women empowerment at MFIs improves the financial well-being of the company. This also is the reason nonprofits like WMI and FINCA both employ specifically female workers and loan officers to their branches. Having female supervisors working in MFIs influences other rural women who have perhaps never seen or been used to the financial systems MFIs use and become more accustomed to it. Many MFIs like to establish a level of trust with their clients and having more females in the workplace helps to reach a broader range of clients.

In analyzing the influence of MFIs on socio-economics in developing countries, it is clear that the microfinance industry has had a significant impact on female financial independence. By educating women in financial literacy, providing loans to women entrepreneurs, and employing women in MFI branches, this industry has provided low-income women with a means to rid themselves from the chains of debt. The industry's extensive policies and programs have empowered women to seek out micro-loans in times of financial despair, consequently lifting local women entrepreneurs above the poverty line. Importantly, this support of financially-empowered women entrepreneurs has garnered an influx of thriving, women-lead businesses within developing countries.

Despite the aforementioned benefits, opposition to use of MFIs remain. From the perspective of new clients, many people in developing countries are accustomed to using traditional systems for management of personal finances. They are hesitant to engage in financial services since they aren't used to these processes. When asked about such advances for international development, a Kenan tribal leader simply expressed that one cannot assume methods from North Americans must work for Africans (Fancy, 2018). Indeed, our own findings from personal accounts of women entrepreneurs mentioned such hesitation (Menon, 2023). Other critics of MFIs argue that their impact is not enough to bring an economy out of despair. Most micro-loans offered to women have helped them to a degree, but not the 'next-level change' that MFIs claim to be doing. In an article by Thomas Dichter, he asserts that "position" matters more than "condition". For instance, he explains that micro-loans can be used for a low-income entrepreneur to escape debt on one case, but not to transform that entrepreneur's money making abilities (Dichter, 2021). He notes that her financial status, while improved, is only temporary and not on the order required for sustained economic growth (Dichter, 2021). Thus, MFIs' long-term effectiveness can be questioned. While individual success stories demonstrate the usefulness of microfinance, many seem to think that sustained, long-term economic impact is lacking.

Gavin Finch and David Kocieniewski are two critics of MFIs who argue that the negative sides of MFIs, such as coerced repayment, outweigh any positive impact. They explain that suicides, debt prisons, and land lost as means of repayment are becoming a main component of the effects of indulging in MFI programs (Finch, Kocieniweski 2022). In addition, billions of dollars are flooding into a system that advertises poverty-stricken populations a way to help their financial struggles, when it is, in reality, hurting them (Finch, Kocieniwski 2022). These groups believe many MFIs are taking a strictly ‘bottom-line’ numbers approach, discounting the well-being of the borrower themselves, in the repayment of loans, crippling the borrowers. Some debt collectors use ruthless tactics to force payment by having them sell their homes and land to escape debt (Kayalli, 2023). In Jordan, a country that imprisons people for not repaying loans, more than 20,000 women are wanted for this charge (Kayyali, 2023).

The empowerment of women within MFIs is not strictly defined by economics, but rather incorporates various elements of society to eliminate poverty in a sustainable way. Through our analysis, it is clear that when women are given access to financial resources, education, and opportunities within the framework of MFIs, entire economies benefit. Empowered women tend to invest in the well-being and education of their families, therefore breaking the cycle of poverty. Financial education along with basic access to financial services from microfinance programs has inherently progressed the advancement of women towards economic freedom.

Nevertheless, it is necessary to acknowledge that there are limiting factors to the full extent of MFIs. Many women are not ready to try a newer financial system when they are used to another, and many claim that MFIs are burdening women with threats to pay up. However, the impact of MFIs on the advancement towards women’s economic liberation has consistently been an important factor. If MFI programs were more prevalent in the broader society, girl’s education and career training would be non-negotiable in everyone’s lives, without the burden of difficult repayment plans. As the research shows, economies of third-world countries thrive with the addition of women-run markets and local female entrepreneurs leading businesses all over the world.

**Glossary:**

- “FINCA”: (Foundation for International Community Assistance)
- “GDP”: (Gross Domestic Product)
- “IBRD”: (International Bank of Reconstruction and Redevelopment)
- “IDA”: (International Development Association)



- “MFI”: (Microfinance Institutions)
- “WMI”: (Women’s Microfinance Initiative)
- “We-Fi”: (Women Entrepreneurs Financial Initiative)

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