What Will the Next Generation of Microcredit Products for women Look Like?

poverty-action.org/blog/what-will-next-generation-microcredit-products-women-look

Editors note: This blog is a cross-post from theSEEP blog

In 2006, the Nobel Prize Committee awarded a Nobel Peace Prize to one of the original

architects of modern-day microfinance, Professor Muhammad Yunus. Professor Yunus’s

microfinance model, along with similar group-liability lending models targeting women

throughout the world, was based on a simple premise. Women could increase their incomes –

and thereby, their own lots and the future of their families – by owning and operating their own

microenterprises. Yunus and others surmised that a lack of access to capital stood between

many of these women and the ability to invest in income-generation activities. Indeed, many

structural barriers often prevent women from accessing credit from formal sources: lack of

assets for collateral, lack of formal identification documents, and a lack of financial products

targeting them directly.

What this theory of change perhaps failed to take into account, however, was the enduring

influence of social gender norms and how they often play a role in circumventing larger

impacts of access to working capital on women’s empowerment. In general, the evidence on

the impact of access to credit on female entrepreneurs has shown little to no transformative

effect on consumption or women’s empowerment outcomes (for more information on this, see

Abhijit Banerjee, Dean Karlan, and Jonathan Zinman’s overview of Six Randomized

Evaluations of Microcredit in the American Economic Journal). Researchers are finding instead

that financial products can have an impact on women’s empowerment, but only when these

products are designed in a way that is responsive to gender norms and the barriers and

limitations they might normally create. What would it take for the next generation of financial

products for women to be gender responsive?

Let’s consider some of the potential obstacles stemming from social norms and gender roles

that may impact women’s entrepreneurship:

Demands on time: Women who take on unpaid labor in the household, for example as

caretakers for children or elderly family members, may have less time to devote to

business activities;

Business activities: Women and men may also tend to cluster in different types of

business activities, with different potential for earnings and growth;

Mobility restrictions: In some cultures, women may have limited mobility and be unable

to easily travel or work outside the home independently;

Degrees of control over resources: Women may have limited bargaining power within a

household, and thus limited control over how their own resources and assets, including

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loans and earned income, are invested.

An Innovations for Poverty Action study conducted by economist Nathan Fiala may shed more

light on the impact this last point has, intra-household bargaining power, on outcomes for

women. In a randomized study in Uganda, Fiala finds that women face strong constraints to

their decision-making power, and tend to hide resources as the only way to maintain control.

He found that men are less likely to fear losing resources within the household and don’t hide

money as frequently. Fiala looked at the impact of business capital – either by loan or grant –

on both men and women’s economic outcomes, and found that women who hide money from

their husbands experienced increased economic outcomes, while those who don’t see a

decrease. Conversely, men in the study who do not hide money from their wives saw

increased economic outcomes. This may help explain some of the lackluster impacts of

microcredit among women, particularly those who experience low levels of bargaining power

within the home.

Digital payments are emerging as a promising tool for promoting women’s economic

empowerment, precisely because they allow for elements of privacy and control that cash

does not. Digital payments, through either a debit card or a mobile money product, for

example, can give women exclusive access to their own resources and keep information about

their balances and financial activities private. Recent studies on the impact of digital payments

for women are indeed promising. In India, for example, Field et al. looked at women

participants in a public workfare program who received their wages directly deposited into a

personal account, compared to women who were paid through their husband’s account, which

was standard practice. They found that these women were more likely to work outside of the

home, a difference which was especially pronounced among those women who hadn’t worked

before or whose husbands disapproved of women working.

Another study in Niger by Aker et al. looked at the impact of delivering social benefits transfers

electronically versus in cash, and found that the likelihood that the intended recipient, a

woman, was responsible for receiving the transfers increased from 8 to 47 percent. What’s

more, those women who received digital transfers increased their diet diversity by buying more

types of food items.

These emerging lessons on women’s bargaining power, privacy, and control provide important

lessons for future iterations of microcredit products for women. For example, microcredit

delivered via digital payments may be a powerful tool to not only reduce capital constraints for

women microenterprise owners, but also to help them retain control over investment decisions.

Giving women’s businesses the ability to accept digital payments may also be an impactful

way to ensure that they retain control over their earned income. Of course, digital finance – like

Yunus’s original lending circles – is by no means a silver bullet for women’s empowerment.

Women are more likely to not own their own personal mobile phones which would allow them

to access mobile money, for example. There is still much to learn about how to build trust in

digital products, help women understand their rights and responsibilities when using new

products, and create cost-effective distribution channels. There is a need for more evidence on

the ways that financial products, when appropriately designed, can help to directly address the

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gender norms which may still limit women’s success.