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**ELIMINATING THE GLASS CEILING:
HOW MICRO-FINANCING EMPOWERS WOMEN AND ALLEVIATES
THE EFFECTS OF POVERTY IN DEVELOPING COUNTRIES**

by

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M.A. University of Central Florida, 2011

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ABSTRACT

It is widely accepted as fact that the creation of a stable financial system is the catalyst which facilitates economic development and prosperity. However, developing countries which embark on a path of change often forget the cardinal rule: addressing the needs of those who suffer from poverty, inequality, and political strife. In other words, change starts from the ground up; not the other way around. First among the challenges facing these countries, is the need to change the lending rules followed by traditional financial institutions- banks and other private lenders- who are unwilling to provide their services to individuals with little income and few if any assets that can be used as collateral.

Second, global organizations like the United Nations, World Bank, and the International Monetary Fund have failed to provide aid in a way that forces the creation of positive and sustainable change for fragile and destabilized societies. For this reason, many developing countries which receive financial aid are no better off than they were before the interventions occurred, and in some cases worse. Finally, other aid programs and even well-intentioned government efforts to reduce poverty fail simply because they are misguided. Too much attention and financial resources are devoted to grand schemes of long-term duration and not enough is given to impacting human lives in the present.

In 1973, visionary economist Muhammad Yunus witnessed his beloved country of Bangladesh sinking into the deepest realms of poverty; much of its population in despair and left without hope of extricating itself from a bleak existence. The problem was compounded by the fact that its government was preoccupied with matters of State

rather than those of its people; its financial institutions were oblivious to the pain and hunger which surrounded them, and international donors were simply giving away money without any form of control or direct involvement. Out of this scenario, Yunus started with an idea that would alter not only his life, but the lives of people in Bangladesh and the world over: micro-finance. To this day, nearly every text written on the subject calls micro-finance a weapon in the fight against global poverty, but only a mere few recognize just how much of the gains made in this “fight” are attributable to the direct involvement of women in micro-financing.

This thesis posits that while Muhammad Yunus created an idea for the benefit of “the global poor”, it actually became a medium for the empowerment of women around the world. In fact, much of the praise awarded to micro-finance as success omit recognition of what should be obvious: the driving force behind the success of micro-lending is (poor) women. This statement does not seek to diminish the merits of an idea which has put a significant mark on the global economy, or to ignore the accomplishments of millions of men who through hard work have overcome poverty. However, what began as a genderless effort to help the poor of Bangladesh soon changed to one that overwhelmingly favored women. To this day, lending primarily to women has become the modus operandi of the microfinance industry for one reason above all: because women have proven they are a good business risk.

The first part of this thesis will analyze the birth and development of the micro-financing system with special emphasis on its creator, Muhammed Yunus and the financial institution he founded for the purpose of implementing his idea, Grameen Bank. The second part will review the growth of micro-financing across the world with

focus on Kiva, a web-based organization which represents the melding of micro-finance with 21st century technology. Finally, the thesis will look at Pro Mujer, a micro-financing organization which has successfully operated in Latin America for the last 20 years and developed a niche that expands the horizons of empowerment.

*Para Mis Padres-
Que me enseñaron que nunca me debo rendir.
Gracias por todo el apoyo, sé que no ha sido fácil.
Los quiero mucho.*

*And For Chris-
Thank you for your unending love, support, and understanding .
You've kept me sane over the last 2 years,
And I could not have finished this without you.
I love you.*

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CHAPTER 1- INTRODUCTION

“It is impossible to realize our goals while discriminating against half the human race. As study after study has taught us, there is no tool for development more effective than the empowerment of women.”

- Kofi Annan, Then UN Secretary- General, 2006

Poverty¹ is an epidemic affecting approximately 1.4 billion people around the world.² The majority of those are people who live in what is commonly referred to as the “developing world”.³ Countries in this area are characterized by their low income status, weaknesses in education, adult literacy, and health.⁴ Typically, social scientists have trouble defining the term “poverty”, and understanding what it means to be poor. Most of what we know about poverty today is based on a set of assumptions and misconceptions that we have been misled into believing. To some being poor means being plagued by sickness, not having an education; to others, it means not having a place to live, food to eat, or the means to obtain either. Indeed, millions of people around the world not only live in poverty but worse, they are unable to change their lives because uneven economic development has ensured that the gap between the rich and

¹ Defined by the World Bank as: “pronounced deprivation in well-being, and comprises many dimensions. It includes low incomes and the inability to acquire the basic goods and services necessary for survival with dignity. Poverty also encompasses low levels of health and education, poor access to clean water and sanitation, inadequate physical security, lack of voice, and insufficient capacity and opportunity to better one’s life.”

² “What Have We Learned About Poverty?” Accessed April 8, 2010. United Nations Report on the World Situation 2010.

³ Countries in this category include: Africa, Asia and the Pacific (excluding Japan, Australia, and New Zealand), Latin America and the Caribbean. The Criterion for the Identification of the LDCs. Accessed April 19, 2010 from the world wide web: <http://www.un.org/special-rep/ohrlls/ldc%20criteria.htm>

⁴ Based on three-year average estimate of gross national income (GNI) per capita (under \$750 for inclusion under low-income category, above \$900 for graduation from low-income status). *Ibid* 2.

the poor is never closed, political corruption leads to the social instability, and widespread diseases that foster the unequal distribution of wealth.

1.1 The Plight of Women in Development

Typically, a poor woman living in a developing country faces an even more daunting challenge than the average poor man. Beyond the “normal” constraints imposed by poverty, women are also victims of social oppression; a form of ostracism where the many are controlled by the few. This is particularly true in male-dominated societies where women are unable to attain social and/or economic progress because men are thought to be superior as leaders, primary family supporters and solo decision-makers in all matters. This leaves women relegated to the role of homemakers and any woman who attempts to break out of this mold by working is not only deemed to be immoral, but is also subjected to treatment as an outcast by her community, her husband, and even her own family. This type of oppression causes a threefold problem: First, women are left without a voice in their societies; a fact which creates gender inequality; (2) Second, without opportunities for socio-economic progress women are left unable to feed, clothe, or educate themselves, or their children; and (3) Finally, with half or more members of a community being forbidden to work, and the other half being unable to make ends meet on their own, entire societies become caught in an endless cycle of poverty.

During a recent observance of International Women’s Day, Secretary General of the United Nations Ban Ki-Moon, argued that “Until women and girls are liberated from poverty and injustice, all our goals—peace, security, sustainable development—stand in

jeopardy.”⁵ Eliminating these obstacles is essential to improving the lives of women in developing countries face. “Increasing gender equality and women’s empowerment, as a means of accelerating growth and development, is an end in itself. It allows individuals women and girls to enjoy their full human rights, and it leads to more stable economies and stronger societies.”⁶

1.2 Micro-financing: Creating Opportunities in the International System

The World Bank suggests that poverty and uneven development can be alleviated by “the expansion of income through increasing productivity-including increasing human development, improving access to land, credit, technology, and expanding basic infrastructure, particularly in rural areas.”⁷ In keeping with this statement, this thesis posits first and foremost that the key to breaking the cycle of poverty begins with the creation of opportunities for those who have none. There needs to be a system that caters to the individual needs of the poor, empowering them by letting them borrow money, work, and earn a sustainable living. Second, beyond lending, the system should be used to further the development of social, educational, and health-related benefits. Finally, this thesis posits that the key to sustainable development in Third World countries may be found in a system that allows for the

⁵ United Nations. Meetings Coverage. Observance of International Women’s Day, March 3, 2010. Accessed March 20, 2010 from the world wide web: <http://www.un.org>

⁶ “Gender Equality, Women’s Empowerment Not Only Just, but ‘Vital’ to Achieving Anti-Poverty Goals, says Deputy Secretary-General to Copenhagen Conference”. March 25, 2010. Accessed April 15, 2010 from the world wide web: www.un.org Department of Public Information. News and Media Division. New York.

⁷ World Bank (1996) “*Bolivia poverty, equity, and income selected policies for expanding earning opportunities for the poor*”. Report No. 15272-BO. Washington, DC. Accessed November 12, 2010 from the world wide web: http://www-wds.worldbank.org/servlet/WDSContentServer.WDSP/IB?1996/02/22/000009265_3961019165357/Rendered/PDF/multi0page/pdf

empowerment of women, the poorest and most marginalized members of most developing societies. A report issued by UNICEF⁸ argues that “gender equality, yields a “double dividend” by elevating not only women but also their children and communities.”⁹

The fight against poverty has historically been led by institutions such as the Red Cross, United Nations, World Bank and International Monetary Fund. Their intentions however honorable, are mostly lost due to the fact that their donations are improperly distributed or “lost in the shuffle” before they even make it to those that need them most. Governments in developing countries are also highly ineffectual in that many of them are either internally corrupt, or unable to handle the high demands of poverty relief. Therefore, the next option that may be able to better address these needs, and whose central focus is the empowerment of women worldwide is that of micro-financing; a financial system (also referred to as micro-financing institutions, or MFI’s) which extends “small loans to very poor people for self-employment projects that generate income, allowing them to care for themselves and their families.”¹⁰ In theory, micro-financing is rooted in capitalism and the idea that through hard work and access to monetary capital, financial growth and stability are achievable even the most impoverished societies.

⁸ The State of the World’s Children. *Women and children: The double dividend of gender equality*. Accessed March 25, 2010 from the world wide web: <http://www.unicef.org/sowc07/>

⁹ Kristof, N. D., & WuDunn, S. (2009). *Half the sky: Turning oppression into opportunity for women worldwide*. New York: Alfred A. Knopf.

¹⁰ Grameen Bank. The Virtual Library on Microcredit (www. http://www.grameen-info.org/index.php?option=com_content&task=view&id=32&Itemid=91) Accessed April 18, 2010.

1.3 Real World Application & Analysis

The following questions represent a summary of the major points of inquiry upon which research in this thesis is based:

1. What are the main micro-financing systems in use today?
2. What role do women play in the world of micro-financing? How is their role different from that of men?
3. Does micro-financing empower women, and if so, in what way?
4. Can the empowerment of women through micro-financing alleviate the effects of poverty in developing countries?

In order to answer these questions, this thesis will use the Grameen Bank model as a starting point for research and analysis. It will examine its roots, current operational model and offered services, and its effect on the growth of micro-financing as a tool for economic development on a global scale. It will also cover the plight of women as the most marginalized members in developing countries, and the role of micro-lending in addressing those problems. The next section will look at the transformation of micro-lending from a 1970's idea based on a regional perspective of poverty, to a 21st century technology-driven approach with special emphasis on Kiva, the world's first on-line micro-financing platform and its activities in Latin America. Finally, the research will focus on how Pro Mujer, a Latin America micro-financing institution specializing in loans to women has helped to give new meaning to the word "empowerment" and in the process, become a role model for other micro-lenders to follow by finding its own special niche in the world of micro-financing.

The reason these 3 particular micro-lenders were selected as the primary subjects of this analysis is because each of them has been an innovator in the field of micro-financing. Grameen, of course is where the field of micro-financing first began, while Kiva is the first technology-based micro-lender. Finally, Pro Mujer is the largest micro-lender in Latin America, a region of the world that has the most active borrowers, second only to the Asian continent.

1.4 Research Organization and Layout

The remainder of this research will be organized as follows:

Chapter 2 will review relevant literature pertaining to a number of interrelated topics including the philosophy behind micro-financing, its impact on the creation of Grameen Bank and the cause and effect of poverty on women in Third World countries. It will focus on the most well-known sources of micro-financing and women's role in development. Namely, texts by Muhammad Yunus, the online database known as the Micro-Finance Exchange, and a text on women's empowerment by Sheryl WuDunn and Nicholas D. Kristoff. The literature review will also detail how this research fits into the topics presented in these sources.

Chapter 3 will describe in detail, the methodology used for researching these topics; Includes an analysis of the process itself, describes shortcomings and/or positive aspects to employing this method in research. A number of research questions as well as a set of hypotheses will also be presented.

Chapter 4 will detail the History & Development of the Grameen Bank Model. In particular, this chapter will look at how Grameen developed from one man's grassroots

attempt to bring the people of his home country out of a devastating famine into a global phenomenon that is now used as a tool to empower women and alleviate global poverty. The elements that make up the Grameen Model will be discussed, as well as the innovations that have set Grameen Bank apart from other micro-lenders.

Chapter 5 will discuss micro-financing on the world stage, includes an analysis of the Kiva Mode of micro-financing. As the first fully internet-based micro-lender, Kiva's innovative method of lending has made it possible for people from around the world to become a donor for some of Latin America's most impoverished individuals.

Chapter 6 will analyze and evaluate the Pro Mujer Model, Latin America's first micro-lender. Besides discussing the background, elements, and services offered by Pro Mujer, this chapter will also analyze how Pro Mujer has separated itself from "the pack" of global micro-lenders by finding itself a niche in the world of healthcare and healthcare education. By providing access to health care, Pro Mujer has begun to address one of the major issues in the causes of poverty; namely, illness and disease.

Chapter 7 is primarily a summary of the findings realized through this research, and how they relate to the current data available on the topic of micro-financing and women's empowerment. It also discusses the strengths and weaknesses of this particular analysis in terms of addressing the hypotheses and research questions posited by this study. Finally, the achievements and shortcomings of current micro-financing studies will be discussed, with suggestions on how future studies on micro-financing can be improved.

It is important to note that this thesis promotes micro-financing as one of the most useful tools in alleviating global poverty and empowering women in becoming more useful and better-respected members of society. It does so however, while recognizing that micro-financing is not a cure-all for poverty. There are many reasons why people come into poverty, and many social, political, and even religious factors that prevent them from being free of its cycle. There are also many critiques about the process of micro-financing, and its impact on borrowers. Also a major topic of criticism is Grameen Bank, and its creator Muhammad Yunus. These points of contention, as well as other criticisms and arguments will be considered and addressed throughout this study as to its possible effect on the validity of the Grameen Model and micro-financing as a whole.

CHAPTER 2- LITERATURE REVIEW

“Banker to the Poor”¹¹ is a memoir of Muhammad Yunus’ personal and professional journey in the creation of Grameen Bank, a financial institution specializing in providing microloans to the poor. This book explains how Yunus, a former university economics professor whose efforts to fight against poverty in Bangladesh, ultimately became a worldwide movement to empower women. The inspiration for Grameen originated from one idea: credit is not a privilege but a fundamental human right that should be denied to no one.

Yunus’ work with Grameen Bank is founded on two basic principles: First, is that the best way to help the poor is not through charity, but by enabling them to help themselves. More specifically, by granting them small loans and access to other financial services under flexible terms of repayment, they are able to start small businesses which produce profits. This source of income in turn helps provide food, clothing, and shelter in effect; improving their quality of life.

The second of Yunus’ theories is that women, being the most marginalized members of society, also make ideal recipients of micro-loans. The argument behind this philosophy is that the financial empowerment of women can help entire impoverished communities break free from the “cycle of poverty”. The text goes on to detail the cases of several poor women in Bangladesh whom when presented with small micro-loans and through their own hard work, were able to earn enough money to

¹¹ Yunus, M., & Weber, K. (2007). Creating a world without poverty: Social business and the future of capitalism. New York: Public Affairs. (Page 68)

provide a living not only for themselves, but for their families. These women were also able to rise above the poverty level and become financially stable.

Without a doubt, the general presentation of Muhammad Yunus' philosophies, supported by the mostly successful accounts of Grameen's first female borrowers, make for an interesting introduction into the world of micro-financing and the creation of Grameen Bank. A criticism that can be made about "Banker to the Poor" is that while the collection of stories and a general explanation of the development of Grameen is informative, it lacks the supporting statistics that would give it greater value as a textbook. In other words, Yunus' discussion would have been more effective using a timeline approach that is supported by growth-related empirical data. In the final analysis, though much has been written about the field of micro-financing since the creation of Grameen Bank, Muhammad Yunus' "Banker to the Poor" remains the primary text on the topic.

This text will serve as the primary source for background information on Muhammad Yunus, the development of the Grameen Bank model of micro-financing, the concept of lending to the poor, and the idea of female empowerment through micro-lending.

“Creating a World Without Poverty” by Muhammad Yunus¹² discusses micro-financing from the standpoint of its role as a “social business”. That is to say, in addition to being a source of income, micro-financing is also supposed to provide social benefits for poor individuals, their families, and the communities they live in. The concept is both similar and different to traditional business models. Similarities include the fact that they both employ workers, create goods and services, and provide a form of income for those workers. What differs is the fact that social businesses are cause-driven rather than profit-driven. Its main goal is to provide social benefits as a by-product of the goods and services it creates. One example that is discussed in the text involves a firm which designs and markets affordable health insurance policies. While this service provides jobs and income for the workers who create and sell the plan, the social benefit is that the poor now have access to much needed health care services at a cost that they can actually afford. Within a broader context, now that a larger number of these individuals are able to buy access to medical services, both their families and their communities also enjoy an incidental upgrade in terms of quality of life.

Yunus also discusses a link between social businesses and his micro-financing institution. He argues that the idea for the social business model was inspired by the same issues that motivated the creation of Grameen Bank- the need to lift the poor from the burdens of poverty. Yunus’ hopes were to alleviate many of the social issues that lead to poverty using a more flexible, stable, and effective structure.

¹² *Creating a World Without Poverty: Social Business and the Future of Capitalism*. Muhammad Yunus 2008.

One critique about this text lies within the arguments that the author posits. According to the data and arguments presented, social businesses appear to be successful and actually thrive in developing nations. However, the concept is less likely to succeed in capitalist states because profits are the driving force behind the creation of businesses; social benefits if any, are generally available to those who qualify or can afford to pay for them. Therefore, an observation regarding the use of micro-financing as a social business is valid as a philosophic principle, but not the universal solution which Yunus implies. If this model is intended to eliminate global poverty, the concept needs to be perfected so that it can be implemented in any region of the world; most especially in industrialized nations. The question of how it would work in industrialized nations however, is a challenge that should be addressed within this particular text.

“Creating a World Without Poverty” will be referenced primarily as a source for understanding micro-financing as a business model. It will also be used to analyze “entrepreneurship” among impoverished societies, how it can be created and developed with little to no capital.

“Half the Sky”, written by Pulitzer Prize journalists Sheryl WuDunn and Nicolas Kristoff,¹³ discusses the everyday struggles of the world’s most oppressed individuals: women. In a world seen mostly as progressive, the authors explain that many societies today are not as free-thinking as the rest of the world. According to the authors, the major problems which women around the world are confronted with every day include:

¹³ Kristoff, N.D. and WuDunn, S. (2009) *Half The Sky: Turning Oppression Into Opportunity for Women*.

- Domestic violence (from their husbands as well as other family members);
- Rape and other forms of sexual violence;
- Honor killings (sexual violence as a weapon, pressuring communities into fear);
- Social oppression and marginalization;
- Sex trafficking.

“Half the Sky” is a collection of accounts, detailing the lives and challenges of several women. Although they differ in age, the language they speak, and the region where they live, they all share certain commonalities- they have been forced to live in a world that refuses to treat them as anything other than second class citizens simply because they are women. Many of these accounts are shocking and brutal in nature. But despite the horrors that these women face, WuDunn and Kristoff see a “silver lining” of sorts to every story.

They argue that women who have been through the most dire and unimaginable situations have proven that they too can survive, and emerge strong, empowered, and with the motivation to prevent other women from enduring the same trials they have experienced. Many of them were simply lessons learned- harsh truths of death, pain, and unbridled brutality by groups seeking to oppress women. Some in fact are stories of triumph- girls who had been on the brink of death after being gang raped and beaten; women who had escaped from brothels after working for years as sex slaves; and countless others who had been denied many of the basic human rights we too often take for granted.

WuDunn and Kristoff argue that these women succeeded because they were given something they had never before experienced: opportunity. The opportunity to work, to

earn a living, to be accepted as a human being and not as a commodity. The main idea behind “Half the Sky” is that when empowered either financially or through education, marginalized women, are able to create socially stabilized lives for themselves. In other words, empowerment leads not only to a tangible improvement in their quality of life but also, in the perception of how people view them. Instead of having to suffer through ceaseless gender discrimination, empowerment enables women to put a stop to the cycle in a way which influences their relationships with family, friends, business associates and ultimately, the community in which they live.

Half the Sky is a book with a message that comes through loud and clear; women living under even the most extreme conditions can “escape” when given the opportunity to do so. This thesis fits into the topics presented in Half the Sky because it is concerned with not only the financial empowerment of women through micro-financing, but it also focuses on how micro-financing is a tool for social empowerment as well.

The two websites that will function as primary sources for data on micro-financing are Grameen Bank¹⁴ and the Micro-finance Information Exchange¹⁵. As the first micro-lending institution, Grameen has kept records of its work from the its first experiments in the local villages of Bangladesh. Once its plan was fully integrated, Muhammad Yunus decided that the best way to continue developing the Grameen Model was to keep track of its progress and make changes where and when necessary. As a result, Grameen’s database includes statistics on its annual membership, how many loans it provides to

¹⁴ Grameen Bank. www.GrameenBank.org/about

¹⁵ The Micro-finance Information Exchange. <http://www.MixMarket.org>

members annually, and annual repayment rates including rates of default. Also included are the details of its profit and losses, annual audits, and the ratios of Grameen bank employees to bank members. These statistics were useful in evaluating Grameen's success in terms of repayment and membership growth. Through Grameen's database, the growth of female participation in micro-lending is also apparent.

The Microfinance Exchange site (or MIX) was a useful source for this thesis in that it allowed for the collection of data from a number of micro-lenders around the world. Unlike Grameen, many micro-lenders do not keep online databases tracking their historical and financial progress and development. And MIX's primary purpose is to lend validation to micro-lenders by giving each institution a rating (measured in number of diamonds) based on whether or not they provide data to MIX on its annual progress. In other words, if a micro-lender consistently provides MIX with their data, they get a higher rating than an institution that does not. MIX therefore, is not only a global database on micro-financing, it also serves as a tool for the evaluation of micro-financing institutions.

CHAPTER 3- METHODOLOGY

Collecting data for this thesis has not been without some obstacles. Firstly, despite the amount of literature that has been developed on the topic of micro-financing, only until the last 10 years or so have reliable statistics become available on the operations of micro-financing institutions around the world. Even then, direct comparisons have proven difficult to make owing to inconsistent reporting among micro-lenders and a lack of uniform record-keeping and organization on the part of data collection agencies. In addition, very few micro-lenders have made significant progress in quantifying the (long-term) impact of their micro-loans on the lives of their clients. Notwithstanding these limitations, every effort has been made to find the most accurate information possible as a source on which to base all analyses and conclusions.

3.1 Approaches to Microfinance Analysis

There are three primary paradigms that researchers utilize to analyze and understand the effects of micro-financing: (1) the “Financial Sustainability” paradigm, (2) the “Poverty Alleviation” paradigm, and (3) the “Feminist Empowerment” paradigm.¹⁶ The Financial Sustainability paradigm “prioritizes cost efficiency and financial sustainability... takes demand for credit and repayment levels as indicators of success, (and) requires micro-financing programs to be ultimately self-sustaining and preferably making a profit.¹⁷” The success or effectiveness of an institution evaluated under this

¹⁶ Edward, P. and Olsen, W. (2006). *“Paradigms and reality in micro-finance: The Indian case,”* Perspectives on Development and Technology, 5 (1-2) p.31-54.

¹⁷ Mayoux, Linda. *“The magic ingredient: Microfinance & women’s empowerment”*. (February 1997) Accessed June 15, 2010 from the world wide web: <http://www.gdrc.org/icm/wind/magic.html>

approach is measured by determining how much wealth has been accrued by borrowers, whether repayment rates are high, and subsequently, how much of the accumulated wealth has been “trickled down” (or distributed) from a borrower through their families and outside their home, to other levels of their community. ¹⁸

The Poverty Alleviation paradigm is intended to find a link between the use of micro-financing, the alleviation of poverty, and spurring of community development in impoverished countries. This approach “aims to change structural and community inequalities through solidarity movements and activism.” ¹⁹ In this view, there is a “trickle-up” notion of well being for a community as a whole; success is measured qualitatively- “improving community conditions, reaching the poorest people, and changing family and community power structures.”²⁰

The Feminist Empowerment paradigm is based on the premise that “women need to organize themselves to escape their double oppression, both as women in the patriarchal gender order and within the working class”²¹. Success or effectiveness of an institution is characterized by the overall improvement of quality of life for female borrowers; and a greater equalization of gender roles within and outside of the home.

¹⁸ *Ibid*, 10. P.4

¹⁹ Mayoux, L. (1995) *From vicious to virtuous circles: Gender and micro-enterprise development*, Occasional Paper United Nations Research Institute for Social Development (UNDP) 3, p. 1-72.

²⁰ *Ibid*, 10, p. 4

²¹ Mayoux, L. (2000) “Women’s Empowerment And Participation In Micro-Finance: Evidence, Issues And Ways Forward.” In *Sustainable Learning for Women’s Empowerment: Ways (Forward in Micro-finance*. Edited by L. Mayoux. Accessed July 22, 2010 from the world wide web: <http://www.oneworldaction.org>.) (200b) “*Micro-finance for women’s empowerment: A participatory learning and action approach*.” New York: UNIFEM.

3.2 Scope of Research

Central to this thesis is the idea that the goal of micro-financing institutions (MFIs) should be first and foremost, the alleviation of poverty. This type of MFI referred to as “Poverty Focus Microcredit Programs” are “poverty-focused, collateral free, low-interest microcredit programs.”²² Many of today’s MFIS however, cannot be categorized as true micro-lenders because they are focused on more than just a social agenda. Generally speaking, “Profit Maximizing Microcredit Programs” can be characterized by the fact that they are not focused on a social agenda, can write-off much of their overhead through conventional banking activities, do not depend on donations for funding, and are able to open multiple offices for maximum coverage and, pursue profits as their primary goal. “Because of the high interest they charge, these programs cannot be viewed as poverty-focused but rather commercial enterprises whose main objective appears to be earning large profits for shareholders or other investors.”²³

One major flaw of current evaluations of Grameen bank and micro-financing as a whole is that critics have tended to group together both types, assuming that because one institution is motivated by profits, that they all are. The evaluations therefore, are based on false assumptions and present micro-financing in a negative light instead of focusing on either one group or the other. The profit-maximizing mode of operation however, is a clear departure from the founding principles of micro-lending and as such, will not be discussed in this report. Instead, the focus will remain on those institutions

²² Yunus, M., & Weber, K. (2007). *Creating a world without poverty: Social business and the future of capitalism*. New York: PublicAffairs. (Page 68)

²³ *Ibid* 16, p. 68

whose primary goals include poverty alleviation and social progress. For more information on Profit Maximizing micro-financing institutions, the following articles can be referenced: “*Banks Making Big Profits From Tiny Loans*”²⁴, “*India Microcredit Faces Collapse From Defaults*”²⁵, and “*Big Finance Muscles in on Microfinance*”.²⁶

3.3 Hypotheses

As the foundation for a comparative framework, this thesis posits the following hypotheses about micro-financing:

Hypothesis 1: Micro-financing can be utilized as a method of diminishing the impact of poverty in developing countries.

Hypothesis 2: Micro-financing can be used as a tool to empower women both financially and socially, giving them opportunity in place of oppression.

Hypothesis 3: Women are the key element that has made micro-financing successful; their participation is pivotal to the alleviation of poverty in developing nations.

There are also a number of questions of interest that this research seeks to address but due to lack of resources and relevant data, they will not be specifically addressed. Instead, these questions should be kept in mind as points of interest for future analysis of micro-financing. Most importantly is the question of whether or not a

²⁴ New York Times. “Banks Making Big Profits From Tiny Loans. Retrieved from:

<http://www.nytimes.com/2010/04/14/world/14microfinance.html?r=1&pagewanted=print>

²⁵ New York Times. November, 2010. “India Microcredit Faces Collapse from Defaults”. Retrieved from:

<http://www.nytimes.com/2010/11/18/world/asia/18micro.html>

²⁶ Spiegel Online. “Big Finance Muscles In on Microfinance”. Retrieved from:

<http://www.spiegel.de/international/world/0.1518.druck-572389.00html>

relationship exists between the creation and growth of micro-financing institutions in impoverished countries and sustainable economic development²⁷. The next refers to the publicly stated rationale²⁸ that women are more responsible in their spending patterns than men. The question therefore is, whether or not in comparing individuals as loan recipients, it is true that women are more likely to spend their funds on items that are of direct benefit for their families while men are more likely to spend their funds on personal entertainment and other non-essentials? The final question, pertains to the spread of micro-financing. In other words, can micro-financing institutions be as effective in alleviating poverty in other developing regions of the world as they have been in Bangladesh? While these questions are not the central focus of this particular study, they will remain a consideration in order to create a more exact assessment of micro-financing and its impact on its borrowers as well as on a global scale.

3.4 Women and Development

Due to the fact that women are the most marginalized members of society, their roles in development are often forgotten; many jobs are instead given to men.²⁹ Needless to say, with half of an entire population being ignored, developing countries all over the world are not functioning to their maximum potential. This thesis argues however, that micro-financing involves all members of a community, particularly women, in a way that not only caters to their needs, but also helps them excel financially as well

²⁷ Defined as development that “meets the needs of the present without compromising the ability of future generations to meet their own needs” . United Nations (1987).

²⁸ Microfinancehub.com . Advantages of dealing with women clients in microfinance.

²⁹ Over 2/3 of women’s work, much in the home, is unpaid labor which does contribute to a country’s GDP and the world’s annual output...yet, “women earn only 10% of global income, and own less than 1% of the world’s property.” (Haynes, J. (1996). *Third world politics: A concise introduction*. Oxford: Blackwell.)

as socially. As suggested by Mayoux,³⁰ where microfinance services are provided to a population, the potential impacts on women include:

- Increasing women's income levels and control over income leading to greater levels of economic independence;
- Access to networks and markets giving wider experience of the world outside the home, access to information and possibilities for development of other social and political roles;
- Enhancing perceptions of women's contribution to household income and family welfare, increasing women's participation in household decisions about expenditure and other issues;
- General improvements in attitudes to women's role in household and community.

3.5 Methodology for Primary Research

The weight of this thesis falls on a comparative analysis of (3) major micro-financing institutions: Grameen Bank, Kiva, and Pro Mujer. Data will be collected and analyzed in order to determine the role that micro-financing services provided by these three organizations have had in improving and stabilizing the economic status of developing countries. The analysis will build upon previous research, case studies, and other findings studying the (direct and indirect) impact of micro-financing on borrowers, as well as the impoverished communities they live in. Keeping the Poverty Alleviation and Feminist Empowerment paradigms in mind, the "effectiveness" or "success" of a given system will be measured in terms of its ability to stimulate economic growth

³⁰ Mayoux, L. *The magic ingredient: microfinance & women's empowerment*. A Briefing Paper prepared for the Micro Credit Summit, Washington, February 1997. Accessed May 15, 2010 from the world wide web: <http://www.qdrc.org/icm/wind/magic.html>

among the female members of a given region; the ability to stimulate economic growth in a community as a whole; and the overall improvement of quality of life for borrowers, their family members and their community.

3.6 Poverty Indicators

The goals of micro-financing under the Poverty/Empowerment paradigms are both financial and social in nature. Therefore, certain goals (also referred to as “poverty free indicators”) will be utilized to determine whether an individual and his/her family has risen above the poverty level, and has become “poverty free”. These indicators are from a list created by Grameen³¹ which is utilized by bank workers to determine whether a particular borrower and his-her family has moved out of poverty. This thesis posits however, that the best way to assess micro-financing’s true impact on a given individual or community is to study both quantitative (statistics allowing for conclusions of impact) and qualitative data (perceptions of impact). Therefore, the first 10 indicators³² in the following list are from Grameen’s list, while the remaining are “social indicators”:

- (1) Having a house with a tin roof;
- (2) Having beds or cots for all members of the family;
- (3) Having access to safe drinking water;
- (4) Having access to a sanitary latrine;
- (5) Having all school-age children attending school;

³¹ Grameen Bank. Banking for the Poor- 10 Indicators. Accessed May 15, 2010 from the world wide web: http://www.grameen-info.org/index.php?option=com_content&task=view&id=23&Itemid=126

³² These indicators will not be utilized in the analysis of micro-lenders in this thesis, instead they are suggestions for the type of indicators that a micro-lender could use to evaluate their own success in assisting borrowers to become “poverty free”.

- (6) Having sufficient warm clothing for the winter;
- (7) Having mosquito nets;
- (8) Having a home vegetable garden;
- (9) Having no food shortages, even during the most difficult time of a difficult year;
- (10) Having sufficient income-earning opportunities for all adult family members.

“Social Indicators” that should become part of a “poverty free” evaluation:

- (1) Having a refrigerator;
- (2) Having a toilet;
- (3) Having a telephone;
- (4) Having gas for cooking;
- (5) Borrower feels as though use of micro-financing has aided them in reaching a level of financial sustainability.
- (6) Borrower feels as though financial empowerment has allowed them to become more socially “equal” to their husbands or other male members of their community. (i.e.- they are able to make more decisions about family and finances within their home).
- (7) Borrower feels that husband and family are supportive of her endeavors in micro-financing;
- (8) Borrower feels alleviated from the burden of poverty; they feel that they are in a better financial and social “place” than they were before they became involved in micro-financing.

3.7 Data Collection

The following data will be collected and analyzed and compared across the selected cases, regions, and in micro-lending institutions:

- Loans- amounts, loan times, rates;
- Members- male versus female spending patterns, repayment rate comparison;
- Female Borrowers- participation and repayment rates over time;
- Services Offered- financial and social; beyond loans;
- Global Statistics- comparison- How many countries have micro-financing institutions? What are the overall participation rates, loan amounts and repayment rates (on a more global scale).

3.8 Strengths & Limitations of Research Method

There is a need to evaluate the impact of micro-financing on women's lives, because although assumptions have been made about how (female) borrowers benefit from access to micro-financing services – mostly through a handful of case studies- a cross-cultural, multi-system analysis has never taken place in order to see how these borrowers' lives are truly altered.

The Financial Sustainability paradigm is a valuable analytical tool in terms of measuring success or failure in dollars and cents, and it “educates women to be compliant and efficient actors within the established structures of an expanding market economy.”³³. However, it fails to consider the (very important) social benefits which micro-lending brings about. The Poverty Alleviation paradigm does just the opposite in

³³ *Ibid* 10, P.36

that it measures success and failure primarily in the more-abstract, social benefit standard. The Feminist Empowerment paradigm focuses on the accumulation wealth while attempting to “empower women to rethink the established order and to become actively involved in changing it.”³⁴ In other words, this paradigm represent a statistical measure of progress aimed at determining whether micro-financing is an effective gender equalizer.

One of the biggest drawbacks of micro-financing evaluation at this point in time is that most researchers fail to consider all three paradigms as part of their evaluations nor apply their criteria to case studies or the experience of individual borrowers. Therefore, the comparative method, used in conjunction with the poverty/empowerment approach will be utilized in this thesis in order to get a comprehensive understanding of the impact of micro-financing across different regions, and amongst different populations. More specifically, studying the impact of micro-financing on borrowers lives prior to accessing micro-financing services, during a borrowing period, and after a (certain length of time) has passed. Although less quantifiable than other studies of its kind, and because no new data is being produced, this thesis still remains empirical in its analysis.

Drawing conclusions from previous studies and research, this thesis posits theories about micro-financing that have not been studies beyond localized studies (regions) and seeks to evaluate micro-financing as a method of empowerment for women as well as tool to diminish global poverty.

³⁴ *Ibid* 10, p. 4

CHAPTER 4- THE GRAMEEN BANK MODEL

After witnessing a devastating famine in his home country of Bangladesh in 1974, economics professor Muhammad Yunus came to the realization that too many people around the world die every day simply because they do not have enough to eat. “There are many ways for people to die, but somehow, dying of starvation is the most unacceptable of all.”³⁵ Poverty, he rationalized, can be dealt with, but there are “forces” which stand in the way.

4.1 The Failure of the International System

In developing countries all over the world, the question of overarching authority often arises. When so many people are living in poverty, why do local governments fail to take action? Why do financial institutions not step in to help in a way that creates effective change? And in the few instances when they do, why do those efforts fail to make a difference?

When a country is in need of financial assistance, the first place where aid is sought is the local government. However, funding donations/assistance to the poor through government agencies in developing nations can be frustrating and most often, futile. The reason for this is that standing between the government and the poor is an obstacle course that includes disorganization, inefficiency, discrimination, and most of all, rampant corruption at every level. “Governments can be inefficient, slow, prone to

³⁵ *Ibid* 28, p.50

corruption, bureaucratic, and self-perpetuating”³⁶ and as a result, the first place to seek relief from poverty may also be the last place one would want to look. Furthermore, any development policies that are created tend to attack the symptoms and consequences of poverty instead of the root causes. Which ensure that poverty is never alleviated let alone eliminated.

The reality about institutions and organizations at the international level (i.e.- the United Nations, the World Bank, and the International Monetary Fund) is that although they have been staunch supporters of the fight against poverty in that they provide monetary aid to Third World Countries, their efforts have been largely futile, and poverty remains a pervasive threat to global stability, growth, and development. “Programs that gave direct aid to the poor in such areas as housing and income support were generally intended to raise their standards of living and stave off the worst consequences of poverty but these programs did little or nothing to address the causes of poverty or provide either incentives or means to escape it.”³⁷

Another misconception, and part of the reason why traditional forms of aid generally don’t work is that the money given to the poor by international institutions doesn’t create a permanent solution. Hand-outs are only a temporary remedy, not a cure. “Charity has a significant built-in weakness: it relies on a steady stream of donations by generous individuals, organizations, or government agencies. When these

³⁶ *Ibid* 16, p. 8

³⁷ Reid, J.Norman. *Poverty, race and community in rural places: The Empowerment Approach*. Prepared for presentation at the 2002 International Community Development Society Conference, Cleveland, Mississippi, July 23, 2002. Accessed on June 18, 2010 from the world wide web:
http://www.rurdev.usda.gov/rbs/ezec/Pubs/Empowerment_Paper_CDS_02.pdf

funds fall short, the good work stops.”³⁸ The reason so many poor people have remained poor is because “financial institutions in the country (have not) helped them widen their economic base. No formal structure (has been) available to cater to the credit needs of the poor.”³⁹ True change can only happen when donors realize that they need to commit both manpower and funding in sufficient quantities to guarantee full implementation of long-term plans that address the fundamentals of job creation.

4.1.1 Banks

In most capitalist countries, when a person faces economic problems, their first instinct is to seek help from a bank in the form of a loan. Muhammad Yunus realized however, the poor cannot go to banks for help because they, like international institutions, seem to lack a fundamental understanding of the causes of poverty. There is an automatic tendency to distrust, and no willingness to try to work with the people that most need access to financial services to rebuild their lives.

Instead, banks have made their system so difficult (and self-serving) that only those individuals that are already financially stable are able to receive and repay the loans they obtain. Only those that have money to begin with are able to survive the process. They ignore the fact that the poor have a difficult time making money and an even harder time repaying the money that they are able to borrow. Most bankers offer no entrepreneurial assistance or even monitor progress made except when the borrower defaults; by then it is usually too late to help the borrower(s) overcome a flaw

³⁸ *Ibid* 16, p. 10

³⁹ Yunus, Muhammad. *Banker to the poor*. 1999. PublicAffairs: New York.

or oversight in their business plan. Therefore, instead of taking a proactive approach to improve the borrower's chances of success, bankers find it easier to simply write-off loans to the poor as the price for taking "unwarranted risks". It goes without saying that once this happens, banks lose interest in lending to the poor.

4.2 Background & Development of Grameen Bank

Muhammad Yunus recognized the failures of international organizations, banks and local governments to anything for the poor. Then head of the Rural Economics Program at Chittagong University in Bangladesh, Yunus also observed how the poor lived in an endless cycle of hardship. Most worked extremely hard, generated little if any profits, and instead of being paid a fair wage, they were forced to borrow funds from a *paikar*, or money lender, who kept them constantly indebted under an unregulated and unchallenged system. "In such cases, it is extremely difficult for the borrower to extricate himself or herself from the burden of the loan. Usually the borrower will have to borrow again just to repay the prior loan and will ultimately wind up in a cycle of poverty."⁴⁰

In a concerted attempt to break this cycle of futility, Muhammad Yunus began an operation aimed at extending credit and banking services to the poor in and around the village of Jobra (also referred to as the "Jobra Experiment"). In order to reach out to the poor, Yunus enlisted a number of his students to approach the citizens of Jobra with an offer to lend them small amounts of money for use in self-employed endeavors including basket weaving, stool making and crop harvesting. Progress was slow at first because the poor were not accustomed to borrowing anything except under the most exploitative

⁴⁰ *Ibid* 28, p.94

of terms. “When farmers in Bangladesh are desperate, they will borrow regardless of what interest they are charged. They will even go to a moneylender who threatens to take over all their possessions.”⁴¹ In time however, they began to realize that Grameen was a legitimate operation which allowed them to access money and ancillary financial services. The news spread quickly, as did Grameen’s membership across Jobra and other surrounding villages.

The first loan attempts taught Yunus and his staff some valuable lessons. First, they discovered that over the long-term, micro-financing requires outside sources of funding in order to sustain its lending activities. “The entire experiment is held together only by a thread. (To succeed) it needs institutional support.”⁴² However, Bangladeshi banks and other financial institutions were not eager to back Yunus’ pioneering efforts as “they did not want to deal with the poor who used their capital.”⁴³ No one wanted to make contact with the people that needed their help most; based on the preconceived ideas about inconsistent repayment by the poor; Grameen’s lending experiences proved otherwise. According to Yunus, “the repayment of loans by people who borrow without collateral has proven to be much better than those whose borrowings are secured by assets. Indeed more than 98% of our loans are repaid (because) the poor know that this credit is their only opportunity to break out of poverty.”⁴⁴

Another important finding involved the then-novel concept that the best way to help the poor is by enabling them to help themselves. Grameen made micro-loans to its

⁴¹ *Ibid* 28, p. 95

⁴² *Ibid* 28, p. 90

⁴³ *Ibid* 28, p. 57

⁴⁴ *Ibid* 28, p. 58

members so that they could start their own businesses. This experience allowed the poor to rely on themselves, gaining they type of confidence and stability that simply could not be achieved through other forms of aid. Finally, he was surprised to learn that “though they cannot read or write and have rarely been allowed to step out of their homes alone, poor women see further and are willing to work harder to lift themselves and their families out of poverty.”⁴⁵ This observation gave birth to the idea that women could be empowered through micro-financing; a concept that continues to be at the heart of Grameen Bank’s mission.

By October of 1983, what had started as the Jobra Experiment had become an independent micro-financing and community development institution known as Grameen Bank. With funding provided by a grant from the Ford Foundation⁴⁶ as well as assistance from SouthShore Bank⁴⁷ (Chicago, Illinois), Grameen became a formal bank for the poor that was also owned by the poor, with the capability of serving many areas throughout Bangladesh.

⁴⁵ *Ibid* 28, p.72.

4.3 The Grameen Bank Model versus Traditional Banking

The most fundamental difference between Grameen Bank and the traditional banking systems, and the reason why micro-financing services are so effective is that “(Grameen) has reversed conventional banking practices by removing the need for collateral and created a banking system based on mutual trust, accountability, participation and creativity.⁴⁸” By veering away from conventional lending norms, and becoming adaptable to the individual needs of its borrowers, Grameen created a radically different philosophy that works with the poor instead of against them. “If we have a problem with our borrowers, we tell ourselves that (they are) right—that we must have made some mistake in our policies or in our implementation of those policies...we make our rules very flexible so that they can be adjusted to the requirements of the borrower.”⁴⁹ It has also ensured that its progress will not be held back by static policies and rules that only suppress and oppress, leaving the poor no better off than they were.

There are also a number of other significant differences that make Grameen different from modern banking systems:

4.3.1 Customer Base

Almost from its inception, Grameen has targeted poor women as prospective customers, whereas conventional banks historically catered to men. In fact, “97 per cent of Grameen Bank's borrowers are women.”⁵⁰ This idea was not only revolutionary

⁴⁸ Introduction to Grameen Bank. Accessed May 8th, 2010 from the world wide web: <http://www.grameen-info.org>

⁴⁹ *Ibid* 16

⁵⁰ Grameen Bank- Banking for the Poor. Is Grameen Bank Different? Accessed May 31, 2010 from the world wide web: http://www.grameen-info.org/index.php?option=com_content&task=view&id=27&Itemid=176

during the 1970s in Bangladesh, but equally so in many other parts of the world. If a woman wanted to borrow money, a conventional bank would insist that the matter be discussed with her husband being present, and by inference, only with his consent. For this reason, husbands and religious leaders often actively opposed having a Grameen Bank branch in their village. "...these figures tried to scare uneducated villagers by telling them that a woman who takes loans from Grameen is trespassing into an evil area, forbidden to women."⁵¹ Undeterred, Grameen continued lending to women because they realized that through the efforts of their female clients, poverty was more effectively alleviated than when loans were given to men. "The more money we lent to poor women, the more (we) realized that credit given to a woman brings about change faster than when given to a man."⁵² It is not to say that all men are irresponsible, or that they as a whole, men don't care about providing for their families. There are many men who not only work for to provide for their families, but they also support their wife's right to work if she chooses to do so. Spending patterns observed by bank workers however, indicate that most female borrowers have shown that contrary to men, their focus is on family and most would use their earnings to benefit the household and their children. "When a destitute mother starts earning an income, her dreams of success invariably center around her children...when a destitute father earns extra income, he focuses more attention on himself. Thus, money entering a household through a woman brings more benefits to the family as a whole."⁵³ In addition, to all these reasons, loans to

⁵¹ *Ibid* 28, 107

⁵² *Ibid* 28, p. 72

⁵³ *Ibid* 28, p. 72

women were quite simply a better business risk because they also paid more attention to their businesses and made payments in a timely manner.

4.3.2 Borrowing/Repayment Mechanism

Another significant difference between the Grameen Model and traditional banking systems was that Grameen was more in tune with the needs of its borrowers and was willing to work within the framework of their limitations. “Conventional banking is based on the principle that the more you have, the more you can get. In other words, if you have little or nothing, you get nothing.”⁵⁴ Grameen is also determined to see the best in their clients, and gives them each the opportunity to prove that they can be trusted to borrow, work, and effectively pay back their loans. Grameen however, assumes that “every borrower is honest. There are no legal instruments between the lenders and the borrowers. We are convinced that the bank should be built on human trust, not on meaningless paper contracts.”⁵⁵ Traditional banks also used “one-size-fits-all” approach to banking, which required borrowers to repay their loans in lump-sums. This practice placed considerable stress on the poor as they face the possibility of not having the full amount for repayment by the time that the loan becomes due and payable. “Such long-term lump sum payments also prompt both borrowers and lenders to ignore difficulties

⁵⁴ Grameen Bank- Banking for the Poor. “Is Grameen Bank Different from Conventional Banks?” April, 2010. Accessed May 28, 2010 from the world wide web: http://www.grameen-info.org/index.php?option=com_content&task=view&id=27&Itemid=176

⁵⁵ *Ibid* 28, 70

that come up early on; rather than tackle problems as they appear, they hope that the problems will go away by the time the loan is due.”⁵⁶

By 1977 Grameen had integrated several elements of western-style banking into their lending practices specifically aimed at reducing the mental stress of repayment on borrowers. For one, they allowed some borrowers to pay on a daily basis; and as long as the borrower made a payment, they could pay as little as 1 taka (less than US \$0.01) per day and extended the term of loan repayment terms for up to a full 12 months. In some cases, they also allowed repayment of both principal and interest (at an annual rate of 20%)⁵⁷ in 50 equal payments beginning two weeks after the loan was granted. Finally, instead of asking borrowers to travel to the nearest bank branch every day, Grameen sent bank representatives to the villages to meet with them and to take their payments.⁵⁸

⁵⁶ *Ibid* 28, 61

⁵⁷ It is important to note that one of the major criticisms of Grameen Bank revolves around its interest rates. As mentioned above, Grameen sometimes charges rates of up to 20%, many critics believe this to be exploitative. It should be kept in mind however, that the interest rates are not generated for profit, but rather, to cover payment of Grameen staff as well as other overhead costs. In this way, Grameen is able to sustain-itself without continued support from investors or donors. “A self-sustaining MFI is critical to the health of the sector and for it to continue to provide microfinance services to its clients.”

⁵⁸ *Ibid* 5, 58

4.3.3 Lending Methods

In a very real way, Grameen developed a rather unique business model. Traditional banks favor making “lifestyle” loans to those who repay the purchase of such things as a home, automobile or even travel. Grameen on the other hand, operated along the lines of a community bank with a focus on entrepreneurial loans aimed at creating small, self-sustaining businesses.

Although Grameen started by making small loans to individuals, it later developed a unique style of entrepreneurial lending which ultimately became its foundation. The “Group Method” was a direct outgrowth of Grameen’s experience after it realized the probabilities for success of new businesses increased significantly when borrowers are able to “join a group of like-minded people living in similar economic and social conditions”⁵⁹ in pursuit of a common purpose. In principle, group membership fosters an atmosphere of support, a feeling of reliability between borrowers, and promotes responsibility in loan borrowing and repayment, thereby minimizing risks on borrowed money. “Subtle and at not-so-subtle peer pressure keeps each group member in line with the broader objectives of the credit program. A sense of intergroup and intragroup competition also encourages each member to be an achiever.”⁶⁰

Every group is formed through the same process: typically, one or more interested persons are asked to form a group of at least 5 with a common endeavor; loans are initially extended to 2 group members, and if repayment is consistent for a period of 6 weeks, 2 more members may request a loan. The initial borrower, known as the

⁵⁹ *Ibid* 5, 62

⁶⁰ *Ibid* 5, 62

chairperson, is the last group member to request a loan.. This first step is oftentimes a challenge in itself because the first borrower may have “a difficult time convincing her friends “who are likely to be terrified, skeptical, or forbidden by their husbands to deal with money.”⁶¹

Once a group is formed, they must be officially recognized and certified by Grameen Bank. In order to gain this recognition, all the members of a group have to “present themselves to the bank, undergo at least 7 days of training on (Grameen) policies, and demonstrate their understanding of those policies in an oral examination administered by a senior bank official.”⁶² Each of the members must be individually tested on these policies. Repayment starts immediately after the initial loan is disbursed. “Early repayment discourages extremely risky behavior, ensures discipline and may encourage families to have more than one source of income”⁶³

4.3.4 Building Relationships

Yet another significant difference between traditional banks and Grameen Bank is the way each conducts business with their borrowers. Traditional banks see their (qualified) borrowers as a way of earning profits for their investors. Grameen on the other hand, makes loans to the poor in order to benefit them in two ways: first, as businesspersons who are trying to escape poverty through hard work and secondly, as shareholders of the bank. “Borrowers assume more responsibilities for the management of their own affairs. They come up with more innovative approaches to preventing and

⁶¹ *Ibid* 5, 63

⁶² *Ibid* 5, 63

⁶³ Morduch, J. (1999) “The Microfinance Promise”, *Journal of Economic Literature*, December 1999, p. 1569-1614.

solving problems, and find new ways to ensure that each member rises above the poverty line as quickly as possible.”⁶⁴

4.3.5 Innovation

Aside from being a micro-lender, Grameen has launched new ventures intended to further help the poor. There are currently over 25 different programs, referred to as the “Grameen family of companies”, focused on financial, social, and medical services for the poor. Some of the most innovative programs include: Grameen’s Housing Loan Project, Grameen Shikkha, and the Struggling Members Program.

4.3.5.1 Housing Loan Project

In 1984, Grameen embarked on a novel program referred to as the “Housing Loan Project”.⁶⁵ In broad terms, its objective was to give the bank’s borrowers the possibility of buying adequate shelter; a stable watertight house that would offer both good living conditions and in many cases, also protect the equipment needed to generate income.

An engineer and architect employed by the bank sketched out the “Grameen House.” Built at a cost of approximately (U.S.) \$300-\$350, the house requires an elevated rectangular foundation most frequently made from soil i.e., packed mud measuring at least 20 square meters. Building materials include 4 reinforced concrete posts at each corner, 18 sheets of corrugated sheet metal for the roof and a latrine.⁶⁶

⁶⁴ *Ibid* 5, 66

⁶⁵ Holcim Foundation for Sustainable Construction. Accessed from April 10, 2010 from the world wide web: http://www.holcimfoundation.org/Portals/1/docs/firstforum_yunus.pdf

⁶⁶ *Ibid* 53

Owners most often buy and install materials such as jute mats, bamboo or other materials to cover the floor or use in the creation of interior partitions and outside walls.

(See images of Grameen Housing below and on the following page)

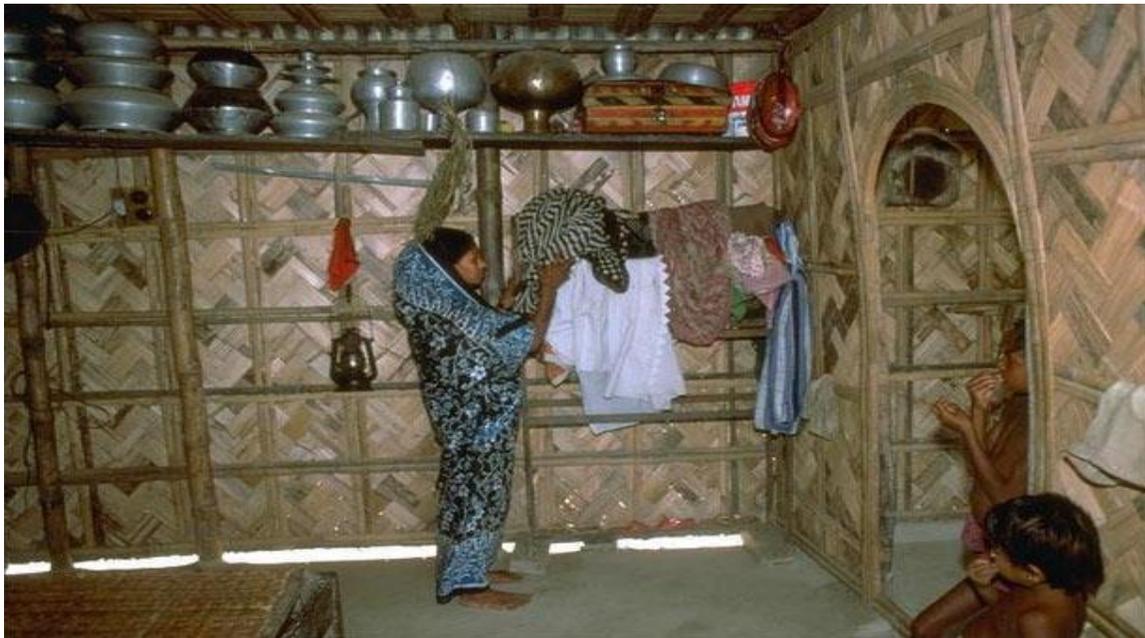


Figure 1 Interior of Typical Grameen House in Bangladesh



Source: Archnet.org (Islamic Architecture.org)

Figure 2 Exterior of Typical Grameen House in Bangladesh

Early on, Grameen decided that it would offer the possibility of home ownership only to persons who had repaid a micro-loan and give priority on a proven-need-basis.⁶⁷ In addition, home loans were only granted to landowners and because most of its borrowers were women, it required that land owned by husbands had to be transferred in title to the wives. Whereas Grameen's basic loans had a maximum repayment term of 12 months, its "shelter loans" could be repaid over a period of ten years in weekly installments of principal and (8% annual) interest. As a testimony to the program's success, Grameen received the Aga Khan International Award for Architecture in 1989 with this statement: "The lesson of this success lies in the thoughtful concept and the

⁶⁷ *Ibid* 53

participatory process behind it, which could be emulated, not imitated, throughout the Muslim and Third Worlds”⁶⁸. Through the end of 2009, 679,577 Grameen Houses have been built in Bangladesh ⁶⁹.

4.3.5.2 Grameen Shikkha (Education)

In 1997, Grameen introduced yet another ground-breaking concept in Bangladeshi banking and culture by creating the higher educational loan. Its purpose was to enable the children of its borrowers who demonstrated a potential for excelling through higher education, to do so in spite of being poor. The program enables those who enroll in medical or engineering schools, (honors) bachelor and master’s programs, agricultural colleges, and other higher education programs to receive loans that are inclusive of virtually all expenses that a typical student is likely to have including tuition, room, board, books and supplies. Repayment runs parallel to the basic loan but at an annual interest rate of 5%. As of April, 2010, Grameen funded 43,576 students with higher-education loans.

4.3.5.3 Struggling Members Program

Few words can accurately describe the nature of Grameen’s 2002 initiative, the “Struggling Members Program”⁷⁰ except by classifying it as the most innovative undertaking that has never been attempted by any financial institution. No group is more

⁶⁸ Agha Kahn Award for Architecture. Grameen Bank Housing Programme. Accessed May 15, 2010 from the world wide web: <http://www.akdn.org/architecture/project.asp?id=1066>

⁶⁹ About Grameen Bank. Accessed March 18, 2010 from the world wide web: <http://www.grameen-info.org>

⁷⁰ Ibid 16

alien to banking anywhere in the world than beggars and yet by creating a lending program for them, Grameen tried to address poverty at its most extreme. Grameen's philosophy doesn't look at begging as a social ill but as an activity of last resort for a poor person unless he/she turns to a life of crime. Some take up begging as an outgrowth of divorce, death of the income-earning member of a family, or unemployment. Others do so as a result of physical impairments such as being disabled, blind, mentally handicapped, or elderly and in ill health.

The program provides loans which enable beggars to find a dignified livelihood and by so doing, to become Grameen customers. Because of their circumstances, normal lending rules are waived: they do not have to form a group, attend meetings, and pay no interest. Beggars decide the terms of repayment based (solely) on funds obtained from their new businesses. Beggars receive an identity badge containing their name, picture and the Grameen logo as evidence of membership and to induce other members to patronize them. They are not required to give up begging, but are encouraged to take up income-generating activities like door-to-door sales. As of April, 2010 over 112,000 beggars had joined this program and approximately 16% had given up begging as an occupation and become self-employed businesspersons.

4.4 **Grameen Bank Today**

Grameen Bank currently exists in over 100 countries across 6 continents, and actively lends to over 2 million borrowers.⁷¹ While the methods used to lend to borrowers have changed over the past 30 years as it discovered how to best meet the needs of its borrowers, many elements that were created at its inception remain central to Grameen mission including:⁷²

- Extending banking facilities to poor men and women;
- Eliminating the exploitation of the poor by money lenders;
- Creating self-employment opportunities for vast multitude of unemployed people in rural Bangladesh;
- Bringing disadvantaged, mostly women from the poorest households, within fold of an organizational format which they can understand/manage by themselves;
- Reversing the age-old vicious circle of "low income, low saving & low investment", into virtuous circle of "low income, injection of credit, investment, more income, more savings, more investment, more income".

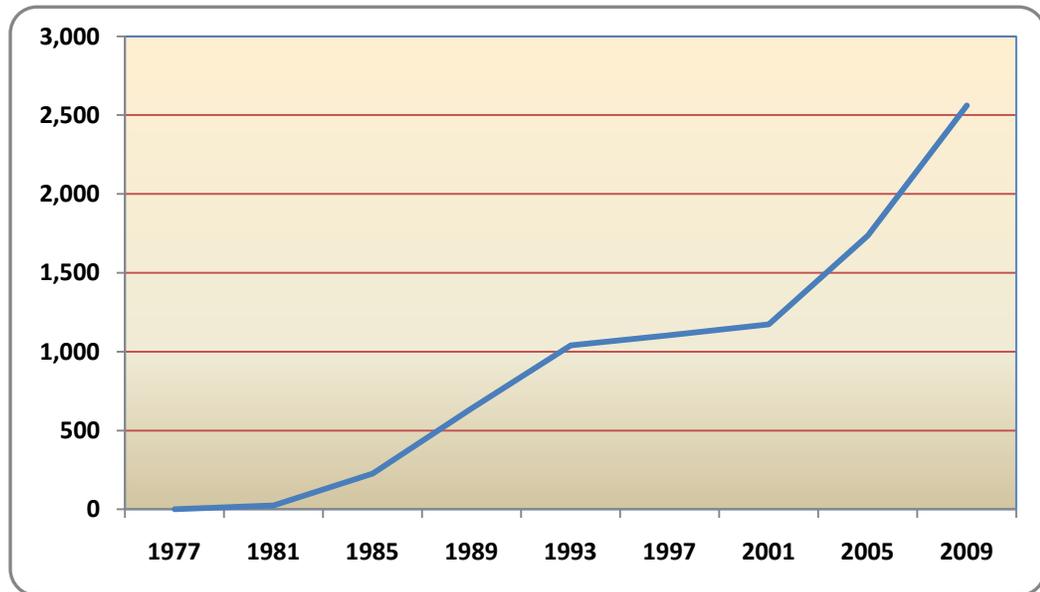
⁷¹ *Ibid* 37

⁷² Grameen Bank- Banking for the Poor. A Brief History. Accessed May 1, 2010 http://www.grameen-info.org/index.php?option=com_content&task=view&id=19&Itemid=114

4.4.1 Measuring Grameen's Success in Bangladesh

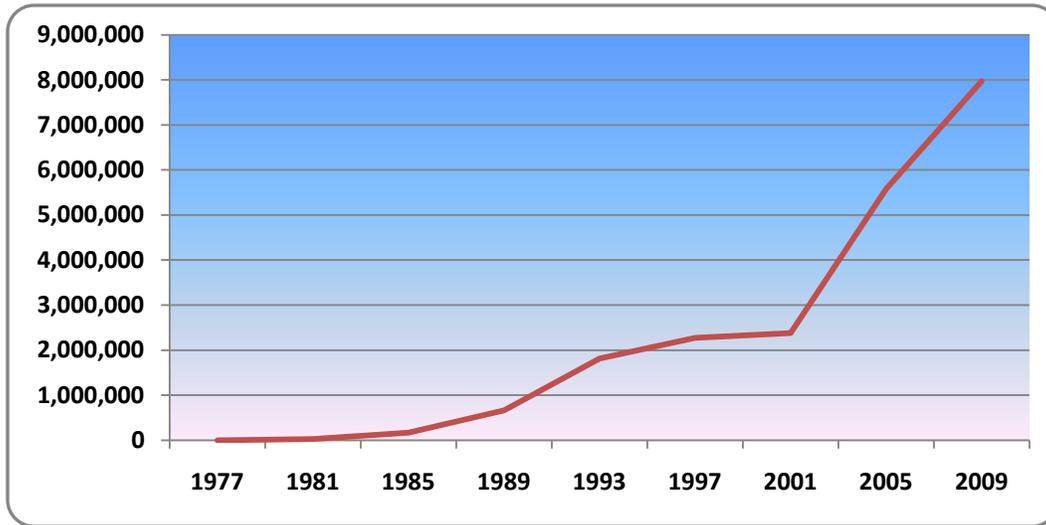
The figures on the following pages track Grameen's development since 1977, showing its growth in number of village branches as well as membership.

4.4.1.1 Growth by the Numbers



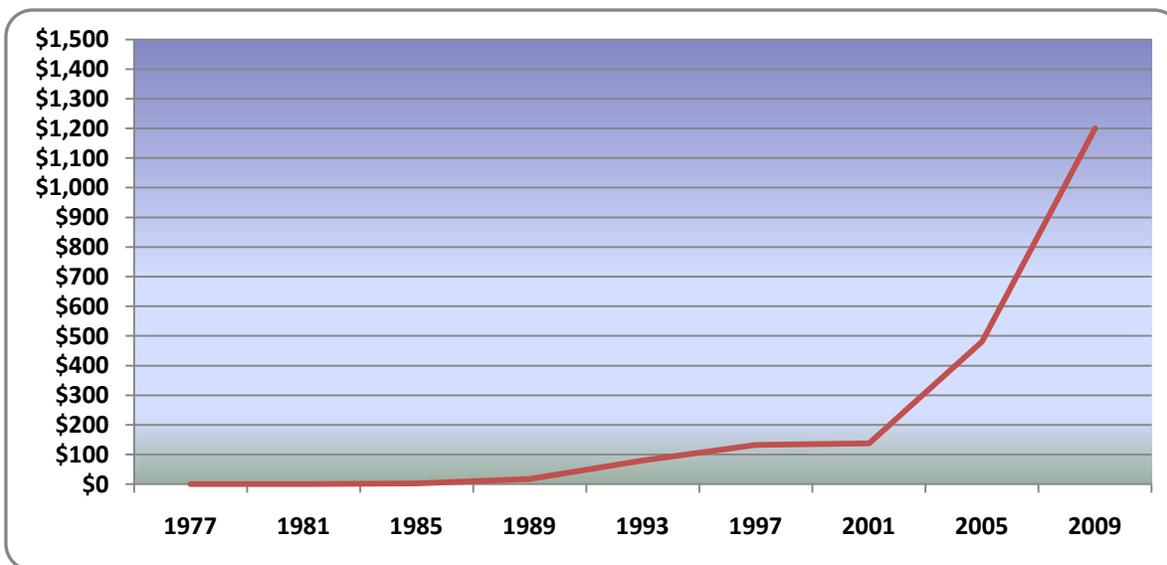
Source: <http://www.grameen-info.org>

Figure 3
Number of Grameen Bank Branches Per Year
(Thousands)



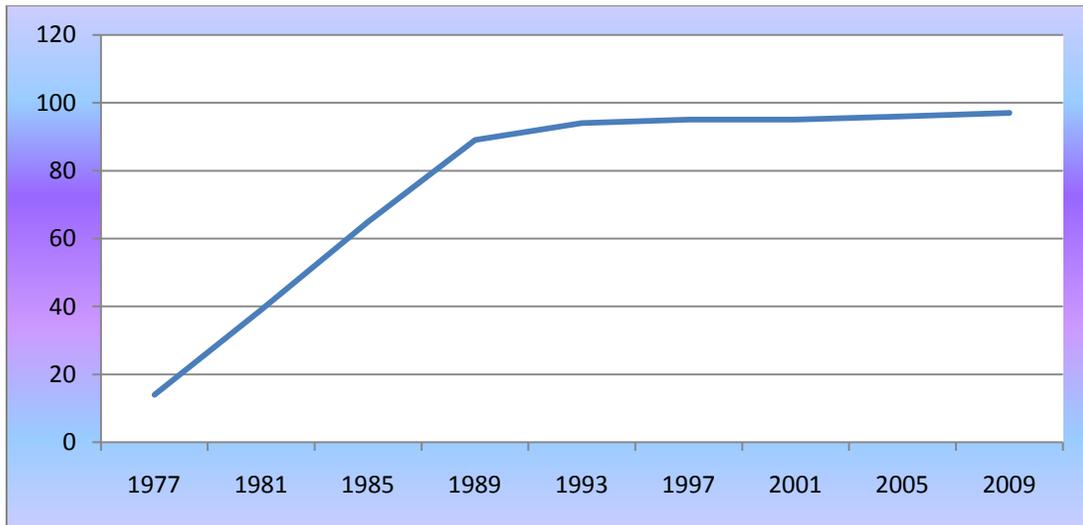
Source: <http://www.grameen-info.org>

Figure 4
Number of Grameen Members by Year
(Millions)



Source: <http://www.grameen-info.org>

Figure 5
Total Number Member Deposits by Year
(USD Millions)



Source: <http://www.grameen-info.org>

Figure 6
Percent Women Borrowers by Year
(Thousands)

Several conclusions can be drawn after analyzing the above figures:

- According to the Rural Electrification Board of Bangladesh, most recent census (1991), there are just over 86,000 villages in the country; Grameen Bank operates in almost of them, just over 81,000.
- In 34 years of operation, Grameen has shown a profit in all but three years.
- Since its inception, Grameen Bank has lent out \$9.19 billion (USD) at a repayment rate of 96.83%.⁷³
- In 2009, Grameen declared a 30% cash dividend to its owners, the poor. This is the highest ever paid out by any bank in Bangladesh.

⁷³About Grameen Bank. Accessed May 31, 2010 from the world wide web: <http://www.Grameen-info.org>

4.4.2 Qualitative Measures of Success

The best measure of “success” in the world of micro-financing would be for a borrower to have risen above the poverty line. As previously mentioned in Chapter 3, Grameen has created a set of indicators which aid in determining whether an individual and /or family has become “poverty free”. These indicators are:

- 1.) Having a house with a tin roof;
- 2.) Having beds or cots for all members of the family;
- 3.) Having access to safe drinking water;
- 4.) Having access to a sanitary latrine;
- 5.) Having all school-age children attending school;
- 6.) Having sufficient warm clothing for the winter;
- 7.) Having mosquito nets;
- 8.) Having a home vegetable garden;
- 9.) Having no food shortages, even during most difficult time of a very difficult year;
- 10.) Having sufficient income-earning opportunities for all adult family members.

While these indicators may need to be modified according to the situations of potential borrowers in different regions of the world, they can serve as a foundation from which researchers, and micro-financing groups can determine the effectiveness of their current system. According to an internal survey conducted by Grameen, 68% of its members have crossed the poverty line.

4.4.3 Other Measures of Success

In addition to its impressive growth in number of branches, membership and deposits, Grameen has attained other significant accomplishments which include:

- Women made up just 14% of all Grameen borrowers in 1977, (Figure 5) but increased to 65% by 1985, and 97% by 2009.
- Grameen Bank operates in over 81,000 of Bangladesh's 86,000 villages (94.2% coverage).
- In 34 years of operation, Grameen has shown a profit in all but three years, indicating that while they are meeting the needs of their borrowers, Grameen has become self-sustaining.
- Since its inception, Grameen Bank has lent out \$9.19 billion U.S. Dollars with a repayment rate of 96.83%.⁷⁴
- In 2009, Grameen declared a 30% cash dividend to its owners, the poor. This is the highest dividend ever paid out by any bank in Bangladesh.
- While Muhammad Yunus once thought that a micro-lender could not function without donors, by 1995 Grameen had declared itself independent of donors, choosing instead to finance all of its future loans from borrower deposits.
- In October of 2006, Muhammad Yunus and Grameen Bank received the Nobel Peace Prize; a fitting tribute to the revolutionary idea of micro-lending and its effect on Bangladesh, the poor and the empowerment of women.

⁷⁴ *Ibid* 57

4.5 Beyond Bangladesh

As previously discussed, Grameen Bank's success can be attributed to a number of factors. Namely, a well-constructed business model focused on alleviating the effects of poverty in developing countries; a borrowing/repayment scheme intended to promote financial stability; and perhaps most importantly, a focus on women as their primary borrowers. This final factor can undoubtedly be attributed as the driving force behind Grameen's success. In fact, Yunus' realization- that the empowerment of women is key to alleviating poverty because they consistently repay their loans, they are more financially responsible than men, and use their money more efficiently and effectively than men- has inspired micro-lenders worldwide to take notice. Many have also made it a point to target and recruit female borrowers for membership.

Grameen has brought with it both high praise and doubts. Some argue that Grameen's success has been a matter of "luck", or perhaps that the Bangladeshi culture is ideal for an innovative economic system such as micro-financing. The remaining chapters of this thesis however, will prove that the success of Grameen Bank and micro-financing institutions worldwide has been due not to a business model that just happened to work, but instead because of the increased and active participation of women.

CHAPTER 5- MICRO-FINANCING AROUND THE WORLD

This section will address two important questions: first, has micro-lending been successful beyond the borders of Bangladesh? Secondly, are women being empowered by it? A 2006 article published by Business Week⁷⁵ put the number of (worldwide) active micro-lenders at over 10,000 while another article in InfoChange India⁷⁶ estimated that over 25 million poor people benefit from micro-loans. Though interesting, neither figure considers the complexities involved in making accurate estimates at a given point in time. For one, some micro-lenders begin operating “on a shoe string” in the hope that rapid success will attract donors/investors; if that strategy fails, some become “inactive” while others go out of business.

Another step involves separating micro-lenders which follow the altruistic principles of Mohammad Yunus through “poverty-focused, collateral-free, low-interest microcredit programs,⁷⁷” from those who unencumbered by a social agenda, pursue profits as their primary goal. “Because of the high interest they charge, these programs cannot be viewed as poverty-focused but rather as commercial enterprises whose main objective appears to be earning large profits for shareholders or other investors.”⁷⁸ Finally, there is the all-important element of identifying how many follow the type of business practices which enable them to comply with the financial information

⁷⁵ Business Week. *A Little Money Goes a Long Way*. July 31, 2006. Accessed March 20, 2010 from the world wide web: http://www.businessweek.com/magazine/.content/06_31/b3995088.htm

⁷⁶ InfoChange India. News and Analysis on Social Justice and Development Issues in India. “*Micro-Credit background and Perspective*”. Accessed March 20, 2010 from the world wide web:

<http://infochangeindia.org/200510065947/Micro-credit/Backgrounder/Micro-Credit-Background-Perspective.html>

⁷⁷ *Ibid* 16, p. 68

⁷⁸ *Ibid* 16, p. 68

requirements made by organizations like Kiva,⁷⁹ and the Microfinance Exchange (MIX)⁸⁰, who seek to bring uniformity and transparency to the world of micro-finance.

5.1 Number of Global Micro-lenders

Since 2002, the Microfinance Information Exchange (MIX) has maintained an excellent data bank on global micro-lending. Each year, micro-lenders from around the world are asked to furnish financial reports which enable MIX to rate them on a scale from 1 to 5 (diamonds) for compliance with predetermined standards and fiscal responsibility. Though voluntary, reporting is generally high because most realize that donors and investors rely heavily on MIX's ratings for decision-making and fund allocation. According to MIX records⁸¹, over 1,800 micro-lenders have submitted data at least once between 2003 and 2008. However, that figure represents a peak rather than a consistent number since competition for funds, transparency requirements and the effects of the worldwide recession have taken a toll on the number of micro-lenders.

Tables 1, 2, and 3, (in the following pages) contain information about global micro-lending activity based on data compiled by MIX for 2008. Unfortunately, no data was submitted by lenders from the U.S., Israel and Hungary, where some activity is known to occur. Nevertheless, MIX records suggest that between 1995 and 2007 there might have been as many 2,000 micro-lenders doing business in over 100 countries of the world, but only 1,200 to 1,400 now operate under the (accounting) guidelines required

⁷⁹ About Kiva. Accessed June 10, 2010 from the world wide web: <http://www.kiva.org>

⁸⁰ About Microfinance Information Exchange. Accessed June 15, 2010 from the world wide web: <http://www.mixmarket.org/about>

⁸¹ Mix Market. Microfinancing Institutions. Microfinance Information Exchange. Accessed June 15, 2010 from the world wide web: <http://www.mixmarket.org/mfi>

by MIX for review and subsequent transmission to over 100 investors and nearly 200 partners⁸² To be more precise, Tables 1 through 3 reveal that in 2008 1,222 micro-lenders provided loans to over 81.6 million borrowers in 100 countries throughout the world. Considering that this micro-lending began with one small bank in the village of Jobra, these statistics clearly validates the success of micro-lending as a financial institution. It is interesting to note that most of the beneficiaries live in heavily populated developing countries like Bangladesh, India, Indonesia and Mexico among others.

⁸² *Ibid* 70

**Table 1
GLOBAL MICRO-LENDING ACTIVITY**

<u>Country</u>	<u>Known Num. Of Lenders</u>	<u>Lenders Reporting Data (2008)</u>	<u>Number Of Active Borrowers (2008)</u>
Afghanistan	15	14	334,218
Albania	7	5	88,606
Angola	2	1	9,198
Argentina	15	13	30,269
Armenia	13	11	252,855
Azerbaijan	25	22	346,812
Bangladesh	73	22	21,713,372
Benin	19	9	142,350
Bolivia	26	23	825,747
Bosnia	15	13	440,161
Brazil	42	32	811,297
Bulgaria	24	24	72,976
Burkina Faso	10	6	147,019
Burundi	5	3	16,360
Cambodia	16	15	1,049,148
Cameroon	23	12	195,527
Central African Rep.	1	1	2,756
Chad	3	1	18,113
Chile	6	3	188,302
ChinaRep.	19	14	45,708
Colombia	31	27	1,991,130
Congo Dem. Rep.	26	8	66,731
Congo Rep. of The	3	2	1,784
Costa Rica	15	10	19,035
Cote d' Ivoire	13	1	45,770
Dominican Rep.	7	5	183,818
East Timor	3	1	11,692
Ecuador	52	47	693,255
Egypt	16	14	868,315
El Salvador	19	13	199,752
Ethiopia	19	14	1,889,604
Gambia	2	2	23,445
Georgia	16	10	133,136
Ghana	46	26	364,043

Table 2
GLOBAL MICRO-LENDING ACTIVITY

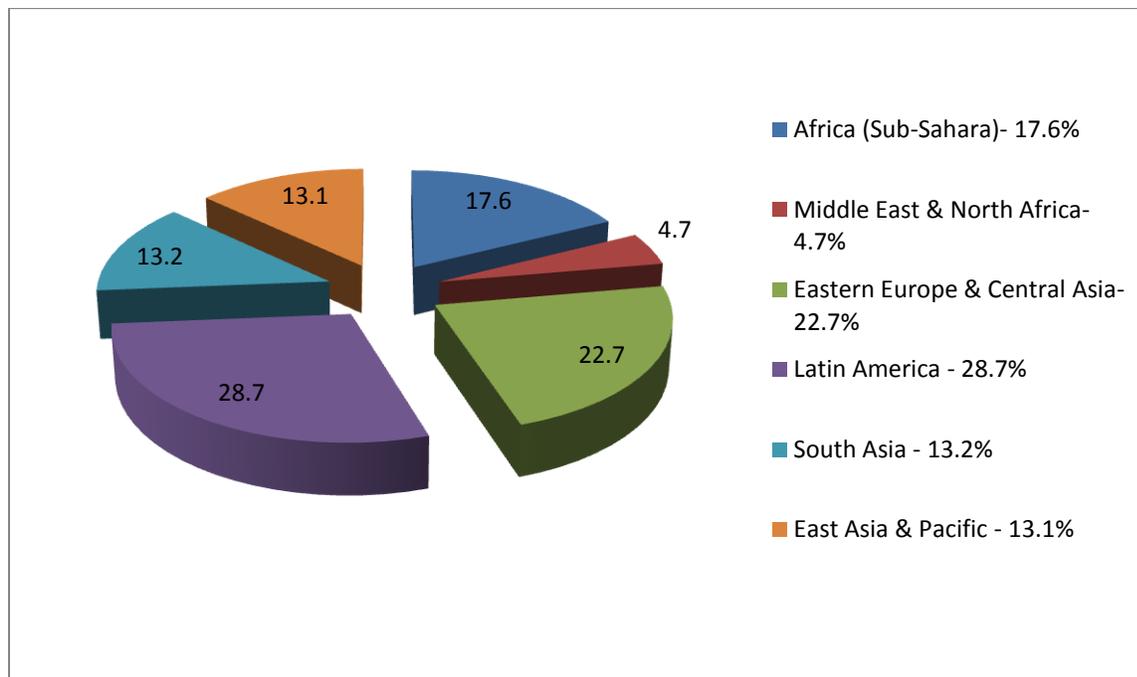
<u>Country</u>	<u>Known Num. Of Lenders</u>	<u>Lenders Reporting Data (2008)</u>	<u>Number Of Active Borrowers (2008)</u>
Guatemala	23	17	260,484
Guinea	8	6	89,672
Guinea-Bissau	4	1	567
Haiti	8	6	145,383
Honduras	19	17	190,541
India	137	74	16,271,272
Indonesia	59	39	4,728,662
Iraq	6	4	27,708
Jordan	8	7	134,037
Kazakhstan	32	14	61,681
Kenya	25	15	1,108,872
Kosovo	11	8	143,955
Kyrgyzstan	40	18	253,830
Laos	4	3	4,818
Lebanon	3	3	57,392
Macedonia	4	4	50,077
Madagascar	14	8	57,546
Malawi	9	6	197,207
Malaysia	1	1	165,286
Mali	19	13	246,208
Mexico	50	41	3,886,716
Moldova	5	4	21,088
Mongolia	7	5	392,251
Montenegro	2	1	39,712
Morocco	10	9	1,241,957
Mozambique	9	7	71,724
Nepal	38	27	566,283
Nicaragua	30	23	489,075
Niger	7	5	100,658
Nigeria	19	7	348,750
Pakistan	28	19	1,120,056
Palestine	8	8	26,704
Panama	4	3	11,571
Papua- New Guinea	2	2	7,991

**Table 3
GLOBAL MICRO-LENDING ACTIVITY**

<u>Country</u>	<u>Known Num. Of Lenders</u>	<u>Lenders Reporting Data (2008)</u>	<u>Number Of Active Borrowers (2008)</u>
Paraguay	7	6	301,686
Peru	65	61	2,660,233
Phillipines	111	63	2,333,847
Poland	3	2	16,207
Romania	7	6	57,078
Russia	101	86	221,468
Rwanda	7	7	54,343
Samoa	1	1	4,162
Senegal	21	13	218,660
Serbia	4	4	160,723
Sierra Leone	11	4	26,363
South Africa	14	4	722,699
Sri Lanka	20	12	967,265
Sudan	3	3	22,283
Swaziland	2	1	5,772
Syria	3	2	16,574
Tajikistan	43	29	135,906
Tanzania	13	10	270,077
Thailand	2	2	4,699
Togo	14	5	87,943
Trinidad-Tobago	2	1	1,281
Tunisia	1	1	94,959
Turkey	2	1	15,369
Uganda	28	13	323,047
Ukraine	3	2	73,238
Uruguay	2	1	670
Uzbekistan	16	5	63,289
Venezuela	2	2	53,577
Vietnam	21	17	6,994,759
Yemen	8	6	24,976
Zambia	6	3	16,050
TOTALS	1,823	1,222	81,691,241

Source: Microfinance Information Exchange

5.2 Growth of Micro-financing by Global Region



Source: Microfinance Information Exchange – 2008

Figure 7
Global Distribution of Micro-lending Activity by Region

Figure 7 shows the distribution⁸³ of (1,222) micro-lenders by geographic areas and more importantly, the revelation that just over half can be found in two regions of the world: Eastern Europe/Central Asia, and Latin America. Clearly, the growth of micro-lending activity in Bangladesh and India is to be expected in the wake of Grameen's unparalleled success. However, Latin America's position of leadership is surprising when one considers possible differences that might arise from the cultural experiences

⁸³ Based on Tables 1A 1B and 1C

of the borrowers and the fact that micro-lending was introduced in Latin America just prior to the end of the 20th century.

5.3 Micro-Financing in Latin America⁸⁴

The fact that Latin America has more micro-lenders than any other region of the world implies that as a market, it offers both a good profit potential and high demand. The larger question however, is whether (as in Bangladesh) micro-lending has also found its niche among women. Table 5 contains data which has been abstracted from Tables 1 through 3 for all Central and South American countries that reported data to MIX. The first column of figures shows how many lenders have reported activity at least once between 1995 and 2008. The next three show how many reported being active in 1995, 2000 and 2008. The following column then contains the total number of active borrowers reported in each country by all lenders for 2008. The last two columns represent estimates for both the percentage and absolute number of women borrowers based on a formula which has been derived from the MIX data bank.

Each year, MIX asks lenders to provide both the total number of active customers in their portfolios and a breakdown which shows what percent women represent. While virtually all lenders comply with the number of active customers, many small-to-medium size lenders do not (consistently) provide information on the percentage of microloans to women. For this reason it becomes necessary to arrive at these estimates through a sampling technique involving data reported by the 10 largest lenders in each country and more specifically, those having the highest number of active customers. For

⁸⁴ Defined as Central and South America

instance in 2008, 23 micro-lenders in Nicaragua reported⁸⁵ having a combined 489,075 active borrowers. Of these, the ten largest are listed in the following table:

Table 4
TEN LARGEST MICRO-FINANCING INSTITUTIONS IN NICARAGUA
(By # of Active Members)

<u>Institution</u>	<u>Number of Borrowers</u>	<u>Percent Women</u>	<u>Equivalent Number</u>
FDL	82,337	55.3%	45,532
Pro-Credit NIC	80,100	61.9% ⁸⁶	49,582
ASODENIC	38,021	79.4%	30,189
Financiera Fama	37,296	69.1%	25,772
FUNDESER	35,294	46.6%	16,447
Pro Mujer	26,365	96.0%	25,310
BANEX	25,423	49.0%	12,457
Finca NIC	22,574	81.6%	18,420
PRESTANIC	17,970	40.9%	7,350
PRODESA	17,770	53.4%	9,489
Total	383,150	64.3%	246,316

Source: Microfinance Exchange Information

Note: Latin America refers to countries located in Central and South America only

Note: All data as of August 3, 2010

⁸⁵ Microfinance Information Exchange (2008 data) Accessed June 15, 2010 from the world wide web:
<http://www.mixmarket.org/mfi>

⁸⁶ The only information provided is from 2006 which represents “best available”

With a combined 383,150 active customers, the ten largest micro-lenders in Nicaragua (representing a sample group of 78%) reported that 246,316 of those customers were in fact women. This figure translates into a weighted average of 64.3% which when multiplied by the total number of all borrowers in 2008, (489,075) yields an estimated 314,475 as the number of women who received loans. The same technique was then used to determine the number of loans made to women in each of the other 16 countries which make up the Latin American region. It should be noted that as a sample group, the top ten lenders in each country typically accounted for not less than 50% of all microloans made and in countries where the total number of lenders was 10 or Less, the sample group represented 100% of all loans.

**Table 5
MICRO-LENDING ACTIVITY IN LATIN AMERICA
(by Country)**

	<u>Country</u>	<u>Known Num. Of Lenders</u>	<u>Lenders Reporting Data (1995)</u>	<u>Lenders Reporting Data (2000)</u>	<u>Lenders Reporting Data (2008)</u>	<u>Number Of Active Borrowers (2008)</u>	<u>Percent Of Women Borrowers (2008)</u>	<u>Num. Of Women Borrowers (2008)</u>
1	Argentina	15	0	0	13	30,269	63.0%	19,069
2	Bolivia	26	0	10	23	825,747	60.8%	502,054
3	Brazil	42	0	0	32	811,297	57.4%	465,684
4	Chile	6	0	0	3	188,302	45.8%	86,242
5	Colombia	31	0	8	27	1,991,130	54.0%	1,075,210
6	Costa Rica	15	0	2	10	19,035	73.1%	13,915
7	Ecuador	52	0	13	47	693,255	60.0%	415,953
8	El Salvador	19	0	1	13	199,752	64.0%	127,841
9	Guatemala	23	0	3	17	260,484	57.2%	148,997
10	Honduras	19	0	4	17	190,541	69.4%	132,235
11	Mexico	50	0	4	41	3,886,716	80.7%	3,136,580
12	Nicaragua	30	0	5	23	489,075	64.3%	314,475
13	Panama	4	0	0	3	11,571	43.4%	5,022
14	Paraguay	7	0	1	6	301,686	45.5%	137,267
15	Peru	65	0	11	61	2,660,233	50.3%	1,338,097
16	Uruguay	2	0	0	1	670	43.0%	288
17	Venezuela	2	0	0	2	53,577	49.0%	26,253
		408	0	62	339	12,613,340		7,945,184

Source: Microfinance Exchange Information

Note: Latin America refers to countries located in Central and South America only

Note: All data as of August 3, 2010

As illustrated by Table 5, the growth of micro-lending in Latin America has been nothing short of impressive. MIX records show that as recently as 1995 there was no (reported) activity in the region and even in 2000, there were only 62 micro-lenders active in 17 countries. However, just 8 years later that figure had increased more than five times. Some attribute this growth to a decade of rapid economic expansion throughout the world coupled with an awareness of Latin America as a fertile ground for investments. Others point out that both Latin American governments and private banks in many countries realized that by making microloans they could both fulfill a “social mission” and simultaneously, produce good profits. There is no doubt that both factors made a difference, but another way to view this growth can also be summed up in one word: success. In fact, events in Latin America are no different than what occurred in Bangladesh when Grameen Bank “discovered” that poor women and micro-lending make a winning (and profitable) combination.

Table 5 also reveals that in 2008, nearly 8 million or, 63% of all microloan borrowers in Latin America were women. At first glance this figure does not seem as impressive as Grameen Bank’s in Bangladesh (Figure 4) where loans to women in 2008 exceeded 90% of the total. However when making this comparison, one must consider the fact that by 2008 Grameen had been in business for over 30 years while (for all intents and purposes) in Latin America, micro-lending had only been in practice for just over a decade. In a more apples-to-apples contrast, ten years (1986) after Grameen started operating in Bangladesh, loans to women made up 65% of all microloans. While nothing guarantees that by 2028 micro-lenders throughout Latin American countries will be

making over 90% of all loans to women, the similarity in the pattern of growth with the Grameen Model suggests that it is not entirely out of the question.

5.4 Characteristics of Microloans in Latin America

While Table 5 shows that in most Latin American countries women constitute a clear majority of all micro-loan borrowers, it does not provide answers to questions such as: in what amount(s) for what purposes and with what results? An in-depth analysis of Kiva archives provides valuable insights that provide answers to these questions.

5.4.1 Background

Created in 2004, Kiva represents the future of micro-financing. With globalization has come great advancements in technology, particularly with the internet. It is now simple to connect people across continents, on opposite sides of the world. As such, Kiva's idea was to use these connections to create a global community of lenders who financially sponsor entrepreneurs around the world.

Kiva promotes the following as part of its mission statement:⁸⁷

- **Dignity**: Kiva encourages partnership relationships as opposed to benefactor relationships. Partnership relationships are characterized by mutual dignity and respect.
- **Accountability**: Loans encourage more accountability than donations where repayment is not expected.
- **Transparency**: The Kiva website is an open platform where communication can flow freely around the world.

⁸⁷ *Ibid* 70

Kiva's main purpose is to serve as a liaison between a global community of donors/investors who would like to become lenders and micro-financing organizations (referred to as Field Partners) who need further financial backing for their borrowers. Kiva began doing business by trying to fund micro-loans directly to "worthy" entrepreneurs, but the process was difficult and time consuming. It then adopted a strategy of using field partners as local resources. In just 6 years, Kiva has assembled a network of field partners throughout the world, 25% of which are in Latin America.

5.4.2 Customer Base

As with Grameen Bank, Kiva also considers women to be their primary focus in terms of membership. "By providing access to financial services only through women-making women responsible for loans, ensuring repayment through women, maintaining savings accounts for women, providing insurance coverage through women-microfinance programs send a strong message to households as well as to communities."⁸⁸

⁸⁸ Consultative Group to Assist the Poor. <http://www.cgap.org/p/site/c/>

5.4.3 Borrowing Repayment Mechanism⁸⁹

The lending process begins when Kiva partners with a micro-financing institution (Kiva currently has 161 Field Partners) that can distribute their funds on the ground through their own staff, pairing them up with an individual that needs a loan. These partners are asked to identify qualified borrowers and to provide the necessary manpower for research, funding and loan servicing.

Early on, Kiva sought to provide a personal touch for potential donor/investors by documenting the borrower's personal stories through pictures and progress reports which are published on their web page. Donors could then browse through borrower profiles and to select the one(s) they wanted to sponsor with as little as \$25.00 or as much as the total amount of the loan being requested. While commendable, Kiva's novel approach met with some criticism when it became known that in cases of oversubscription or incomplete funding, monies were allocated by the field partner to another entrepreneur or group without the consent of the donor. Kiva still offers the option but does not guarantee specific lenders being matched with specific borrowers.

Typically, all lender funds are ultimately combined and disbursed to borrower(s) through the field partner who sets the interest rate and ultimately retains it through repayment to cover its operating expenses. After the principal has been repaid, lender(s) have 3 options: re-donate funds to another entrepreneur; donate the funds to Kiva (to help cover its operating expenses) or; withdraw the funds via a Paypal account.

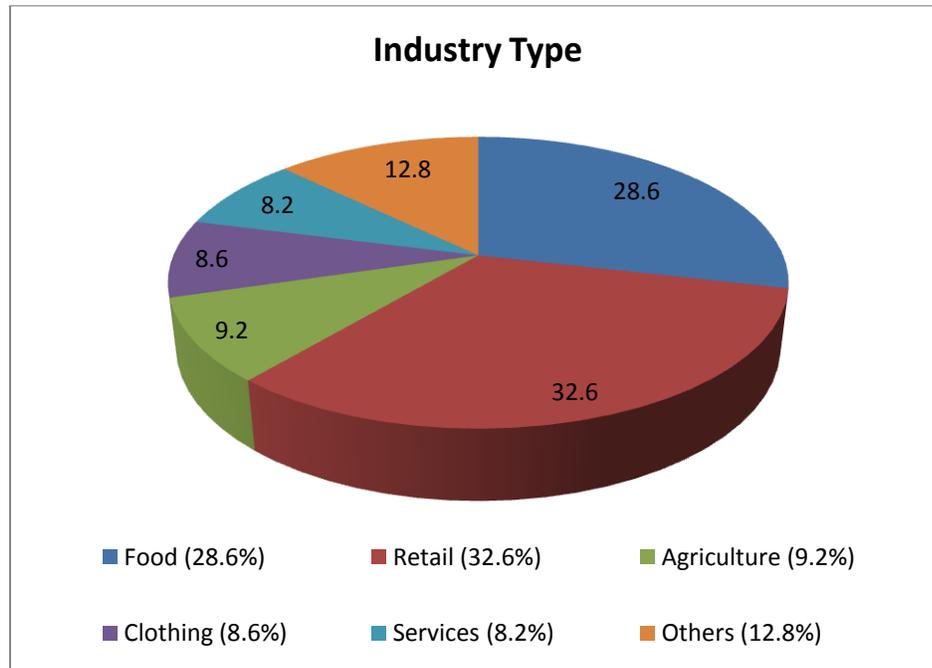
⁸⁹ How Kiva Works. Accessed June 18, 2010 from the world wide web: <http://www.kiva.org/about/how>

5.4.4 Innovation

Apart from acting as an intermediary figure between borrowers and lenders, Kiva also acts as a database for those seeking empirical data on micro-finance. Both of these facts makes Kiva innovative in its field. No other micro-financing institution to date has created a system in which donors/investors located outside of the borders of the borrowers home country can reach out and make a financial impact by funding their business. Furthermore, considering how little actual data exists on micro-financing particularly that which can detail its growth and development by region, Kiva has become an important electronic source of data on micro-lending.

5.5 Distribution of Micro-financing Funds by Borrowers

The first point of analysis in understanding how women are furthering the success of micro-financing can be seen by analyzing how their loan funds are utilized. Figure 8 on the following page represents an overview of micro-lending activity in Latin America (for the purposes of this thesis, Latin America includes South and Central America). Table 6 represents a detailing of this activity based on Kiva case files. It reveals that over 60% of all loans made to women go into the formation of businesses in two categories: retail sales and food production/sales. Most loans range from \$1.00 to \$1,000.00.



Source: Table 3

Note: Based on 3,527 loans made through Kiva in 2009-2010

Figure 8
Distribution of Microlans Granted to Women by Kiva
(Latin American Cases)

5.6 Typical Kiva Cases

The following pages contain actual cases taken from Kiva's files which are typical of loans made to women in the categories mentioned in Figure 8: Food, Clothing, Agriculture, Retail, and Services.

5.6.1 Typical Cases: South America⁹⁰

Case⁹¹: Pamphasi 2 Group- 9 Entrepreneurs; La Paz, Bolivia

Loan Details: This loan has been funded by 9 lenders since April 1, 2020. The loan request for this group was \$2,600 (\$289 per entrepreneur) and was repaid in full in just 6 months.

Retail Business: The Pamphasi 2 Communal Bank is a group made up of 9 female customers. The members requested a loan as a group in order to support individual businesses that (primarily) deal in the sale of food, vegetables, cosmetics, food preparation, and grocery sales among other businesses. Most of the members of this group are new to the micro-financing process. The most seasoned member, “Nely” is the president and has been in business for over ten years, managing her co-members and running the business. Eliza, the bank’s treasurer sells food and drinks to public and private institutions; she has been in business for 5 years. July, the bank’s secretary sells cosmetics wholesale.

⁹⁰Kiva, South American Cases. Accessed June 18, 2010 from the world wide web: <http://www.kiva.org/lendclassic?queryString=&status=All&gender=Female§ors%5B%5D=7®ions%5B%5D=South+America&sortBy=Popularity>

⁹¹ Kiva, Lender Profile. . Accessed June 21, 2010 from the world wide web: <http://www.kiva.org/lend/189448>

Case⁹²: Guadalupe Orihuela Perez, 1 female entrepreneur; Cusco, Peru

Loan Detail: The loan request was made in April of 2010 in the amount of \$725.00. It was fully funded by 26 lenders, and repaid in full in September of 2010.

Retail Business: Guadalupe Orihuela Perez operates a small store that specializes in paper sales. Guadalupe is a member of “Cristo Moreno”, a local communal lender and Kiva Field Partner. She is married, has two young children, and works as school teacher at a school in Cusco. Her initial loan went towards the purchase of a photocopy machine which will be used to provide copy services for clients.

Case⁹³: Buena Vecinidad Group, 22 female entrepreneurs; Ita, Paraguay

Loan Details: This loan was requested in April of 2010, by Kiva Field Partner Fundacion Paraguaya on behalf of the Buena Vecinidad Group. The total loan request was for \$3,750.00 (\$170.00 per entrepreneur), and was funded in June of 2010 by 67 lenders. It had been repaid in full by September of 2010.

Food Business: The Buena Vecinidad Communal Bank was founded in September of 2006 and specializes in the preparation and sale of food. One of the members, Daniela Avalos, sells sweet and salty food. She prepares the food, transports it, and sells it herself. Her portion of the requested loan will go towards buying the ingredients (meat, eggs, oil, condiments, and flour) to prepare the food she sells.

⁹² Kiva, Lender Profile. Accessed June 20, 2010 from the world wide web: <http://www.kiva.org/lend/195703>

⁹³ Kiva Lender Profile, Accessed June 21, 2010 from the world wide web: <http://www.kiva.org/lend/203650>

Case⁹⁴: 8 De Diciembre Group; 18 members; Ciudad Del Este, Paraguay

Loan Details: Total Loan Amount Requested: \$2,475.00 (\$138.00 per entrepreneur).

The loan was requested in June of 2009, and after being listed through Kiva and with the aid of Field Partner Fundacion Paraguaya, 67 lenders fully funded this loan for a repayment term of 4 months. This loan was paid back in full on August 28th, 2009.

Agriculture Business: The 8 De Diciembre Group is an entrepreneurial group made up of 18 members, specializing in Agriculture; specifically, poultry. Doralicia Benitez, the founding member of this group lives in the Fatima district of Ciudad del Este with her two children. Her primary business is in selling hens. The other group members specialize in a variety of activities including: selling clothing, vegetables, cosmetic products, household cleaning supplies, and fruit. Some of these women have also started independent businesses. Because these women have taken part in a group loan system, each group member is responsible for paying their own loans as well as making sure that all other group members make their payments. This means that if one member defaults or is unable to make a full payment, the other members are responsible for making the payment.

⁹⁴Kiva Lender Profile, Accessed June 21, 2010 from the world wide web: <http://www.kiva.org/lend/112828>

Case⁹⁵: Ventana Al Futuro Group, 19 entrepreneurs; Temuco, Chile

Loan Details: Total Loan Amount- \$3,925 (\$207 per entrepreneur). This loan was funded by 137 lenders through Kiva Field Partner Fondo Esperanza in March of 2010, and was paid back in full 6 months later in August of 2010.

Clothing Business: The 19 members of this entrepreneurial group specialize mostly in sales. The group's president, Marisol specializes in the sale of clothing for women, men and children. She sells to neighbors, and other local residents. Marisol spends much of her time travelling to purchase supplies, and this loan was utilized to purchase supplies to make fall-winter clothing. Like many female micro-financing borrowers, Marisol is a single mother. She has 3 sons, ages 22, 20, and 14, and much of her profits go towards the funding of their education. **** (no damage suffered after natural disaster)****

Case⁹⁶: Mujeres Emprendedoras De Micaela Bastidas Group, 10 entrepreneurs; Vitarte, Peru.

Loan Details: Total Loan Amount- \$2,975 (\$298 per entrepreneur). This loan was requested on March 20, 2010 through Kiva Field Partner EDAPROSPO on behalf of the Mujeres Emprendedoras De Micaela Bastidas Communal Bank. The loan was funded by 84 lenders on April 15, 2010 for a term of 4 months; it was repaid in full by August 15, 2010.

⁹⁵Kiva Central American Cases, Accessed June 21, 2010 from the world wide web: <http://www.kiva.org/lendclassic?queryString=&status=All&gender=Female§ors%5B%5D=5®ions%5B%5D=South+America&sortBy=Popularity>

⁹⁶Kiva Lender Profile, Accessed June 21, 2010 from the world wide web: <http://www.kiva.org/lend/186329>

Service Business: Each of the Bank's 10 members specializes in a different activity from making toys to operating a retail business. Typical of the group is Sra. Diana Lourdes, a 44-year old single mother whose 23 year old son currently works with her. For the last 13 years, they have managed a photocopy and typing center from a store near their home. She requested the loan in order to buy additional merchandise and supplies which will allow her to expand the growing demand for their services.

5.6.2 Typical Cases: Central America⁹⁷

Case⁹⁸: Santa Amalia Group; 3 entrepreneurs: Masaya, Nicaragua

Loan Details: This particular loan request was requested by ADIM (Asociación Alternativa Para el Desarrollo Integral de las Mujeres), on behalf of the members of the Santa Amalia Group in April of 2010 in the amount of \$300 (\$100 per entrepreneur) and was fully funded by 12 lenders. This loan was paid off in full by September 15, 2010.

Food Business: The Santa Amalia Group (made up of members Cruz Vivas Padilla, Damaris Lopez Torres, and Grethel del Carmen Padilla) specializes in the sale of fruit and vegetable crops. The group's coordinator, Mrs. Vivas Padilla, started the business five years ago. She will use her portion of the requested funds to buy fruit like watermelon, melon, and jocote (a tropical fruit).

⁹⁷Kiva Central American Cases, Accessed June 21, 2010 from the world wide web: <http://www.kiva.org/lendclassic?queryString=&status=All&gender=Female§ors%5B%5D=12®ion%5B%5D=Central+America&sortBy=Popularity>

⁹⁸ Kiva Lender Profile, Accessed June 21, 2010 from the world wide web: <http://www.kiva.org/lend/195079>

Note: It is particularly risky to lend in Nicaragua (ADIM's delinquency rate is 28.77%); and as such, the Nicaraguan government passed the "No Pago" law in April 2010⁹⁹, which allows delinquent borrowers to re-negotiate loans with more favorable interest and terms. This has given borrowers and lenders alike more confidence in the microfinance movement in Nicaragua.

Case¹⁰⁰: Maria Margarita Salgado Alvarez; 1 female entrepreneur; Leon, Nicaragua

Loan Details: This loan was requested on behalf of Ms. Salgado by Kiva Field Partner Fundacion Leon 2000 in the amount of \$275 in March of 2010. The loan was fully funded by 3 lenders, and was paid back in full by the entrepreneur in May of 2010.

Food Business: Maria Margarita Selgado is 52 years old, and lives in Leon, Nicaragua with her family. Her business is catering, and her specialties include gallo pinto (rice and beans), cuajada (a dish similar to cottage cheese), maduro (fried plantains), queso frito (fried cheese), and chicken. She started her business when she decided to set up a food stand in her home. Her business has continued to expand with the help of Kiva and its Field Partner. Ms. Salgado used her loan proceeds to buy basic ingredients and supplies with she then uses to prepare and sell her meals to a growing number of customers.

⁹⁹ Kiva Lender Profile, Accessed June 21, 2010 from the world wide web: <http://www.kiva.org/partners/120>

¹⁰⁰ Kiva Lender Profile, Accessed June 21, 2010 from the world wide web: <http://www.kiva.org/lend/184087>

Case¹⁰¹: Juana Yamilette Toruno Espinoza; 1 female entrepreneur; Leon, Nicaragua

Loan Details: This loan was requested by Kiva Field Partner Fundacion Leon 2000 on behalf of entrepreneur Juana Yamilette Toruno Espinoza for the amount of \$850 to fund her retail business. The loan was fully funded by 25 lenders on May 18, 2010 and was paid by back in full by the borrower on August 16, 2010.

Retail Business: Juana Yamilette is a 36 year-old single mother. She specializes in retail and requested this loan to allow her to continue funding her business. For over 7 years, she has dedicated herself to the purchase and sale of clothing. Juana had recently fallen on difficult times, and had been unable to supply her business due to lack of funding. This loan was utilized to purchase a variety of products for her business, including dresses, skirts, undergarments, camisoles, and pants. Her goal is to capture more customers, and continue improving her standard of living with the help of her local Field Partner, Kiva, and lenders who are willing to support her in her endeavors.

Case¹⁰²: El Hato Group; 5 entrepreneurs; Tegucigalpa, Honduras

Loan Details: The members of this group, through Field Partner Prisma Honduras, S.A. requested a loan in the amount of \$2,000.00. It was funded by 72 lenders on October 23, 2008 and repaid by July 15, 2009.

Service Business: Each member of the El Hato Group specializes in a different service. The group's coordinator, Griselda Argentina Padilla, is 45 years old and runs a gym in her community. Mrs. Mario Andino, 45 years old, is a street vendor and sells

¹⁰¹ <http://www.kiva.org/lend/201324>

¹⁰² Kiva Lender Profile, Accessed June 21, 2010 from the world wide web: <http://www.kiva.org/lend/68759>

cakes that she makes from home. Another member, Mrs. Sonia Pineda, also 45 years old, has a coffee shop. Together, these women have over 10 years experience as entrepreneurs in their community.

Case¹⁰³: Soleivy Vanesa Escoto, 1 Individual, San Salvador, El Salvador

Loan Details: A loan in the amount of \$1,100.00 was requested by Kiva Field Partner Apoyo Integral on behalf of 23-year old Soleivy Escoto. The loan was funded by 40 lenders on February 17, 2009 and repaid in full on October 15, 2010.

Service Business: Ms. Escoto is an enterprising young woman who decided to open a beauty salon in the Ciudad Delgado sector of San Salvador in 2006 and was met with significant success. Her business offers a variety of beauty-related services at competitive prices which she hopes to expand one day into a chain of beauty parlors. Her loan was used to purchase new merchandise and products for her clientele.

As evidenced by these cases, Kiva-sponsored micro-loans are helping those who need it most: single/divorced women (many with dependent children). Nevertheless, their stories of personal empowerment and the fact that the loans have been repaid does not necessarily prove that micro-lending is successful in Latin America; the contents of Table 6 do.

¹⁰³ Kiva Lender Profile, Accessed June 21, 2010 from the world wide web: <http://www.kiva.org/lend/89303>

Table 6
LOAN PERFORMANCE BY WOMEN BORROWERS IN LATIN AMERICA
(Loans by Industry)

Industry Group	Loan <u>Range*</u> (U.S. \$)	Sample <u>Size**</u>	Being <u>Repaid</u>	Fully <u>Paid</u>	<u>Failed</u>	No Info. <u>Available</u>
Agriculture	\$50 - \$1,200	3,431	1,165	2,257	8	1
Arts	\$50 - \$1,200	1,592	380	1,206	2	4
Clothing	\$75 - \$1,200	3,196	960	2,160	50	26
Construction	\$75 - \$1,200	715	252	455	1	7
Education	\$50 - \$1,200	139	89	47	2	1
Entertainment	\$150 - \$1,075	47	18	29	0	0
Food	\$50 - \$1,200	10,681	2,753	7,736	155	37
Green	\$350 - \$450	2	2	0	0	0
Health	\$125 - \$1,200	262	61	195	6	0
Housing	\$100 - \$1,200	980	606	354	0	20
Manufacturing	\$65 - \$1,200	346	101	236	6	3
Personal Use	\$100 - \$1,200	91	51	40	0	0
Retail	\$1 - \$1,200	12,156	3,394	8,494	185	83
Services	\$50 - \$1,200	3,073	823	2,186	39	25
Transportation	\$100 - \$1,200	505	123	381	0	1
Wholesale	\$150 - \$1,200	75	31	44	0	0
Totals		37,291	10,809	25,820	454	208

*Both Individuals and (Group) Entrepreneurs

**As of 3-19-2010

Source: www.kiva.org

Table 6 demonstrates why women are considered to be a good business risk; of 37,291 loans made through Kiva Field partners, 98.2% have either been repaid in full or are in the process of being repaid. Not surprisingly, most failures have either occurred in the retail and food production/sales sectors. Even when tabulated with loans which are unaccounted (as possible losses) the total failure rate is still under 2%; a remarkable achievement which (only) after 10+ years, is still taking hold in Latin America. It is important to note that high delinquency rates in one country (for example Bolivia and

Nicaragua) should not be used to assume that every country in a certain region will also be as delinquent. It should also not be assumed that an MFI is ineffective because some of their borrowers have a high delinquency rate. These are more exceptions than the rule and should not be used to draw blanket conclusions about the validity and efficiency of micro-financing as a tool for economic development.

It is clear that with their backs to a wall of poverty and subjected to a “macho” culture that offers few possibilities for advancement, women throughout Latin America are taking full advantage of the opportunities offered by micro-lending and then pushing themselves against all odds to succeed in business. While this represents the very essence of what micro-lending aspires to do, it should not be viewed as a panacea, because it certainly has its drawbacks and limitations.

As micro-lending continues to grow, it is important that borrower and lender alike realize that success is neither automatic nor guaranteed by hard work and sacrifice. Furthermore, lenders should be cautious when investing in a borrower; because if the majority of approved loans are all focused on the same business areas, then those particular fields will be over-saturated. This is particularly true in small to medium-size towns and villages where there is only so much room for street vendors or local clothing retailers. At a certain point, supply will overshadow demand and the borrower will either be left behind by the competition; and only an innovation in the product being sold or in the method of sales will allow the borrower to succeed in this type of highly competitive business environment.

It is under these conditions where one of Grameen's cornerstones comes into play: entrepreneurial guidance can make all the difference between success and failure. Oftentimes when a borrower applies for a loan to start a business in a highly competitive field instead of saying "no" to the request, the Grameen officer will either guide the person to a larger group that is already established or channel her energy into a field where (with a sound business plan in hand) there are better chances for success. However, this skill can only be partially developed in an office or classroom setting; most has to come from fieldwork where bank officers track the ups and downs of the businesses that it funds. In other words, a lending institution must do much more than facilitate money; it must stay involved from start to finish.

5.7 Women in Micro-financing on a Global Scale

Thus far, this research has analyzed the evolution of micro-lending from one man's idea about giving to the poor, to a global development concept. It has also documented its impressive growth in numbers from 1 micro-lender in Bangladesh in 1976 to over 1,200 micro-lenders in at least 100 countries of the world in 2008. It has also found evidence that the concept transcends cultural differences, language and logistics as millions of women financially empowered both in Bangladesh and throughout Latin America. However, what has yet to be proven is whether that empowerment extends in the same numbers to all corners of the world. Tables 7, 8 and 9 (in the following pages) were created to address that question and are based on information drawn from the 2008 MIX survey and Tables 1, 2 and 3.

Table 7
WOMEN'S PARTICIPATION IN MICRO-LENDING
(By Country)

	<u>Country</u>	<u>Number Of Active Borrowers</u> (2008)	<u>Percent Of Women Borrowers</u> (2008)	<u>Num. Of Women Borrowers</u> (2008)
1	Afghanistan	334,218	93.6%	312,828
2	Albania	88,606	21.8%	19,316
3	Angola	9,198	62.0%	5,703
4	Argentina	30,269	63.0%	19,069
5	Armenia	252,855	39.4%	99,625
6	Azerbaijan	346,812	23.8%	82,541
7	Bangladesh	21,713,372	91.8%	19,932,875
8	Benin	142,350	60.5%	86,122
10	Bolivia	825,747	60.8%	502,054
11	Bosnia	440,161	51.0%	224,482
12	Brazil	811,297	57.4%	465,684
13	Bulgaria	72,976	37.7%	27,512
14	Burkina Faso	147,019	40.9%	60,131
15	Burundi	16,360	86.7%	14,184
16	Cambodia	1,049,148	75.7%	794,205
17	Cameroon	195,527	37.8%	73,909
18	Central African Rep.	2,756	30.0%	827
19	Chad	18,113	20.4%	3,695
20	Chile	188,302	45.8%	86,242
21	People's Rep.China	45,708	76.7%	35,058
22	Colombia	1,991,130	54.0%	1,075,210
23	Congo Dem. Rep.	66,731	76.2%	50,849
24	Congo Rep.	1,784	69.7%	1,243
25	Costa Rica	19,035	73.1%	13,915
26	Cote d' Ivoire	45,770	7.8%	3,570
27	Dominican Rep.	183,818	67.2%	123,526
28	East Timor	11,692	94.1%	11,002
29	Ecuador	693,255	60.0%	415,953
30	Egypt	868,315	74.6%	647,763
31	El Salvador	199,752	64.0%	127,841
32	Ethiopia	1,889,604	50.2%	948,581
33	Gambia	23,445	93.1%	21,827
34	Georgia	133,136	40.8%	54,319
35	Ghana	364,043	76.5%	278,493

Table 8
WOMEN'S PARTICIPATION IN GLOBAL MICRO-LENDING
(By Country)

	<u>Country</u>	<u>Number Of Active Borrowers</u> (2008)	<u>Percent Of Women Borrowers</u> (2008)	<u>Num. Of Women Borrowers</u> (2008)
36	Guatemala	260,484	57.2%	148,997
37	Guinea	89,672	44.8%	40,173
38	Guinea-Bissau	567	63.8%	362
39	Haiti	145,383	85.0%	123,576
40	Honduras	190,541	69.4%	132,235
41	India	16,271,272	94.4%	15,360,081
42	Indonesia	4,728,662	49.3%	2,331,230
43	Iraq	27,708	14.7%	4,073
44	Jordan	134,037	84.1%	112,725
45	Kazakhstan	61,681	60.7%	37,440
46	Kenya	1,108,872	58.7%	650,908
47	Kosovo	143,955	41.0%	59,022
48	Kyrgyzstan	253,830	66.1%	167,782
49	Laos	4,818	42.0%	2,024
50	Lebanon	57,392	32.7%	18,767
51	Macedonia	50,077	42.2%	21,132
52	Madagascar	57,546	51.1%	29,406
53	Malawi	197,207	60.8%	119,902
54	Malaysia	165,286	100.0%	165,286
55	Mali	246,208	48.9%	120,396
56	Mexico	3,886,716	80.7%	3,136,580
57	Moldova	21,088	44.4%	9,363
58	Mongolia	392,251	54.0%	211,816
59	Montenegro	39,712	42.5%	16,878
60	Morocco	1,241,957	45.7%	567,574
61	Mozambique	71,724	50.1%	35,934
62	Nepal	566,283	99.0%	560,620
63	Nicaragua	489,075	64.3%	314,475
64	Niger	100,658	73.4%	73,883
65	Nigeria	348,750	94.0%	327,825
66	Pakistan	1,120,056	55.9%	626,111
67	Palestine	26,704	54.9%	14,660
68	Panama	11,571	43.4%	5,022

Table 9
WOMEN'S PARTICIPATION IN GLOBAL MICRO-LENDING
(By Country)

	<u>Country</u>	<u>Number Of Active Borrowers</u> (2008)	<u>Percent Of Women Borrowers</u> (2008)	<u>Num. Of Women Borrowers</u> (2008)
69	Papua- N.G.	7,991	n.a.	
70	Paraguay	301,686	45.5%	137,267
71	Peru	2,660,233	50.3%	1,338,097
72	Phillipines	2,333,847	94.0%	2,193,816
73	Poland	16,207	43.0%	6,969
74	Romania	57,078	9.8%	5,594
75	Russia	221,468	50.3%	111,398
76	Rwanda	54,343	81.3%	44,181
77	Samoa	4,162	99.0%	4,120
78	Senegal	218,660	49.6%	108,455
79	Serbia	160,723	55.7%	89,523
80	Sierra Leone	26,363	80.2%	21,143
81	South Africa	722,699	50.2%	362,795
82	Sri Lanka	967,265	56.0%	541,668
83	Sudan	22,283	71.2%	15,865
84	Swaziland	5,772	34.9%	2,014
85	Syria	16,574	27.4%	4,541
86	Tajikistan	135,906	39.9%	54,226
87	Tanzania	270,077	77.1%	208,229
88	Thailand	4,699	92.5%	4,347
89	Togo	87,943	33.4%	29,373
90	Trinidad-Tobago	1,281	n.a.	
91	Tunisia	94,959	76.7%	72,834
92	Turkey	15,369	100.0%	15,369
93	Uganda	323,047	53.8%	173,799
94	Ukraine	73,238	69.8%	51,120
95	Uruguay	670	43.0%	288
96	Uzbekistan	63,289	12.3%	7,785
97	Venezuela	53,577	49.0%	26,253
98	Vietnam	6,994,759	36.5%	2,553,087
99	Yemen	24,976	95.8%	23,927
100	Zambia	16,050	76.0%	12,198
	TOTALS	81,691,241		60,386,697

Source: Microfinance Information Exchange

The number of women borrowers in each country was estimated through a sampling formula similar to the one used to create Table 5. For instance, (MIX) records¹⁰⁴ show that in 2008, 14 of the 15 known micro-lenders in Afghanistan responded to its request for information. Of these BRAC-AFG¹⁰⁵ reported having the highest number of customers with 140,191, a figure which represents 41.9% of all (334,218) customers in the country. In addition, BRAC-AFG also reported that in 2008, 93.6% of its loans were made to women borrowers. That figure was then assumed to represent the lending pattern for all micro-loans made in Afghanistan during that year; this resulted in an estimate that approximately 312,828 micro-loans were made to women borrowers. In other countries where the data was not quite as clear-cut, or where 2 or more lenders might be separated by a few thousand customers, the percent of women participants was calculated by averaging the information provided by the top two.

Applying this formula to all 100 countries included in the 2008 MIX survey (except 8 where no data was available) reveals that over three-quarters (78.7%) of all micro-loans made around the world were made to poor women. This provides conclusive evidence that first and foremost, loans to women represent a sound business investment. Secondly, it also shows that women are being financially empowered by micro-loans in virtually every country in the world. Finally, it also proves that women have propelled and are responsible for the success of micro-lending on a global scale.

¹⁰⁴ Microfinance Information Exchange. Country Data, Afghanistan. Accessed June 26, 2010 from the world wide web: <http://www.mixmarket.org/mfi/country/Afghanistan>

¹⁰⁵ BRAC Afghanistan Bangladesh. Accessed June 26, 2010 from the world wide web: <http://www.bracafg.org>

CHAPTER 6 – PRO MUJER: BEYOND FINANCIAL EMPOWERMENT

The success of micro-financing has proven that it has the ability to reach people in ways that no other social or economic policy created by governments can. Having come to this realization, many micro-financing institutions have turned their efforts beyond borrowing and lending and created community-oriented (i.e.- Poverty-Focused) programs. Grameen Bank for example, decided that it could be more profitable if it separated its core business of micro-lending from its social agenda. After forming service-type organizations such as Grameen Telecom and Grameen Housing, it spun them off without retaining ownership. In doing so, Grameen became a profit-maximizing micro-lender (see Chapter 5) but with one important difference, Grameen profits are paid to its owners – the poor - whereas most of the others pay their profits to investors. Other micro-lenders have followed this example, finding themselves a niche in the delivery of services that go beyond providing business loans. One of these micro-lenders is Pro Mujer, a non-profit organization that lends to poor women in Latin America and promotes specialized services in a unique area, healthcare.

6.1 Background¹⁰⁶

Created in 1990 by Lynne R. Patterson, an American schoolteacher and Carmen Velasco, a Bolivian professor, Pro Mujer's mission statement is to "provide Latin America's poor women with the means to build livelihoods for themselves and futures for their families through microfinance, business training, and healthcare support."

¹⁰⁶ Pro Mujer. About Pro Mujer. Accessed July 2, 2010 from the world wide web: https://promujer.org/index.tpl?NG_View=11

Pro Mujer developed its “sustainable integrated credit and training methodology” in Bolivia in 1990; it expanded to Nicaragua in 1996; Peru in 1999, Mexico in 2001, and Argentina in 2005. While certain core elements define the Pro Mujer Model, its delivery strategy is designed to be adapted to meet each country’s social, cultural, and economic needs.

6.2 Customer Base

Pro Mujer typically focuses on women who lack the skills and education they need to get a job and have access to credit. Pro Mujer engages these women in activities that can help them generate income such as in food processing, retail sales, weaving, arts and crafts, street vending and rendering basic services.

6.3 Borrowing/Repayment Mechanism

Pro Mujer also encourages members to form solidarity groups of up to 30 people, which are then narrowed down to smaller groups of 5-7 individuals. Members meet on a weekly basis in what are referred to as “focal centers”, i.e. local neighborhood centers which provide a location for clients to obtain loans, meet with other members of their group to discuss their businesses and personal lives, and access healthcare and educational training. Members are also encouraged to make payments on their loans during their weekly meetings.

6.4 Innovation: The Pro Mujer “Integrated Services Model”

Pro Mujer offers what is referred to as “integrated services”, a combination of financial, health, and educational services for members. Although the same basic services are offered under every model, Pro Mujer promotes variations because it believes that adapting service models is the best way to meet the needs of clients. “These different approaches in service delivery gives (them) the opportunity to test which of the intervention schemes is more efficient, which has more potential to provide a wider range of services in a permanent and sustainable way and which is having better results in achieving (their) mission and objectives.”¹⁰⁷ Each method of delivery involves different levels of direct service provision, and different cost and cost-recovery structures. Parallel services- refers to different services offered by separate staff of the same organization; Unified services- refers to different services offered by the same staff of one organization; Linked services - refers (different services offered by different organizations that serve the same clients). Each of Pro Mujer’s integrated services are further detailed on the following pages.

¹⁰⁷ “Pro Mujer Special Publication. *Expanding Impact: Innovations in Cost-Effectively Integrating Microfinance with Education in Health*. Accessed July 6, 2010 from the world wide web: https://promujer.org/dynamic/our_publications_3_Pdf_EN_Velasco.pdf

6.4.1 Financial Services

Pro Mujer provides loans¹⁰⁸ for its members in amounts ranging from US\$50.00 to US\$1,500.00 with repayment terms ranging from 4 to 6 months. Loans are given for both short and long terms credit needs to pay for food, shelter, clothing, education, and healthcare. Similar to Grameen Bank's "Group Method" loans are disbursed to members who belong to communal banks¹⁰⁹. The loans are guaranteed by the other group members in case of late payment or default; the defaulting member then repays the group as soon as possible. Pro Mujer also teaches its members how to save the money they earn; in fact, saving is not optional since 20% of a member's loans are held in reserve to cover possible emergencies such as illness or natural disasters that might arise in the future.

6.4.2 Business Development Training

From the first day that a woman becomes a member of Pro Mujer, she is taught the fundamentals of running her own small business¹¹⁰, through a hands-on approach. Before the first loan is even granted, the women are taught how to create a simple business plan "a tool to help them make the best use of credit."¹¹¹ When they start to make weekly payments on their loans, Pro Mujer takes the time to conduct workshops that teach members business skills such as setting the price of goods to be sold, how to

¹⁰⁸ Pro Mujer. Integrated Financial Services. Accessed July 6, 2010 from the world wide web:

https://promujer.org/index.tpl?&ng_view=37

¹⁰⁹ Defined by Pro Mujer as "borrowing entities composed of 18 to 20 women with common objectives.

¹¹⁰ Pro Mujer. Business Development Training. Accessed July 7, 2010 from the world wide web:

https://promujer.org/index.tpl?&ng_view=38

¹¹¹ *Ibid* 107

monitor their income/expenses, and how to assess and navigate through competition. This training continues throughout the life of member's loans, allowing them to gain confidence in themselves and in their ability to run a business. They are also able to draw support and valuable advice from the other members of their communal banks. "Pro Mujer's business training is all about helping women to believe in themselves and reach their full potential as entrepreneurs."¹¹²

6.4.3 Health Care Support & Training

"Women generally approach microfinance institution(s) because of the prospect of getting a loan for their business. MFIs with social mission(s) perceive this as an opportunity to offer them access to services that will promote their development, assuring a further impact of the financial service."¹¹³ Pro Mujer believes that health is a right and not a luxury because borrowers in the micro-financing system depend on good health to sustain their livelihood and responsibilities. And although many countries around the world have public healthcare run by local governments, the poor do not have the same access to these healthcare systems that the rich have. "Theoretically, government health care is universal, but the reality is quite different. The government spends enormous sums in the health sector, but services hardly ever reach the people,

¹¹² *Ibid* 107

¹¹³ Pro Mujer Special Publication. "Expanding Impact: Innovations in Cost-Effectively Integrating Microfinance with Education in Health". Accessed July 3, 2010 from the world wide web: https://promujer.org/dynamic/our_publications_3_Pdf_EN_Velasco.pdf

particularly poor people.”¹¹⁴ For this reason, Pro Mujer has placed healthcare front and center of its social agenda.

At this time it offers three service packages; in Bolivia and Nicaragua which were its first two operations, Pro Mujer offers healthcare through full-service clinics; in Perú they are offered through a medical office setting and; in Mexico and Argentina, they are provided through a network referral system. Initially, having its own clinics and hiring its own medical personnel was thought to be an effective way of controlling quality and expenses but eventually, Pro Mujer found it necessary to change its delivery system. One important reason was because full-fledged clinics require large amounts of capital for startup. Another was that since the clinics were not self-sustaining, their budgets had to be balanced through donations which might otherwise be used for micro-lending. For these and other reasons, when it expanded into Perú in 2000, Pro Mujer hired medical personnel, but had them work out of offices set up for diagnostic care in its neighborhood centers. In 2002 and 2005 when it again expanded into Mexico and Argentina respectively, it installed a network-referral model in which it partners with local clinics and health care providers that offer their services to Pro Mujer customers at (negotiated) below-market rates. Table 10 shows the scope of health services which are Pro Mujer under its plans.

¹¹⁴ *Ibid* 16, p. 96

Table 10
HEALTH SERVICES OFFERED BY PRO MUJER

Country Date Established	<u>THROUGH PRO MUJER</u>			<u>THROUGH REFERRALS</u>	
	<u>Bolivia</u> (1989)	<u>Nicaragua</u> (1996)	<u>Peru</u> (2000)	<u>Argentina</u> (2005)	<u>Mexico</u> (2002)
Basic Services					
Gynecology	Yes	Yes	Yes	Yes	Yes
Pre/Post Natal Care	Yes	Yes	Yes	Yes	Yes
Primary Physician Care	Yes	Yes	Yes	Yes	Yes
Follow-Up Care (Illness/Lab Results)	Yes	Yes	Yes	Yes	Yes
Family Planning	Yes	Yes	Yes	Yes	Yes
Preventive Health Care	Yes	Yes	Yes	Yes	Yes
Dental Care		No	Yes	Yes	Yes
Health-Related Personnel					
Doctors on Staff	12	10	5	No	No
Nurses on Staff	42	9	30	No	No
Nurse Assistants	12	0	0	No	No
Health-Care Payments					
Flat-Rate as Part of Loan Repayment	Yes	No	No		
Discounted Fees for Clients		No	Yes	Yes	Yes
Through Health Insurance Plans		Yes	Yes		

Source: Healthy Women: Healthy Business Junkin/Berry/Perez

As evident in Table 10, Pro Mujer’s focus on health care is thorough. Typical services include PAP smears, breast examinations, STD screenings, hypertension and diabetes screenings, dementia testing for older women, pre-and-post natal care for pregnant women and physician-directed lab tests. In the past, clients paid for these services through loan repayment but in 2010, Pro Mujer began an experimental program in Perú with a Peruvian healthcare company to develop a pre-paid package of health services for clients and their families. For an estimated \$24.00 a year, clients and their families receive services which include primary care, women’s health, family

planning, laboratory tests and others. The same plan is now being transitioned to Bolivia and Nicaragua and if successful as all indications point to, it will be adapted for use in Argentina and Mexico in the near future.

Pro Mujer also delivers health services in other ways. Because many of Pro Mujer clients live in hard-to-reach rural areas, it has them attend monthly health care fairs which coincide with regularly-scheduled repayment dates. These fairs are held at (centrally-located) neighborhood centers which are converted for use by physicians, dentists and other specialists that are brought in to provide preventive care examinations. Alternately, Pro Mujer will also contract medical personnel to staff mobile clinics that travel to the most outlying areas. One common-thread feature of Pro Mujer healthcare services is what might be called its “follow-through” mission. For instance, if a woman tests positive following a pap smear, Pro Mujer personnel will follow through with: 1) immediate confirmation via examination and/or additional testing, 2) arrange for treatment to begin and continue until she has been diagnosed as cured or, 3) ascertain that she receives the type of care which maintains her quality of life until death occurs.

While precise numbers have not been coordinated until recently, in 2009 Pro Mujer provided preventative training to over 200,000 women; 25,893 received pap smears; 12,364 cases of STD were detected; 48,895 pediatric consultations occurred and, 123,766 total medical consultations were made at Pro Mujer clinics and its referral

programs¹¹⁵. In Nicaragua, 686 women out of 9,000 which have had a PAP examination were found to have pre-malignant tumors that were subsequently treated.¹¹⁶

6.4.4 Empowerment Training

In addition to the development of entrepreneurial skills through micro-lending and healthcare empowerment, “Pro Mujer encourages women to develop their full potential, claim their basic human rights, and access services and resources in their communities.”¹¹⁷ The greatest tool that Pro Mujer has to empower women is through education. “If current borrowers can educate their families and make their children better prepared to compete in the future, there will be a sustainable improvement for multiple generations.”¹¹⁸ Through workshops at payment centers, members are able to learn communication skills, women’s rights and in general, raise their awareness and self-esteem. In Bolivia for instance, Pro Mujer operates four computer centers in two locations where clients and teenagers learn computer skills and young children learn basic skills – reading, writing and math; English lessons are also available. One area in particular where Pro Mujer has intensified its empowerment efforts is domestic violence. Because this issue is faced by many of its clients, Pro Mujer has developed training seminars that focus specifically on helping clients to identify different types of violence, to recognize cycles of violence and to understand why so many women are unable to

¹¹⁵ Pro Mujer Special Publication. Model for Integrated Service Delivery. Accessed July 8, 2010 from the world wide web: https://promujer.org/dynamic/our_publications_7_Pdf_EN_WAM%20Pro%20Mujer%20Presentation.pdf

¹¹⁶ Pro Mujer. Health Care Support & Training. Accessed July 8, 2010 from the world wide web: https://promujer.org/index.tpl?NG_View=39

¹¹⁷ Pro Mujer. Empowerment Training. Accessed July 8, 2010 from the world wide web: https://promujer.org/index.tpl?ng_view=40

¹¹⁸ *Ibid* 28, p. 236

escape violent environments. Women suffering the effects of domestic violence are oftentimes referred to organizations that provide psychological treatment, legal counsel and when needed, temporary shelter.

6.5 Performance

As a non-profit micro-lender with an all-important social agenda, Pro Mujer's should be likened to a business which stresses quality over quantity and as such, is in the minority of all micro-lenders serving Latin America. For this reason, it is pointless to compare Pro Mujer's financial performance to those of micro-lenders like banks who invest millions upon millions of dollars of investor funds for the sole purpose of generating profits. Instead, the focus should be placed on Pro Mujer's accomplishments over time and in the different countries in which it operates. Table 6 (on the following page) documents Pro Mujer's record of financial success over a 10 year period (2000 to 2009) in Bolivia, Nicaragua, Perú, Mexico and Argentina.

Overall, Pro Mujer shows a relatively steady pattern of growth in all 5 countries, but not without some "speed bumps" along the way. For one, the global recession of 2007 created a domino-like effect on Pro Mujer and other donor-dependent micro-lenders. As many key donors began to cut back on the size of their pledges, Pro Mujer had no choice but to adjust its funding commitments for 2008 and 2009, something which primarily affected their least-established operations: Argentina and Mexico. In both countries many clients were forced to use their savings to continue the cycle of borrowing on which their businesses depend or in other cases, to meet their repayment obligations.

Pro Mujer also experienced “political roadblocks” in Bolivia and Nicaragua where leftist governments encouraged their populations to default on their obligations to “usurious lenders”, withdraw any savings they might have and instead, borrow from state-financed investment funds. Though Pro Mujer clearly does not fall into this category, some of its clients were unable to make the distinction... In Mexico, the wave of criminal activity that has affected the country for several years has also impacted the businesses of many Pro Mujer clients. In contrast to these problems, Pro Mujer and most other micro-lenders operating in Perú have benefited from the creation of investor-friendly programs based on tax incentives, guarantees and fast-track approvals that were designed to create an attractive business environment for firms that continue to exit neighboring Bolivia and Ecuador as their socialist presidents try to mirror the behavior of Venezuela’s Hugo Chávez.

Table 11
MICRO-LENDING ACTIVITY BY PRO MUJER
(By Year)

<u>Country</u>	<u>2000</u> (U.S \$)	<u>2001</u> (U.S \$)	<u>2002</u> (U.S \$)	<u>2003</u> (U.S \$)	<u>2004</u> (U.S \$)	<u>2005</u> (U.S \$)	<u>2006</u> (U.S \$)	<u>2007</u> (U.S \$)	<u>2008</u> (U.S \$)	<u>2009</u> (U.S \$)
ARGENTINA										
Clients*	0	0	0	0	0	520	4,598	5,758	7,534	9,446
Banks**	0	0	0	0	0	20	185	247	363	486
Gross Loans	0	0	0	0	0	\$52,000	\$411,288	\$669,000	\$1,043,000	\$1,606,000
Savings	0	0	0	0	0	\$4,000	\$139,733	\$325,000	\$502,000	\$137,000
BOLIVIA										
Clients*	29,777	35,808	41,609	49,750	63,547	82,737	81,517	99,561	103,230	80,618
Banks**	1,204	1,516	1,778	2,095	2,704	3,617	4,241	5,425	5,779	5,751
Gross Loans	\$3,458,193	\$3,841,470	\$4,524,725	\$5,586,663	\$7,150,438	\$11,156,000	\$13,561,700	\$21,403,000	\$28,012,000	\$28,034,000
Savings	\$1,373,942	\$1,814,523	\$2,812,121	\$3,575,826	\$3,992,745	\$4,515,000	\$5,035,512	\$7,555,000	\$10,486,000	\$8,652,000
MEXICO										
Clients*	0	0	2,567	6,596	11,872	15,733	18,008	19,917	26,113	24,141
Banks**			93	252	489	603	825	1,054	1,321	1,609
Gross Loans	0	0	\$231,141	\$574,021	\$1,248,814	\$2,750,000	\$4,046,276	\$5,071,000	\$3,995,000	\$5,946,000
Savings	0	0	\$47,376	\$205,902	\$561,740	\$746,000	\$1,416,131	\$2,161,000	\$1,881,000	\$466,000
NICARAGUA										
Clients*	9,814	10,516	15,731	15,825	17,413	14,830	19,641	25,388	31,064	27,136
Banks**	331	474	407	515	610	618	908	1,458	1,826	1,942
Gross Loans	\$426,454	\$629,385	\$1,006,674	\$1,424,437	\$1,920,648	\$2,543,000	\$3,275,758	\$3,948,000	\$5,109,000	\$3,661,000
Savings	\$221,674	\$333,028	\$533,438	\$668,462	\$777,756	\$980,000	\$1,360,332	\$1,345,000	\$1,603,000	\$1,334,000

Table 11
MICRO-LENDING ACTIVITY BY PRO MUJER
(By Year)

<u>Country</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
	(U.S \$)									

PERU

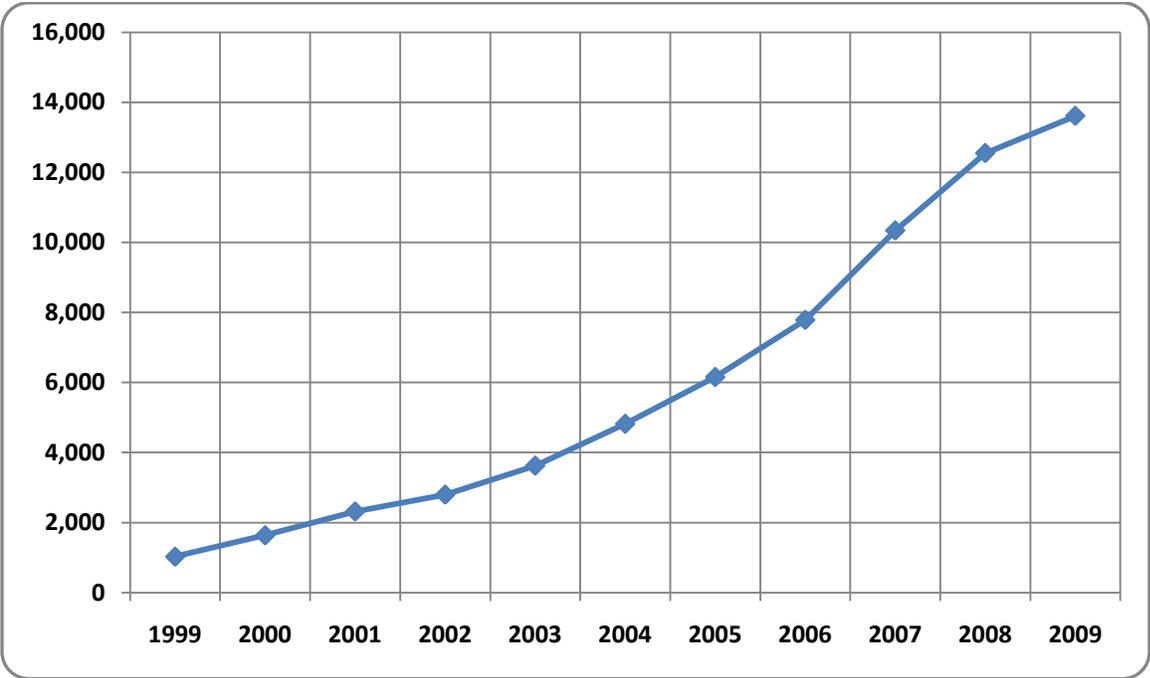
Banks**	104	328	521	764	1,017	1,298	1,626	2,154	3,258	3,822
Gross Loans	\$158,908	\$685,161	\$1,313,289	\$2,049,802	\$2,708,599	\$3,416,000	\$5,597,626	\$8,478,000	\$12,964,000	\$13,395,000
Savings	\$49,734	\$349,121	\$629,625	\$873,960	\$1,221,343	\$1,544,000	\$2,039,856	\$2,750,000	\$3,748,000	\$4,672,000

*Communal Banks are groups composed of 18 to 28 women who pursue common objectives

** Includes both borrowers and savings account depositors

Source: Pro Mujer Annual Reports 2003, 2004, 2005, 2006, 2007 and 2008

While Table 11 certainly suggests that Pro Mujer has been successful over the long-term, there is one statistic in particular which should provide a definite indication of whether its Integrated Services model enjoys widespread appeal. The growth of communal banks is not only the financial lifeblood of Pro Mujer, it also represents the creation of new business enterprises where each member not only accepts the terms of the loans but also, the “holistic approach” which Pro Mujer embraces. Figure 6 provides an immediate answer to that question.



Source: Table 7

*Defined by Pro Mujer as Borrowing Entities Composed of 18 - 20 women with common objectives

Figure 9
Historical Growth in Number of Pro Mujer Communal Banks
(Thousands)

To be sure, Pro Mujer is not “the best” micro-lender in Latin America, it is also not the largest, the most profitable or for that matter, unique in purpose. However, what Pro Mujer’s track record does prove is that: financial gain is just the beginning of what micro-lending can do to empower poor women; that profits and a social agenda are not incompatible when a lender commits to an ethical plan of action and; that just as lives are saved every day through healthcare, there are hundreds of niches where micro-lenders can help to reduce human suffering.

CHAPTER 7- SUMMARY & CONCLUSION

In 1492, Christopher Columbus sailed from Spain toward an uncertain destiny aboard a ship named the *Santa María*; he went on to find a New World and later helped to colonize it. Obviously, this feat could not have been realized had his ship not been very sturdy or it would have met the same fate as his two other ships and Columbus would have been thought to have fallen off the edge of the world. What then is most responsible for the historic discovery, the resolute sailor or the well-built ship?

The primary objective of this thesis has been to undertake research aimed at proving whether micro-lending, as claimed by many, is empowering women in the developing nations of the world. This is not to question the concept of micro-lending itself or the ideals which led to its creation. In 1976, this revolutionary idea of lending to the poor was transformed into Grameen Bank which through trial-and error, modified it into the “Grameen Model”, the foundation for all other forms of micro-lending. Thirty-two years later, the concept is being practiced by well over 1,000 lenders which operate in over 100 countries and currently empower (financially and socially) somewhere between 80 and 100 million individuals. The question is whether it is indeed as useful a tool for economic development and the empowerment of women as its proponents deem it to be. The following a summary of the hypothesis presented for research as well as the findings for each:

Hypothesis 1: Micro-financing can be utilized as a method of diminishing the impact of poverty in developing countries.

This thesis has proven that it has the power to alleviate the impact of poverty in developing countries. It does so however, with the caveat that micro-lending is not a cure-all for world poverty. While there are undoubtedly many cases where an individual or a group has started as micro-borrowers and gone on to become highly successful entrepreneurs, that is largely the exception rather than the rule. Success is a matter of perception that varies from case to case; a former beggar who now operates a fast-food stand might say that his life was “transformed”, while a tailor might claim that he lives from loan to loan with no end in sight. Anita Edward, a Nigerian beauty parlor owner probably best describes the impact of typical micro-loans on the lives of the poor¹¹⁹ this way: “it has improved my life but not changed it”. On balance, the benefits of micro-lending are best measured by the degree in which it improves the quality of life of those who use it, because what may seem like a small stepping stone to one person may be a life-altering opportunity to another.

One way in which this hypothesis could be better addressed is to assess how borrowers, both male and female, have been impacted by their experiences with micro-financing. By taking a sample from a larger population of group members and following their progress at the economic level for a set period of time (preferably several years in order to collect sufficient data for analysis), (i.e.- have they built a home, are they able to put their children in school, do they have access to healthcare), one could determine

¹¹⁹ http://www.nytimes.com/2010/04/14/world/14microfinance.html?pagewanted=3&_r=1

whether or not the borrower has benefitted financially from micro-lending. Due to lack of resources at the current time (the ability to personally interview individuals) this method is merely a suggestion for future research.

Hypothesis 2: Micro-financing can be used as a tool to empower women both financially and socially, giving them opportunity in place of oppression.

Muhamud Yunus created an idea not unlike the parable of the mustard seed. Micro-lending proves that even a small amount of money when lent to the poor, creates a type of empowerment that can lead to positive change. Many social evaluations use the Gender Empowerment Measure (GEM)¹²⁰ to determine how much an individual or group has been empowered. GEM “measures gender equality in economic and political participation and decision making” that is to say, how many positions a group holds in positions of social or political power. This measure however, cannot be applied to micro-financing and this thesis instead suggests an alternate and more simple approach to measuring empowerment among a population. The measure of empowerment is not that women not that they have become social leaders, are members of a political institution or that they now have the means to buy material items. Instead, empowerment is measured by the fact that through micro-financing, female borrowers are able (many of them for the first time in their lives) to borrow and repay loans which they use to facilitate a social business and earn an income for themselves and their families. This in

¹²⁰ United Nations Development Programme. The Human Development Indices. (2004). Human Development Report Office. Retrieved from: <http://hdr.undp.org>

itself is an achievement which many individuals, let alone impoverished women are unable to accomplish by themselves.

As previously mentioned, micro-financing also has a social mission at the heart of its agenda. Therefore, a social measure of empowerment could also be taken in a future analysis of this particular topic. Because this is a subjective measure however, this could be achieved by interviewing borrowers directly and asking how they feel their lives have changed (or perhaps not changed at all) after becoming active members in a particular micro-finance institution.

Hypothesis 3: Women are the key element that has made micro-financing successful; their participation is pivotal to the alleviation of poverty in developing nations.

Much has been said about the virtues of micro-lending and in particular, about its empowerment of women. Research for this thesis confirms that on average nearly 75% of all micro-loans around the world are being made to women. However, many persons mistakenly see this as proof of altruism on the part of lenders without realizing what Muhammad Yunus found soon after founding Grameen Bank: “though they cannot read or write and have rarely been allowed to step out of their homes alone, poor women see further and are willing to work harder to lift themselves and their families out of poverty.”¹²¹. It should be noted that he did not say “work hard” but “harder”, an implicit contrast to men. He goes on to say “the more money we lent to poor women, the more (we) realized that credit given to a woman brings about change faster than when given

¹²¹ *Ibid* 28, p. 72.

to a man”¹²² and ends by crediting women for repaying their loans in a timely manner. Through these observations, Muhammad Yunus was (inadvertently) referring to character traits which are embedded in the DNA of women as deeply as maternal instincts. Stated another way, women are instinctively hard working, responsible, devoted to their families and an all-around better business risk than men because it is in their nature. This “discovery” led Grameen Bank and (eventually) most other micro-lenders throughout the world to begin pursuing women because they make highly desirable borrowers. It is also the reason why Grameen has a 96.8% repayment rate in 30+ years of doing business and why Kiva shows a failure rate below 2% in Latin America.

This thesis, although not comprehensive in determining the full social and economic effect of micro-financing institutions, can be utilized as an assessment of micro-financing as a whole. One conclusion reached by this analysis is that micro-financing’s success is self-evident. After starting with one branch and a few members in the small village of Jobra, thousands of micro-lenders are currently active on almost every continent, with the total number of people being affected (members and their families) reaching into the billions.

7.1 Where do We Go From Here?

The study of micro-financing has only just begun. Institutions such as Grameen Bank, Kiva, and Pro Mujer and the Microfinance Exchange are fairly comprehensive in

¹²² *Ibid* 28, p. 72

their data and analysis. There are however, several areas where gaps exist that prevent micro-financing from being adequately analyzed and understood, and a number of ways in which academics could further, improve, and better focus their research.

Firstly, as discussed throughout this research, many critics of micro-financing prefer to group all MFIs into one category and claim that their lending practices are exploitative and that they exist solely to create profits for themselves. The reality however, is that there are two categories, Poverty-Focused Microcredit Programs and Profit-Maximizing Programs. Any evaluation of an MFI that is focused on poverty alleviation will therefore be tainted by the problems presented by profit-maximizing programs. An appropriate resolution of this issue then, would be for academics and the news media to acknowledge that though micro-financing institutions are founded on the same principles, their goals, lending practices, service delivery methods, and most importantly their motivations, can all differ. And those that are based solely on profit maximizing should be analyzed and critiqued by different standards than the ones whose primary goal it is to break their members from the cycle of poverty.

A second drawback of current micro-financing research is that most proponents of micro-financing agree with the idea that part of the reason why women make a good investment risk because they spend their loans on their families while men typically spend their loans on themselves. but the evidence used to support them is not always present in the form of statistical data. Instead of showing exactly how women spend their loans versus men, they make blanket statements about their observations. What

needs to be done, is to not just observe, but to write down how every borrower-both men and women- spends their money. This way, an MFI isn't just focusing on lending to an individual simply because they are a woman. It may turn out that men are more responsible than women in certain communities, and should therefore be allowed to take out a loan. Micro-financing promotes women as the "best" type of borrowers because of their spending habits, but admittedly, not all women are equally responsible, and not all men are equally irresponsible. These may be exceptions to the general rule, but other individuals still deserve the chance to prove themselves. Part of micro-finance's goals after all, is gender equality.

A third suggestion for future research is to discuss the idea of becoming "poverty free". Every supporter of micro-financing discusses the fact that borrowers are able to free themselves from the grips of poverty. It is important to remember however, that this too is a subjective idea. A borrower that takes out their first loan may consider that being able to feed their family for a week means that have freed themselves from poverty, while for another borrower, being "free" means being able to put a roof over their head. Furthermore, the question of 'when is someone free from poverty?' has not been clearly addressed. Some individuals may borrow and repay, and earn an income and eventually fall into delinquency, lose the ability to work or endure some other hardship that prevents them from being financially stable. So the question then becomes, "have these people truly broken free of the cycle of poverty?" Although the indicators in Chapter 3 of this thesis are a good starting place to begin an analysis of whether a borrow is financially and socially "free of poverty", these same indicators are

not applied through every MFI. Therefore, in order to better make such determinations, every micro-lender should have their own set of standards and indicators that will allow them to determine whether their members have truly become “poverty free”.

To conclude, there are more benefits than disadvantages in the world of micro-financing. It does provide its members, and women in particular, with opportunities that they would not otherwise have. The opportunity to take out a loan, the ability to use that loan to provide shelter, food, and in some cases even healthcare and access to an education. They can also begin their own small business so they can continue to earn an income, and eventually become financially stable. In this way, micro-financing is not only empowering, it also aids in alleviating the pressures that come with living a life of poverty. The changes that occur may not make a poor person rich, but they are now able to provide for themselves and their families, and this is better than being unable to do either. So in conclusion, micro-financing is not a cure-all for poverty, and there is much yet to be understood about its growth as a tool for financial development. There are also problems with current evaluations of micro-financing and many gaps that in research that if rectified, could lead to a better evaluation and greater acceptance of MFIs on a global scale.

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