



## Using microcredit to advance women

*This year's floods have endangered the substantial achievements of Bangladesh's microcredit programs. Recent studies nevertheless bring out many important lessons from such programs. Bangladesh shows that microcredit programs can raise living standards and alleviate poverty—particularly for women and their households.*

Providing the poor with financial services increases their income and productivity, thereby reducing poverty. But in many countries traditional financial institutions—which require physical collateral worth three to four times the amount of their loans—have failed to reach the poor. Microcredit programs have been developed to fill this gap. Many of these programs use social mechanisms, such as group-based lending, to reach the poor and other groups, especially women, who lack access to traditional financial institutions. With increasing assistance from the World Bank and other donors, microfinance is emerging as a powerful tool for reducing poverty and improving access to financial services in low-income countries.

Although both men and women benefit from financial services, women generally have less access to such services. This is partly due to women's limited social and economic mobility and their lack of physical collateral. Women in developing countries are at a particular disadvantage because of poverty. With their program design and focus on the poor and women, microcredit programs have helped women and the poor become self-employed and increase their income. When wage employment is unavailable or difficult for women to access, credit can finance income-generating activities that help women become self-employed. Credit also smoothes consumption fluctuations due to seasonality in income and employment. More

important, it increases women's options for optimizing the use of available resources, including time, across activities.

This note analyzes the outreach and impact on the poor (defined as members of households owning less than half an acre of land) and women of three well-known microcredit programs in Bangladesh: the Grameen Bank, Bangladesh Rural Advancement Committee (BRAC), and Bangladesh Rural Development Board's Rural Development Project 12 (RD-12). The findings are drawn from an in-depth analysis of household and community survey data collected in 1991–92 by the World Bank and the Bangladesh Institute of Development Studies.

### Bangladesh's programs

Bangladesh is a leader among low-income countries offering microcredit. Using a group-based approach, the country's small-scale microcredit programs provide more credit in rural areas than do traditional financial institutions. The Grameen Bank, founded as a project in 1976 and transformed into a bank in 1983, is the best-known microcredit program. The bank believes that the most pressing need of the poor is credit, which they can use to create and expand self-employment opportunities. Its group-based lending scheme has several attractive features:

- The assetless poor find it easier to access institutional credit through groups and to work with groups that they select.

Credit increases women's options for optimizing the use of available resources

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- Loan contracts are enforced through group pressure and monitoring; as a result loan defaults are low.
- Working across communities and groups pools resources and diversifies risk.
- Savings mobilization is an integral part of group-based lending.

The group-based lending approach has guided more than 750 nongovernmental organizations (NGOs) operating small-scale microcredit programs in Bangladesh. Two large microcredit programs (BRAC and RD-12) also rely on group-based lending. BRAC is an NGO established in 1972, while RD-12 is a public program formed in 1988. BRAC believes that the poor primarily need to develop skills and secure other organizational inputs before receiving credit. RD-12 uses a two-tier cooperative structure based on the credit delivery model of the Grameen Bank, though it also emphasizes skill-based training for the poor. Despite their differences, all three organizations have learned from one another.

**Microcredit outreach**

The advent of microfinance institutions has been a blessing for Bangladesh's poor—especially women. Although credit is available from informal lenders, the poor find it difficult to generate significant income from such loans because interest rates are high. Moreover, group-based lending provides economic security to the poor, who otherwise have to depend on local patron-client relationships for jobs. By forming an alliance with a local faction, the poor often get secure employment in exchange for their

support in local elections and community affairs. But such dependence is coercive and difficult to break.

Group-based lending provides an alternative. Microcredit programs mobilize the poor into groups and provide them with consciousness training, offering them a way to realize their potential. In addition, group monitoring helps ensure that loans are repaid.

The group mechanism has an added advantage for women in Bangladesh. For social and other reasons, women find it difficult to be active in the local labor market. Full-time involvement in nonmarket household production discourages women from seeking wage employment outside the home. In addition, women are less able than men to influence the allocation of household resources, including their own time. Group-based credit schemes enable poor rural women to be self-employed at home without forgoing their nonmarket household production. Groups also provide a forum for women to interact and to develop bonds that provide economic security outside traditional household settings.

Thus microcredit programs are more attractive to poor women than to poor men. The programs have learned that women are better credit risks than men. Moreover, reaching out to more women than men promotes social development and gender equality. As a result Bangladesh's microcredit programs target women, and membership among women is high in all three programs

By 1994 the Grameen Bank had more than 2 million members—94 percent of them women (table 1). Nearly 88 percent of BRAC's members were women, as were 70 percent of RD-12's members. Women accounted for an overwhelming majority of active borrowers and received more than 80 percent of annual disbursements in all three programs. Most impressive, women's loan repayment rates were well above 90 percent.

**Benefits for women and men**

Identifying a program's benefits requires a participant-level impact analysis that measures effects on individual and household

**Table 1 Female participation in the Grameen Bank, BRAC, and RD-12, 1994**

<i>Indicator</i>	<i>Grameen Bank</i>	<i>BRAC</i>	<i>RD-12</i>
Total members (thousands)	2,015.1	1,036.3	452.0
Women members (% of total)	93.9	87.7	69.7
Total borrowers (thousands)	1,860.7	739.6	316.0
Women borrowers (% of total)	94.2	71.6	77.1
Total annual disbursement (millions of taka)	15,395.3	2,210.0	706.5
Disbursement to women (% of total)	91.9	87.0	83.8
Women's loan recovery rate (%)	99.4	98.0	95.7

Source: Khandker 1998.

welfare, such as per capita consumption, assets, schooling of children, and so on. While studying these effects is important for determining whether a program helps reduce poverty, for several reasons quantifying the effects of each program is problematic, especially when conditions make it impossible to conduct an experiment where researchers decide who receives credit and who does not.

First, programs set their objectives at the start, and hence are not randomly placed. Thus, without controlling for program placement endogeneity, it is difficult to determine a program's effects. Second, participation in a program is self-selective, so comparing outcomes between participants and nonparticipants does not indicate any impact. Finally, when both men and women are allowed to participate, households self-select whether a man or a woman joins the program. Without knowing this, it is difficult to know whether women or men benefit from a program, or whether the gender of a participant matters.

Such problems are endemic to any program evaluation using cross-sectional data. The study in Bangladesh resolved these issues using a quasi-experimental survey design. Households were chosen at random from both program and control villages, from both target and nontarget groups, and from villages with only men's groups and only women's groups. The main findings of the research are striking: in many cases the impact of credit given to women was found to be much greater than the impact of credit given to men.

The household and intrahousehold effects of male and female borrowing under the three programs are shown in table 2. The most important effect of borrowing from a microcredit program is its impact on household spending per capita. In all three programs a 10 percent increase in women's borrowing increased household spending per capita by about 0.40 percent.

The impact on household consumption of borrowing by women was about twice as great as for borrowing by men. Women's borrowing also seems to improve children's welfare much more than men's borrowing. Except for BRAC's impact on girls' school enrollment, women's borrowing improved boys' and girls' enrollments more than men's borrowing. And in contrast to men's credit, women's credit had a large and statistically significant impact on the nutritional well-being of boys and girls. Borrowing from a microcredit program also increases household net worth. However, the impact of borrowing on household net worth is higher for credit to men than for credit to women. That is, men invest more than women in physical capital.

Microcredit also influences household reproductive behavior. Credit to women increases fertility (except under the Grameen Bank program) and reduces contraceptive use. In contrast, credit to men reduces fertility (except under the BRAC program) and increases contraceptive use. This finding suggests that borrowing may encourage female borrowers to have more children, since women's self-employment

In many cases credit given to women has a greater impact than credit given to men

**Table 2 Impacts of microcredit borrowing on household outcomes**

(percentage change for a 10 percent increase in borrowing)

Household indicator	Grameen Bank		BRAC		RD-12	
	Male borrowing	Female borrowing	Male borrowing	Female borrowing	Male borrowing	Female borrowing
Per capita spending	0.18	0.43	0.19	0.39	0.23	0.40
Net worth	0.15	0.14	0.20	0.09	0.22	0.02
Boys' school enrollment	0.07	0.61	-0.08	-0.03	0.29	0.79
Girls' school enrollment	0.30	0.47	0.24	0.12	0.07	0.23
Boys' height for age	-2.98	14.19	-2.98	14.19	-2.98	14.19
Girls' height for age	-4.92	11.63	-4.92	11.63	-4.92	11.63
Recent fertility	-0.74	-0.35	0.54	0.79	-0.74	0.50
Contraceptive use	4.25	-0.91	0.40	-0.74	0.84	-1.16

Source: Khandker 1998.

Microfinance should not be considered a panacea for reducing poverty or reaching poor women

and nonmarket household production may be jointly produced. Still, family planning programs should not be targeted exclusively to women; men also need to be targeted for effective population control.

Finally, microcredit smoothes household consumption and labor supply. Households that experience more seasonality in consumption are more likely to participate in these programs, indicating that the programs are well-targeted. Interestingly, consumption smoothing is higher for women's credit than for men's. On the other hand, women's access to microcredit seems to reduce men's heavy workload in the peak season.

While the household impact of women's borrowing is important, it is equally important to explore how women benefit from their participation in microcredit programs. Women benefit from microcredit programs through the cash income generated by self-employment and the assets they acquire in the process. A 10 percent increase in credit to women increases their participation in the labor force by 1.0 percent for the Grameen Bank, 0.7 percent for BRAC, and 0.8 percent for RD-12 (table 3). The greatest impact, however, is on women's nonland assets, which—with a 10 percent increase in borrowing—increases by 2.0 percent for the Grameen Bank, 1.2 percent for BRAC, and 2.2 percent for RD-12. In contrast, credit to men does not have

any significant impact on women's labor supply or women's holding of nonland assets.

### Conclusion

An increase in assets and the generation of cash income may empower women within the household, increasing consumption for them and their children and contributing to other measures of welfare (such as schooling). One measure of this increased empowerment is the fact that women's borrowing has an independent effect on the allocation of household resources, with men investing more in physical capital and women investing more in human capital.

These results represent only the short-run effects of microcredit programs. Whether these effects are sustainable over time remains to be seen. But even if they are sustainable, microfinance should not be considered a panacea for reducing poverty or reaching poor women. Only people who have the ability to be self-employed can borrow, and only about 40 percent of the eligible poor households in Bangladesh participate in microcredit programs. Entrepreneurial ability is unevenly apportioned among any population—including women and poor people. Other programs, such as wage employment schemes, are required for those who cannot make productive use of microcredit.

### Further reading

Khandker, Shahidur R. 1998. *Fighting Poverty with Microcredit: Experience in Bangladesh*. New York: Oxford University Press for the World Bank..

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**Table 3 Impacts of women's borrowing on women**

(percentage change for a 10 percent increase in borrowing)

Indicator	Grameen Bank	BRAC	RD-12
Women's labor hours	1.04	0.72	0.77
Women's nonland assets	1.99	1.15	2.17

Source: Khandker 1998.



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