The Role of Microfinance to Empower Women: The Case of Developing Countries

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ABSTRACT

This article reviews, discusses and provides a critical analysis relating to the role of microfinance on issues linking to poverty, gender equality, and women empowerment with particular emphasis on developing economies. In addition, this article provides an overview of the opportunities and criticisms of microfinance which examines the contemporary issues on poverty reduction, entrepreneurial development and the family wellbeing. The article adds to the limited research examining the role of microfinance to empower women in developing countries.

KEYWORDS

Africa, Business, Developing Countries, Empowering Women, Microfinance

1. INTRODUCTION

Microfinance is the provision of non-collateral financial services to the poor or those in low-income households who are unable to offer assets as security (Azevedo, 2007). The poor, defined as those living on income below their countries poverty line, often fail to access formal financial services (Banerjee and Duflo, 2007; Helms, 2006). There is no clear consensus among scholars and policymakers on how to define, measure, or eradicate poverty. Accordingly, there is no absolute or standard definition. Altmir (1982) describes the concept of poverty as a situation of poor health facilities, low level of education, malnutrition, and lack of participation in the decision-making process. Furthermore, poverty is considered to be a situational syndrome has a combination of the following characteristics: under consumption relating to the ‘haves’ and ‘have-nots’. The ‘haves’ are considered to live a luxurious life whereas, the ‘have-nots’ suffer from lack of decent or conducive good health, and productive life (Chirkos, 2014).

Boateng et al. (2015, p. 101) define poverty “…as the deprivation of basic necessities of life such as food, shelter, accommodation, and clothing…” Another definition of poverty is provided by the United Nations Development Programme (UNDP) in its Annual Report (2008:13) “Poverty is

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not just about money: lack of access to essential resources goes beyond financial hardship to affect people’s health, education, security, and opportunities for political participation…”

Similarly, Otero (1999:1) defines microfinance as “…the provision of financial services to the low-income, poor, and very poor self-employed people…” The definition includes the extension of financial services in a small amount to the poor self-employed individuals to enhance their economic well-being, contribute to the micro-enterprise development and alleviation of poverty.

A careful study of the literature reveals that the definition of microfinance and poverty is challenging. Many researchers describe poverty based on income level instead of using a broader definition that includes well-being. However, Hulme and Mosley (1998) consider poverty definition as inadequate and incomplete. The definitions of Otero (1999) on microfinance and Boateng et al. (2015, p. 101) on poverty will be adopted.

The presence of microfinance has been traceable to the West, East, and North Africa for centuries (Helms, 2006). The practices have evolved from the provision of small loans to include products such as savings, insurance, training, distribution and marketing of products (Armendáriz de Aghion and Morduch, 2005). The origin, practice, and need for microfinance exist in developing and developed economies (Schreiner and Woller, 2003). According to Helms (2006), microfinance has reached several continents (Figure 1). Latin America has the longest tradition of microfinance. In Asia and the Pacific, countries such as Vietnam and Indonesia are the most developed in the sector of microfinance in terms of the outreach of loans and saving facilities (Weiss et al., 2003; Helms, 2006), although in India, China, Afghanistan, and Pakistan the outreach of microfinance is still emerging. However, SSA has had slower development than the rest of the other regions.

Microfinance has gained significance, respectability and acceptance as one of the tools to alleviate poverty (Sengupta and Aubuchon, 2008). Recent evidence suggests that microfinance helps those who are unable to draw on their past savings or lack assets to provide as collateral prior to access to external finance (Kanak and Iiguni, 2007). In addition, microfinance is considered holistic in how it works with the poor or those in the lowest point of economic activity and develops their capacity to engage with the wider economic environment. This helps the poor to gain financial leverage and engage in entrepreneurship to overcome an adverse economic existence (Islam, 2009). Microfinance supports the moderate poor, the vulnerable non-poor, working poor and those excluded from the formal financial institutions (Figure 2). The microfinance practices help the poor who are unable to borrow from informal savings and credit groups (Helms, 2006).

The poor are often denied credit as financial institutions have insufficient information to approve loan applications that affect their access to finance (Brewer, 2007; Deakins and Hussain, 1994). This disfranchises the poor and adversely affects their credit history. The traditional informal access to finance for the poor is loans from friends, relatives, moneylenders, or property owners. The loans from friends and family have problems with limited flexibility and the fear of loss of dignity in their communities (Helms, 2006). Similarly, the moneylender ranks low in the pecking order due to their excessive exploitation of the poor through hike up interest rates. However, they are considered

Figure 1. Microfinance has reached several continents (Source: Adapted from Helms (2006) and (Christen et al., 2004))
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