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

Editors note: This blog is a cross-post from the SEEP blog

In 2006, the Nobel Prize Committee awarded a Nobel Peace Prize to one of the original architects of modern-day microfinance, Professor Muhammad Yunus. Professor Yunus's microfinance model, along with similar group-liability lending models targeting women throughout the world, was based on a simple premise. Women could increase their incomes – and thereby, their own lots and the future of their families – by owning and operating their own microenterprises. Yunus and others surmised that a lack of access to capital stood between many of these women and the ability to invest in income-generation activities. Indeed, many structural barriers often prevent women from accessing credit from formal sources: lack of assets for collateral, lack of formal identification documents, and a lack of financial products targeting them directly.

What this theory of change perhaps failed to take into account, however, was the enduring influence of social gender norms and how they often play a role in circumventing larger impacts of access to working capital on women's empowerment. In general, the evidence on the impact of access to credit on female entrepreneurs has shown little to no transformative effect on consumption or women's empowerment outcomes (for more information on this, see Abhijit Banerjee, Dean Karlan, and Jonathan Zinman's overview of *Six Randomized Evaluations of Microcredit* in the American Economic Journal). Researchers are finding instead that financial products can have an impact on women's empowerment, but only when these products are designed in a way that is responsive to gender norms and the barriers and limitations they might normally create. What would it take for the next generation of financial products for women to be gender responsive?

Let's consider some of the potential obstacles stemming from social norms and gender roles that may impact women's entrepreneurship:

- Demands on time: Women who take on unpaid labor in the household, for example as caretakers for children or elderly family members, may have less time to devote to business activities;
- Business activities: Women and men may also tend to cluster in different types of business activities, with different potential for earnings and growth;
- Mobility restrictions: In some cultures, women may have limited mobility and be unable to easily travel or work outside the home independently;

- Degrees of control over resources: Women may have limited bargaining power within a household, and thus limited control over how their own resources and assets, including loans and earned income, are invested.

An Innovations for Poverty Action study conducted by economist Nathan Fiala may shed more light on the impact this last point has, intra-household bargaining power, on outcomes for women. In a randomized study in Uganda, Fiala finds that women face strong constraints to their decision-making power, and tend to hide resources as the only way to maintain control. He found that men are less likely to fear losing resources within the household and don't hide money as frequently. Fiala looked at the impact of business capital – either by loan or grant – on both men and women's economic outcomes, and found that women who hide money from their husbands experienced increased economic outcomes, while those who don't see a decrease. Conversely, men in the study who do not hide money from their wives saw increased economic outcomes. This may help explain some of the lackluster impacts of microcredit among women, particularly those who experience low levels of bargaining power within the home.

Digital payments are emerging as a promising tool for promoting women's economic empowerment, precisely because they allow for elements of privacy and control that cash does not. Digital payments, through either a debit card or a mobile money product, for example, can give women exclusive access to their own resources and keep information about their balances and financial activities private. Recent studies on the impact of digital payments for women are indeed promising. In India, for example, Field et al. looked at women participants in a public workfare program who received their wages directly deposited into a personal account, compared to women who were paid through their husband's account, which was standard practice. They found that these women were more likely to work outside of the home, a difference which was especially pronounced among those women who hadn't worked before or whose husbands disapproved of women working.

Another study in Niger by Aker et al. looked at the impact of delivering social benefits transfers electronically versus in cash, and found that the likelihood that the intended recipient, a woman, was responsible for receiving the transfers increased from 8 to 47 percent. What's more, those women who received digital transfers increased their diet diversity by buying more types of food items.

These emerging lessons on women's bargaining power, privacy, and control provide important lessons for future iterations of microcredit products for women. For example, microcredit delivered via digital payments may be a powerful tool to not only reduce capital constraints for women microenterprise owners, but also to help them retain control over investment decisions. Giving women's businesses the ability to accept digital payments may also be an impactful way to ensure that they retain control over their earned income. Of course, digital finance – like Yunus's original lending circles – is by no means a silver bullet for women's empowerment. Women are more likely to not own their own personal mobile phones which would allow them to access mobile money, for example. There is still much to learn about how to build trust in digital products, help women understand their rights and responsibilities when using new products, and create cost-effective distribution channels.

There is a need for more evidence on the ways that financial products, when appropriately designed, can help to directly address the gender norms which may still limit women's success.

May 26, 2017