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Cover Page Footnote

J.D., Dec. 2007, Florida State University College of Law. Without the encouragement of Jared M. Lee, this article would not be possible.

THE MICROFINANCE MOVEMENT: CLOSING THE GENDER GAP WITH A CLICK?

RUTH JACKSON LEE*

“The charity that is a trifle to us can be precious to others.”¹

With \$238.00 you can order an eighty gigabyte iPod on Amazon.com to play your favorite tunes.² For the same amount, or considerably less, you can extend a loan to an individual like Carolina Alfredo Bila Mazuze, a mother of six children in Maputo, Mozambique, through a nonprofit microlending website.³ The credit will immediately provide Ms. Mazuze with the financial recourses necessary to expand her incipient clothing business and might eventually lift her and her family out of poverty in a society plagued by stereotypical views of gender roles and responsibilities.⁴ And, in all likelihood, you may still be able to purchase that iPod once the loan is paid back in six months.⁵

Ms. Mazuze and millions of other similarly situated persons have been assisted by the growing phenomenon of microfinance.⁶ Economist Muhammad Yunus and his Grameen Bank⁷ won the 2006 Nobel Peace Prize for pioneering the use of microcredit, the extension of small loans⁸ to poor entrepreneurs, helping to eradi-

* J.D., Dec. 2007, Florida State University College of Law. Without the encouragement of Jared M. Lee, this article would not be possible.

1. JOAN CHITTISTER, *BECOMING FULLY HUMAN: THE GREATEST GLORY OF GOD* 120 (2005).

2. *Amazon.com: Online Shopping for Electronics, Apparel, Computers, Books, DVDs & more*, <http://www.amazon.com> (Search “Amazon.com” for “80 gb iPod”) (last visited Feb. 3, 2008).

3. *Carolina Alfredo Bila Mazuze*, <http://www.kiva.org/app.php?page=businesses&action=about&id=27369> (last visited Dec. 17, 2007).

4. *Id.* See Gary M. Woller & Warner Woodworth, *Microcredit as a Grass-Roots Policy for International Development*, 29 POLY STUD. J. 267 (2001). “Microcredit is one grass-roots approach that appears to hold particular promise for providing a real, immediate, and sustained impact on the financial and social status of millions of Third World poor.” *Id.* at 279. *But cf.* Bill Lucarelli, *Microcredit: A Cautionary Tale*, 35 J. CONTEMP. ASIA 78, 85 (2005) (noting the limits and constraints of relying too much of microcredit “as panaceas for complex developmental issues.”).

5. *Fundo De Desenvolvimento*, <http://www.kiva.org/about/aboutPartner?id=64> (last visited Dec. 17, 2007). To date, *Fundo De Desenvolvimento*, the microfinance institution in this case, has lent a total of \$94,950 to 244 businesses and has a delinquency rate of 0.00%. *Id.*

6. *Microcredit Summit Campaign, A Gift to the World or a Lump of Coal: Microcredit and the World Bank* 1 (2007) available at <http://www.results.org/website/navdispatch.asp?id=3112>.

7. *Grameen* means “rural” or “village” in Bangla. See Abu N. M. Wahid, *The Grameen Bank and poverty alleviation in Bangladesh: theory, evidence and limitations*, 53 AM. J. ECON. & SOC. 1, 1 (1994).

8. Microloans generally range in size from \$75.00 to \$100.00 depending on geo-

cate rural poverty.⁹ The bank was formally established in 1983¹⁰ and has primarily focused on offering loans to groups of destitute women in Bangladesh.¹¹ According to Dr. Yunus' model, peer monitors serve as "social collateral" in place of traditional assets by providing the necessary impetus to ensure repayment.¹² The entire group is responsible if any member defaults.¹³ This lending structure has ostensibly been quite successful; as of November 2007, the Grameen Bank has 7.39 million borrowers, 97 percent of whom are women.¹⁴

Dr. Yunus' methodology contravenes with the misguided perception that indigent people are "stupid or lazy"¹⁵ and should be blamed for their impoverishment.¹⁶ Rather, he postulated that such individuals simply lack access to capital that would allow them to become successful business owners.¹⁷ Melding the notions of capitalism and social responsibility, the Bangladeshi banker theorized that the poor will repay loans with reasonable interest rates when given the opportunity to borrow.¹⁸ Meanwhile, the funds provide working capital that allows poverty stricken entrepreneurs to overcome the difficulties of starting or expanding a successful business, such as the costs of raw materials, equipment and facilities.¹⁹

In addition to the economic benefits received by individual borrowers, several scholars maintain that extending loans to women

graphic location. See Robin G. Isserles, *Microcredit: The Rhetoric of Empowerment, the Reality of "Development As Usual"*, 31 WOMAN Q. J. 38, 39 (2003).

9. See Jo Johnson, *Nobel Peace Prize for microcredit pioneer*, FINANCIAL TIMES (LONDON), Oct. 14, 2006, at 6. Just a year before, the United Nations commenced the "International Year of Microcredit." Press Release, UN Launches International Year of Microcredit 2005, U.N. Doc. DEV/2492 (Nov. 18, 2001) available at <http://www.un.org/News/Press/docs/2004/dev2492.doc.htm>.

10. Muhammad Yunus, *Poverty alleviation: Is economics any help? Lessons from the Grameen bank experience*, 52 J. INT'L AFF. 47, 50-51 (1998). For a comprehensive history of the Grameen Bank, see MUHAMMAD YUNUS, *Banker to the Poor: Micro-Lending and the Battle Against World Poverty* (2003) [hereinafter *Banker*].

11. *Grameen Bank*, <http://www.grameen-info.org/bank/index.html> (last visited Dec. 17, 2007).

12. Isserles, *supra* note 8.

13. *Id.*

14. *Id.*

15. *Banker*, *supra* note 10, at 50.

16. *Id.* ASIF DOWLA & DIPAL BARUA, THE POOR ALWAYS PAY BACK: THE GRAMEEN II STORY 2-3 (2006).

17. *Banker*, *supra* note 10, at 50 ("They were poor because the financial institutions in the country did not help them widen their economic base. No formal financial structure was available to cater to the credit needs of the poor.")

18. *Id.* See also *Breaking the vicious cycle of poverty through microcredit*, <http://www.grameen-info.org/bank/bcycle.html> (last visited Dec. 17, 2007).

19. *Glossary of Microfinance Related Terms*, <http://www.accion.org/netcommunity/Page.aspx?pid=257&srcid=864> (last visited Dec. 17, 2007).

has a positive social impact.²⁰ Advocates of microcredit rely on studies that show that lending money can be particularly important for women in patriarchal societies where the deeply entrenched ideologies perpetuate segregation of the sexes, dictate a strict division of labor and levy a systematic bias of male supremacy.²¹ First, microcredit allows women to become self-employed where wage employment is unavailable or difficult for women to access.²² The independent source of income generated outside the home not only improves quality of life, but also reduces economic dependency on men, enhancing autonomy.²³ Women can come to own assets, including land and housing.²⁴ Furthermore, by gaining control over material resources, microcredit enables women to contribute to various socio-economic activities and to further participate in the political sphere.²⁵

Dr. Yunis' selection for the Nobel Peace Prize, which had previously never been awarded to a banker or financial institution,²⁶ spawned great international interest in microcredit.²⁷ To date, the revolutionary concept has been mirrored in "100 countries from the United States to Uganda."²⁸ According to Microcredit Summit

20. According to scholar Linda Mayoux, there are essentially four different views on the link between micro-finance and women's empowerment. See Linda Mayoux, *Micro-finance and the Empowerment of Women*, UNIFEM (2002) available at <http://www.ilo.org/public/english/employment/finance/download/wpap23.pdf>. For a critical view of microcredit, see Christopher Lingle, *Avoid the Micro-Financing Hype*, 164 FAR E. ECON. REV. 30 (2001).

21. Sohela Nazneen & Nasheeba Selim, *Women's Bargaining Power and Extreme Poverty: An Exploratory Study of Gendered Relations of Women in the Targeting of the Ultra Poor (TUP) Programme*, available at http://www.bracresearch.org/reports/tup_women_bargaining.pdf. See also Wahid, *supra* note 7, at 4 (Microcredit has revolutionized women in Bangladesh, an orthodox Muslim society, in which women "have been subjugated historically to many social vices such as early marriage, excessive child-bearing as well as illiteracy and unemployment.") But cf. Isserles, *supra* note 8 ("Turning people into indebted entrepreneurs and self-employed workers may only serve to intensify Western ideological assumptions that the developing world should mirror the First World.")

22. The World Bank, *Using Microcredit to Advance Women* (1998) available at <http://www1.worldbank.org/prem/PREMNotes/premnote8.pdf>.

23. Rae Lesser Blumberg, *Women's Economic Empowerment as the "Magic Potion" of Development* 3-4 (Aug. 12, 2005) (unpublished manuscript available at http://portal.unesco.org/shs/en/files/8696/11283330079Magic_Potion.pdf/Magic+Potion.pdf).

24. *Women and Microcredit Day*, The International Year of Microcredit 2005, available at http://www.europarl.europa.eu/compar/femm/press/2005/20051011_en.pdf.

25. Kaniz Fahmida Ahmed, *Microcredit as a Tool for Women Empowerment: The Case of Bangladesh*, <http://www.foreignaid.com/thinktank/microcredit.html> (last visited Feb. 3, 2008). But see Katherine N. Rankin, *Governing development: neoliberalism, microcredit, and rational economic woman*, 30 ECON. & SOC. 18 (2001).

26. See Johnson, *supra* note 9.

27. Integrated Regional Information Networks, *No Silver Bullets? The Online Funding Revolution and Microfinance Sector*, Worldpress.org, Dec. 18, 2007, <http://www.worldpress.org/Asia/3019.cfm>.

28. Jon Herskovitz, *RPT-Nobel Peace winner eyes microcredit for North Korea*, REUTERS, Oct. 20, 2006.

Campaign, “[i]n 2006 alone, 133 million families received a microloan and 93 million of those families were among the world’s poorest people.”²⁹ Approximately 465 million family members were affected.³⁰ Even more households are expected to benefit from microloans with the introduction of websites which allow charitable people to conveniently invest small amounts of money in businesses in rural countries by becoming microlenders.³¹

Indeed, the newest trend in microfinance is a Web 2.0 approach to lending. Kiva,³² an online microfinance interface, networks individual lenders to individual borrowers much like Facebook,³³ a social media platform, connects people with friends and others. Kiva’s innovative logistics allows anyone to lend as little as \$25³⁴ to businessperson in 39 different nations.³⁵ A person can provide “all the money [that an entrepreneur] needs or just a portion and encourage[ing] . . . people . . . to [collectively] kick in the rest.”³⁶

Serving administrative functions, nonprofit organizations and non-governmental organizations³⁷ conduct the initial screening of potential borrowers before their requests are made available on Kiva.³⁸ These microfinance institution (MFI) field partners then upload profiles and photos of people who are in need of capital to either start or expand their businesses.³⁹ Profiles include a risk rating for the field partner as well as the credit history of the applicant.⁴⁰ As default rates reflect the effectiveness of the particular field partner, if one begins to show lower recovery percentage than

29. Microcredit Summit Campaign, *A Gift to the World or a Lump of Coal: Microcredit and the World Bank* 1 (2007) available at <http://www.results.org/website/navdispatch.asp?id=3112>.

30. *Id.*

31. Claudia Parsons, *Websites let you be banker to world's poor*, REUTERS, Sept. 13, 2007. Online microlending is to be considered charitable for two reasons: (1) there is no financial return on investment, and (2) repayment is not guaranteed.

32. *Kiva.org-Loans that change lives*, <http://www.kiva.org> (last visited Feb. 3, 2008).

33. *Welcome to Facebook*, <http://www.facebook.com> (last visited Feb. 3, 2008).

34. Tina Pittaway, *No more cash, please, we're drowning in it*, MACLEAN'S, Nov. 5, 2007, at 45. Kiva temporarily ran out of microenterprises seeking loans when its popularity surged after former U.S. President William Jefferson Clinton mentioned the organization in his new book and subsequently appeared on *The Oprah Winfrey Show* with the its co-founders, Matt and Jessica Flannery. As a result, the site provisionally limited individual lenders to extending only \$25 at a time. *Id.*

35. *Kiva.org-Press Center*, <http://www.kiva.org/about/facts/> (last visited Feb. 3, 2008).

36. Mark Stachiew, *Microloans made easy on the Web*, THE GAZETTE, Nov. 19 2007, at B2.

37. Kiva only partners with microfinance institutions that have a social mission of lending to the poor. See *Help Center*, <http://www.kiva.org/about/help/home> (last visited Dec. 17, 2007).

38. Stachiew, *supra* note 37.

39. Sonia Narang, *Web-Based Microfinancing*, N.Y. TIMES, Dec. 10, 2006, § 6 (Magazine), at 84.

40. Mark Bridge, *Small loans with a big impact*, THE TIMES (London), Oct. 6, 2007, at 2.

competing MFIs, it is likely that it will be avoided by lending individuals.⁴¹ The transparency increases the overall efficiency of the process.

Thus, Kiva allows potential individual lenders to peruse different ventures and choose the target of their charitable 'investment' by offering a interest-free sum of \$25 up to the full amount of the credit requested.⁴² With a mere click, funds are transferred to Kiva through a Paypal⁴³ account. Kiva continues to collect money from other individual lenders until the loan is fully raised. The avant-garde partnership between Kiva and Paypal tremendously facilitates peer-to-peer lending by avoiding the cost of currency exchange and the transaction fee taken by conventional mediators.⁴⁴

Once the capital has been raised, it is forwarded to the MFI which disburses the full value to the recipient.⁴⁵ The field partner not only manages the loan and oversees the repayment,⁴⁶ it also maintains an online journal that informs individual lenders of the progress of the borrower's enterprise.⁴⁷ As such, field partners are allowed to levy a nominal interest to business owners.⁴⁸ Kiva monitors the interest, refusing to partner with any organizations that impose "exorbitant" rates.⁴⁹ The average interest rate is 21 percent,⁵⁰ rather than the 30 to 70 percent gleaned by the majority of MFIs.⁵¹

After the loan is completely repaid, the MFI conveys the money to Kiva and the original loan amount is forwarded to the individual lenders' PayPal accounts.⁵² The returned money can be withdrawn or re-invested.⁵³ Most lenders choose the latter.⁵⁴

41. Graeme Brown, *Micro-finance gives developing world a chance to ease poverty*, THE BUSINESS, Sept. 8, 2007.

42. See Rachel Emma Silverman, *Young Money: A New Generation Reinvents Philanthropy*, WALL ST. J., Aug. 21, 2007, at D1.

43. *Online Payment, Merchant Account-PayPal*, <https://www.paypal.com/> (last visited Feb. 3, 2008).

44. Cynthia Haven, *Small Change, Big Payoff*, STAN. MAGAZINE, Dec. 2007 available at <http://www.stanfordalumni.org/news/magazine/2007/novdec/features/kiva.html>.

45. Narang, *supra* note 40.

46. Michael Duffy, *Harnessing the Power of the net to support Third World businesses*, SYDNEY MORNING HERALD, Sept. 29, 2007 available at <http://www.smh.com.au/articles/2007/09/28/1190486568269.html>.

47. Steve Hargreaves, *Be a Global Financier . . . On a Shoestring*, CNN, Jan. 17, 2006, http://money.cnn.com/2006/01/17/pf/kiva_microfinance/index.htm. To date, Kiva has loaned more than \$1.8 million with only a 3 per-cent default rate. See Brown, *supra* note 42.

48. Bridge, *supra* note 40.

49. *Frequently Asked Questions*, www.kiva.org/about/faq (last visited Dec. 17, 2007).

50. *Help Center*, <http://www.kiva.org/about/help/home> (last visited Dec. 17, 2007).

51. Nimal A. Fernando, *Understanding and Dealing with High Interest Rate on Microcredit* 1 (2006) available at <http://www.adb.org/Documents/Books/interest-rates-microcredit/Microcredit-Understanding-Dealing.pdf>.

52. Bridge, *supra* note 40.

53. Thomas Gryta, *Personal Business: Help Impoverished Entrepreneurs With Loans*,

Microcredit, the simple concept of offering small loans to poor entrepreneurs who lacked collateral in impoverished countries, is certainly revolutionary. However, peer-to-peer lending, a simple platform allowing individuals to become charitable microbanks, fundamentally modifies the potential scope and effectiveness of microfinance. The trifle amount of money that could purchase an iPod can now be the precious resources needed to build a business for others around the world, facilitated by the ease of point-and-click lending.

WALL ST. J., Sept. 23, 2007, at 2A. Loans made through Kiva aren't tax-deductible because they aren't a charitable contribution. *Id.*

54. Haven, *supra* note 45.