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Microcredit Lending to Female Entrepreneurs: A Middle East Case Study

By Alida M. Gomez¹

Abstract

There are more than 4 billion people in the world living off of less than 1500USD per year. These are the people worldwide without access to commercial banks and credit unions. These are the people that microcredit lending institutions are here to help. This paper focuses on the advantages to allocating the microcredit loans to female entrepreneurs. Highlighting women's empowerment through microcredit lending, and using the Middle East as a case study, this paper uses studies from throughout the region that show that microcredit loans are improving communication, access to information regarding rights, and improved household welfare. Through access to credit and literacy, women throughout the region are generating income, which in turn is a key bargaining chip for familiar and societal participation.

Key words: Microcredit lending, empowerment, Middle Eastern women

Introduction

This paper examines the connections between microcredit lending to female entrepreneurs and women's empowerment in the Middle East. When women are given a life skill and the ability to generate their own income, they invest profits in household welfare, empowering themselves to play larger roles within their families and their community as a whole. Access to small loans allows women to work outside of the home, learn life skills, and nurture self-sufficiency. By first examining differences between male and female entrepreneurs receiving loans, this paper attempts to identify the effects of female business success on family welfare and societal norms. Also examined are correlations between female entrepreneurs receiving loans and changes in household welfare and female participation.

Recent modernization has led to rapid rates of urbanization, as men travel to the larger cities for employment. This movement has left substantial gaps in the informal sector, bringing more women into the workforce to fill the vacant positions—typically working on handicraft and productions, activities that can be done at home more easily and with an informal organization.

Study Questions

1. What are the advantages of allocating microcredit loans to female entrepreneurs?
2. What are the implications on female empowerment, household investments, loan control, and community participation?

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3. What are the effects of small business success on family welfare?

In order to examine these phenomenon more thoroughly, microcredit lending must be examined beyond female entrepreneurs in the Middle East. Research was first conducted on microcredit lending worldwide, then on lending to female entrepreneurs worldwide before focusing on those within the Middle East.

Methodology

There are a variety of terms used to discuss small loans to entrepreneurs in developing countries: some scholars use the term microfinance, because entrepreneurs need savings and insurance as well as loans. Others refer to it as microcredit, as lending is the core concept. Still others prefer the term microcredit plus, encompassing all services accessed in conjunction with loans. This paper will refer to the phenomenon as microcredit, except when citing others' research.

Research was conducted in order to determine what, if any, differences exist between the result of male and female entrepreneurs receiving microcredit loans. Criteria included the number of lenders, the average loan amount, and the allocation of profits. Using the Middle East as a case study, research focused on the affects of microcredit lending on family welfare as well as any applicable changes in societal and gender norms. This study attempts to identify correlations between loans to female entrepreneurs and increased levels of female participation and empowerment both within the home and in the society as a whole. Empowerment was measured through household investments, income levels, and child education levels. The research also highlighted possible trade-offs between female lending and economic growth, particularly with women of child-bearing age.

The quantitative method of research was used for this paper. Original field research was not a viable option. The focus then had to be on the extensive research conducted with regards to literature and recent studies. All research fell into three categories:

- a. Microcredit lending worldwide—historically and present-day
- b. Microcredit lending to female entrepreneurs worldwide
- c. Microcredit lending to female entrepreneurs in the Middle East

Since it was not possible to conduct focus groups and interviews in person, the research in this paper is based on surveys conducted and statistical data offered by anthropologists, economists, and academics. Bruce Wydick, professor of Economics at the University of San Francisco, has conducted extensive research on lending to females that proved critical to this paper. His examinations of the effects of female lending on economic growth led to one of this paper's most important claims: that while women may be limited in terms of economic growth during their childbearing, this quickly ceases to be an issue once a woman reaches her mid-30s. It is at this time that many, including Wydick, claim that invest in female entrepreneurs will result in the greatest economic and employment growth.

Evidence supporting this paper's hypothesis may come in the form of increased educational participation and health care on the part of the entrepreneurs' children. Women's empowerment will be defined through political participation, as well as an increased activism and protests against issues such as domestic violence. Measurements of women's empowerment will be

provided by other surveys and case studies conducted in the Middle East, and beyond, as well as information provided by NGOs and governmental agencies regarding political and activism participation. The overall objective is to identify:

- Affects of female business successes on family welfare and societal norms
- Correlations between female entrepreneurs receiving loans and changes in household welfare and female participation in society through political parties and activism

The Middle East is a complex yet valuable location for such research due in large part to its violent and turbulent history. A long line of internal and external conflicts have torn the region apart and have at times come at the cost of development of economies and infrastructures. Throughout the region, women represent the primary marginalized group and they have long been the target of violence and oppression. It has not been without progress, of course, in terms of women's rights and access to social services. It is slowly becoming more acceptable for women to participate outside of the home, though many societal norms still reinforce a woman's oppression and male domination. Berge (2006) has found that as more women enter the workforce, it is destabilizing traditional gender roles, which can be difficult for both men and women to adjust to. Other research has shown though that with time these changes are giving women more social and political power (Larin and Perez Sainz: 1994).

Review of Literature

The Origins and History of Microcredit Lending

In 2000, the 192 member states of the United Nations, along with 23 international organizations, signed the Millennium Development Goals (MDGs) which identified eight goals for international development to be achieved by 2015. These goals were to:

1. Reduce by 50% the proportion of people living in extreme poverty².
2. Enroll all children in primary school
3. Reduce by 66% infant and child mortality rates
4. Reduce by 75% maternal mortality ratios and provide reproductive health services
5. Eliminate gender disparities in education
6. Reverse the loss of environmental resources
7. Halt and begin to reverse the spread of HIV/AIDS
8. Further develop an open trading and financial system (Dunford: 2006)

Dunford traces the origins of modern microfinance to the nineteenth century cooperative movement, post-World War II rural finance, and the microenterprise development sector starting in the 1970s. He identifies five common objectives that have combined with these roots to form microcredit as defined today: microenterprise development; innovation and investment promotion; consumption-smoothing; women's empowerment; and financial systems development. Though operating with different motives and methods, Dunford states that microfinance institutions can achieve all five objectives. Additionally, he writes that there is already enough evidence to say with "cautious confidence" that microcredit lending is an element contributing towards the Millennium Development Goals (13).

² Extreme poverty was defined as living on less than 1USD per day (PPP values)

Nobel Peace Prize winner Muhammad Yunus sparked the microcredit lending sensation with the founding of the Grameen Bank in 1983. The former economics professor shares the account of his founding the bank in his book, *Creating a World Without Poverty*. Yunus is a self-described supporter of globalization, believing that it can benefit the poor more than anything else, but that it needs controls. Using a highway metaphor, Yunus describes the chaos and danger that ensues in the face of a lack of guidelines. Governments alone are not enough to control globalization. They tend to struggle with corruption and efficiency, and while they may be useful at creating programs, they are not good at ending ones that are unproductive or no longer needed. Therefore governments need to collaborate with NGOs, multinational institutions, and corporations engaging in CSR to monitor and guide the processes of globalization (Yunus 4).

Yunus witnessed first-hand the devastation following the 1974-5 Bangladesh famine and saw how families living in extreme poverty lost what little they had already. While the famine had devastated the country, affecting all socioeconomic levels, he saw the unparalleled damage to those already struggling to survive. He wondered if even a small income surge would help families and communities better survive such disasters. Soon after, he spent a week visiting families in an impoverished community. He met with forty two individuals who had borrowed money from banks totally 556 taka (\$27 USD) but were unable further access to loans. Yunus first tried to open banks to the idea of lending to the poor. He was rejected, told that the poor had no access to credit and no means of accountability. He next offered to be the guarantor for loans. This was approved by the bank, who knew Yunus could be held accountable if loans were not repaid. This plan worked, and all the loans were repaid in time (Yunus 46-7). In 1983 Yunus founded his own bank: the Grameen Bank.

Individual lenders organize themselves into small groups of five, all of whom must support any loan applications from within the group. The group offers support and encouragement to one another. Each group also participates in weekly meetings, made up for ten or so groups, which come together in one of 130,000 centers throughout Bangladesh (Yunus 57). All members of the bank must pledge to follow what is known as the Sixteen Decisions, covering aspects of household and community life from pledging to maintain houses and grow vegetables to promising to educate and provide for children and support each other in times of need (Yunus 58-59).

Yunus struggled with assumptions, stereotypes, and obstacles regarding microcredit loans to the poor. Two common assumptions were that the poor were only motivated by maximizing profits and that the only way to help the poor was through job creation. While job creation is beneficial, it does not always take advantage of skill sets already in place. Yunus wanted to maximize the effect of skills already in place and help people do what they knew best. Inflation has also proved to be a tough obstacle. Microfinance institutions (MFIs) in developing countries must be wary of inflation when deciding to accept foreign funds. When the time comes to repay the international loan, the MFIs often end up paying a great deal more in local money than they had originally received (Yunus 70).

The founding of the Grameen Bank revolutionized the way the world viewed microlending. Yunus makes it clear that his work is not of hand outs, but loans which must be repaid—with interest. As the bank grew, so did the needs of its members. The Grameen Bank diversified its products: a basic loan offered at 20%; housing loans at 8%; student loans interest-free while studying and 5% afterwards; a pension savings program; and a credit program to

beggars, or “struggling members.” The loans to beggars are usually around \$15, interest-free, and can be paid back in any increment at any time (Yunus, 65).

Another cutting-edge microcredit lender is Kiva, the first lender to take advantage of the power of the internet to administer social change. Potential lenders—individuals or small groups—can browse entrepreneur profiles and fund as little as \$25 or as much as the total loan amount. Kiva disburses the lenders’ funds to existing local microfinance institutions (whom they call Field Partners), who disburse the loans to the entrepreneurs. Meanwhile, the Field Partners collect stories, photos, and loan details to share with Kiva and its lenders. As entrepreneurs repay their loans, the money is repaid to the lenders who have the choice to withdraw their initial loan amount or reinvest the funds in another entrepreneur (See Table 1). Interest rates are determined by and paid to the Field Partner to cover its operating costs. Kiva does not charge any interest to Field Partners or lenders.

Kiva enjoys a 98.65% repayment rate among loans with completed loan terms. Kiva is quick to acknowledge that “past repayment performance does not guarantee future results” and outlines the three levels of risk that lenders should always take into consideration: entrepreneur risk, Field Partner risk, and country risk. To minimize entrepreneur risk, all entrepreneurs are screened by a local Kiva Field Partner, examining factors such as loan history and idea feasibility. This does not eliminate factors for loan defaults such as health issues and civil disturbances. The use of Field Partners increases the chances of loans being repaid, but there is still the risk of bankruptcy, fraud, or poor operations. Country risks identify potential economic, political and natural disaster concerns that would adversely affect an entrepreneur’s ability to repay its loan. As many Kiva loans are made in developing countries, there is can be the risk of large-scale currency devaluation and policy changes, not to mention natural disasters that can limit loan repayment (<http://www.kiva.org/about/risk>).

The Consultative Group to Assist the Poor (CGAP) is an independent policy and research center housed at the World Bank. The Group offers consultation to governments, microfinance providers, and investors. According to their reports, “access to credit allows poor people to take advantage of economic opportunities... (a) few studies have also shown that over a long period of time many clients do actually graduate out of poverty.” Furthermore, households are able to transition from focus on “every-day survival” to “planning for the future. “Households are able to send more children to school for longer periods... increased earnings from financial services lead to better nutrition and better living conditions” (www.cgap.org).

Lending to Women

Kevane and Wydick (2001) examines the possible trade offs of lending to female entrepreneurs through discussions with the various lending institutions which are now enhancing their microcredit lending programs, following the example set by Yunus’ Grameen Bank. Many lending agents have chosen to encourage female borrowers in the Global North, as female entrepreneurial activity has been on the rise both in developed and developing countries. Between 1976 and 1994, female small businesses tripled in Canada, now representing roughly a third of all entrepreneurial activity in the country. Female participation in the workforce has been on the rise in the Global South as well, especially in the informal sector. As male labor has been transferring over to the formal sector, it has left labor holes filled in by females, who tend to have a harder time entering the formal sector of electronics, textiles and food processing. Nongovernmental credit programs are encouraging women’s empowerment, to increase both self-esteem and the woman’s status within the family.

Hashemi, Schuler, and Riley (1996) used sample survey and case study data to examine women's empowerment through microcredit lending and identified eight indicators of empowerment: mobility, economic security, ability to make small purchases, ability to make large purchases, involvement in major household decisions, relative freedom from domination within the family, political and legal awareness and involvement in political campaigning and protests (pg 4). Married women under the age of 50 with access to loans were surveyed in Bangladesh as part of an examination of women's empowerment:

Table 2: Indicators of Empowerment (Bangladesh)

	Grameen Bank members	BRAC members	Grameen Bank nonmembers	Comparison group
% Classified as empowered on:				
Mobility†	30	42	29	21
Economic security	53	39	14	13
Small purchases	61	43	21	19
Large purchases	48	44	24	17
Major decisions	59	42	21	17
Political/Legal awareness	34	38	15	18
Protest/Campaign	32	36	15	21
Freedom from domination	83	75	76	74
Composite empowerment	42	32	10	5

(Hashemi 1996)

Almost all female lenders enjoyed greater levels of empowerment than the comparison group, though some are particularly impressive: 59% of Grameen Bank members able to make major decisions compared to only 17% of the comparison group; and 61% of the same members able to make small purchases compared to 19% of the comparison group. Each year of membership in a program through the Grameen Bank increased the likelihood of a female entrepreneur's empowerment by 16% (Hashemi, Schuler & Riley: 1996).

Reporter Patricia Yollin (2007) further explores the possibilities and diversities of microcredit lending through interviews with various lending institutions that target female entrepreneurs. Freedom From Hunger has loaned more than \$606 million since 1989 to help more than 700,000 women. Dunford & MckNelly (1999) evaluated the impact of microcredit loans on female entrepreneurs and their children through the CRECER credit program in Bolivia, highlighting that "desired impacts are being pursued at any financial cost. Rather the design is designed and implemented so that the... services are sufficiently cost-effective to allow for expansion and financial sustainability" (p. 7).

Women are seen by creditors as a safer investment, as they tend to be more likely to pay back the loans. This has been shown to be the case even in the wake of unforeseen setbacks, such as natural disasters. In March 2005, Hurricane Stan wiped out twenty entrepreneurs who had borrowed money through NamasteDirect in Mexico and Guatemala. NamasteDirect, expecting defaults on loans, extended its terms of agreement, but all twenty borrowers still repaid their loans on time (Yollin 2007).

Lending to Women in the Middle East

ENDA Inter-Arabe is a small micro-credit program founded in 1990 by Essma Ben Hamida in a suburb of Tunis, Tunisia. Tunisian women can be found in senior government positions, Parliament, the armed forces, and as high ranking civil servants. But in the suburbs, illiteracy prevents women from knowing what rights Tunisian law provides them. Examining women's empowerment through microcredit lending, Hamida studied two suburbs: Hay Eltadhamen and El Omrane over a ten year period. The suburbs, home to 200,000-300,000 residents, are filled with brick or cement-made homes, 75% of which are owner-occupied. Still, the roads are mostly dirt, there aren't enough schools to support the population, and garbage collection services are unreliable. While women in the suburbs married young and were quite shy—hesitant to question husbands, in-laws, or the community—many women in the towns had found empowerment through microcredit loans. It was discovered the women's empowerment was in part a byproduct of economic realities—often times, a crisis, such as the loss of a husband (death, divorce, relocation for work) sparked the positive change of women looking for work. Where women had once only worked as housemaids or in textile factories, women were soon running produce stands and second-hand stores. Trade liberalization destabilized employment for many men, who had to decide to accept and rely on women's employment and empowerment as a source of income. Through networking, informal savings, and literacy, women were able to negotiate their status in the community with their male counterparts. Through literacy, women no longer had such dependency on others and were able to access information regarding opportunities for women provided in Tunisian legislation (Hamida: 2000).

A survey in Palestine found that 55/4% of female entrepreneurs surveyed had become the primary source of income, with another 43.5% as the secondary source. 80% of the women were able to assist in raising emergency savings. Lending to female entrepreneurs in Palestine helped increase financial and managerial skills, and helped women improve communication skills with their husbands and families. Women were able to begin and further participate in household decision making (Hilal: 2009). Another study in Lebanon states that through access to microcredit loans, women were able to increase their economic and political bargaining power within the home, but concluded that for further development, societal norms and misconceptions needed to change as well (Khayat: 2011).

Perusing the website for kiva.org, one is able to loan as little as \$25 to many entrepreneurs in the Middle East, including Israel, Palestine, Jordan, Lebanon, and Iraq. As of January 2013, there were 209 entrepreneurs: 67 women and 142 men. From Jordan, the list of female entrepreneurs includes Siham, a 52 year-old widow who must now raise her 6 children alone. To do so, Siham knits clothes and resells other clothing purchased from other markets. There is also Rima, whose husband works other people's farms while she cares for their own nursery. Together they support their family of six. Next is Rasha, a 35 year-old woman whose husband is away serving in the military. To help raise his two sons from a previous marriage, Rasha sells blankets from her home. There is also Najat, from Lebanon. She is a 39 year-old mother of four, who helps to support her family by baking breads at home and selling them in her village. Finally, there is Charakhan, from Iraq. According to her profile on kiva.org,

With limited career options due to cultural restrictions and domestic constraints, Charakhan is one of the many Iraqi women... working from home, using her sewing skills to generate some income and participate in meeting the financial

needs of her family.... Because of the political and social challenges of lending in Iraq, personally identifiable information about this borrower has been altered for her protection (<http://www.kiva.org/lend/515903>).

Conclusion

“You can’t end world poverty through microcredit; you can’t build a road or a hospital or create an AIDS vaccine through microcredit. But there are a lot of things you *can* do,” says Matt Flannery, the founder Kiva (Yollin 2007).

Most microcredit lenders have two general goals with providing funds: first, to provide major short-term increases in household wealth and welfare; and two, to spur economic growth in the informal sector, through job creation and long-term income growth. Both short and long term goals can be achieved through lending female entrepreneurs. The advantages to allocating microcredit loans to female entrepreneurs can be impressive in regions such as the Middle East. Business profits are more likely to be allocated to household welfare, from food and supplies to greater access to education and healthcare. Increases in a mother’s income have a much greater effect on household welfare than increases in a father’s income. A loan as small as \$25 to a female entrepreneur can not only provide crucial supplies and resources to children, but can also alter familiar and societal structures, particularly with regards to female empowerment. While research is still very much in preliminary stages, implications of such loans on familiar and societal structures appear to generally be positive. A woman’s ability to generate her own income—and provide for her children what a father may not—translates quickly into power within the household. As shown by Hashemi, Schuler, and Riley (1996), microcredit loans have also empowered women in eight identified indicators, covering household investments and community participation in Bangladesh. The ability to make small and large purchases, to make major familiar decisions, and economic security all provide a woman with more power within the family nucleus. All this, coupled with political and legal awareness and the ability to protest and campaign, provides a woman with a greater standing within her community as a whole.

Microcredit lending is not without its disadvantages: Humida (2000) found that as women take on more work, often as a result of the men traveling from the home for employment, the men can lose their authority over the children. There is perhaps a threat to family unity, particularly if the women as well must travel for work. This again, can be avoided by providing microcredit solutions for older women, beyond child-bearing years, who are not as constrained to the home for raising children.

The research really all comes down to the question, “is it doing good good enough?” asks former California state legislator Jonathan Lewis, founder of MicroCredit Enterprises, which has lent more than 9.5 million USD to microenterprises. “I happen to be a marketplace guy,” Lewis adds. “But capital markets don’t factor in externalities... they don’t measure the twinkle in the eye of a proud mom who’s feeding her children (Yollin 2007).”

Dunford (2006) adds that there is sufficient evidence to say that “microfinance—particularly when provided to relatively poorer women—increases income and savings, improves nutrition and health, and empowers women.” It is irrefutable that microcredit lending is helping lift up the poorest of the poor. The loans provide immediate income boosts as well as stimulating growth over the long term. And as seen by microcredit lending throughout the Middle East, lending to female borrowers can have a more tremendous impact on both household welfare and business

growth. As such, these nonprofit organizations are an important element of economic growth in developing countries, even if they cannot eradicate all levels of poverty alone.

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