

# **MICROFINANCE- FROM TRANSACTIONS TO TRANSFORMATIONS**

**Collapsing the Divide between  
the Economic and the Social**

Joy Deshmukh-Ranadive

# Underlying hypotheses of microfinance practice

- Microfinance is intended for poverty alleviation
- Microfinance is largely routed to and through women in poor households
- Often women's empowerment is also seen as important

# Actual microfinance practice

- Microfinance is more focused upon credit than savings
- Largely two methods: Community based and commercial
- Community based microfinance invests in group mobilization and relies on social capital
- Commercial models may use groups, but of a summation kind and to ensure joint liability

# Two approaches to microfinance

- Transactory Microfinance
- Transformatory Microfinance

# Transactory Microfinance

- Largely give and take of loans
- Commercial Models – Insurance mostly to protect loans
- Community Based Models – Savings are meant to ensure eligibility for loans or for rotating

# Transactory Microfinance

- Poverty alleviation, empowerment and other development outcomes may not be a goal or mandate of the service provider
- If poverty alleviation is a goal it is secondary in priority to the goal of ensuring financial sustainability of the service provider

# Transactory Microfinance

- Even community based microfinance can merely transact financial services such as savings, credit, etc.
- Group mobilisation has tremendous potential for more than transactions, but does not always rise to it

# Transformatory Microfinance

- Even a basic credit programme can be transformatory if the way it is conducted is sensitive to the needs of the poor and women
- Plus components add to transformatory effects
- But plus components can also be insensitively introduced

# Transformatory Microfinance

- Poverty alleviation is a recognised goal.
- Service providers will keep track of this goal
- Women's empowerment is a goal not mere outcome
- Both are built into programme 'by design' and not achieved 'by default'

# The false divide

- Economic: Financial sustainability of service providers (especially MFIs)
- Social: poverty alleviation
- The business model and the social mission

# Why the divide is expensive for the sector and the poor

- Historically in development issues what is 'economic' gains precedence over what is 'social'
- There is a missing link between the two categories

# Collapsing the Divide:

## 1. The missing link

- The financial sustainability/viability of service providers should have a matching 'economic' category
- The financial sustainability of the poor household

# Financial sustainability of the poor household

Stabilisation: Minimizing risks

Maintenance: Consolidation

Self Sufficiency : Resilience

Microfinance seeks primarily to do  
the following...

Influence the World of Work

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graph TD; A[Influence the World of Work] --> B[Increase incomes]; A --> C[Generate livelihoods];
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Increase incomes

Generate livelihoods

# Collapsing the Divide:

## 2. Gender

- Microfinance seeks to influence financial behaviour and the world of work
- Economic behavior is socially determined
- The world of work is determined by gender norms

# The world of work of men and women

- There are two parallel economies both contributing to GDP: The market economy and the care economy
- Gender determines work in both economies
- Women's work is located primarily in the care economy

# Gender

- Is not merely a social category
- Is a development issue
- Is not a 'plus' in microfinance
- Even a business model needs to have a gender perspective since services are routed through women and poverty alleviation is sought

# Gender sensitivity makes for better sustainability

- Even in the narrowest of interventions that, only give credit, gender sensitivity will ensure a better targeting of credit, designing of financial products and services
- ‘Plus’ components need to be gender sensitive

# Collapsing the Divide

## 3. Women's empowerment

- Women's empowerment is needed for poverty alleviation and household sustainability
- It has to be by design and not merely by default

# The instruments of women's empowerment

1. Collective mobilisation
2. Inclusive gender framework
3. Information and capacity building
4. Building of assets: material and health

# Perspective and capacity building in microfinance

- Holistic microfinance
- Technical skills (socio-economic)
- Leadership skills
- Managerial skills
- Behaviour change communication

Thank you for your attention!