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The Value of Nonmaterial Wealth: A Critique of Microcredit in the United States and It's Ability to Empower Women

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THE VALUE OF NONMATERIAL WEALTH: A CRITIQUE OF MICROCREDIT

IN THE UNITED STATES AND ITS ABILITY

TO EMPOWER WOMEN

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This paper examines the practice of microcredit in the United States, paying special attention to the ability of microcredit in the United States to empower women.

APPROVED:

Date	Ali Riaz, Chair
Date	Frank Beck
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This paper examines the practice of microcredit in the United States. Chapter I consists of a review of the practice of microcredit in the developing world beginning with the Grameen Bank in Bangladesh. The chapter addresses the arguments that support microcredit as a tool for economic development and poverty alleviation as well as the criticisms of microcredit including the argument that microcredit organizations are unable to achieve the scale and financial sustainability that is necessary for success. The chapter addresses why microcredit organizations have traditionally targeted women as their ideal clientele, and later in Chapter I arguments are presented for and against the idea that microcredit can serve as a vehicle to empower women in developing countries.

Chapter II examines the practice of microcredit in the United States beginning with its emergence in the early 1980's. Common criticisms are addressed as well as the barriers to success that microcredit faces in the United States. The chapter concludes with a framework for evaluation and the examination of three case studies of microcredit organizations in the United States: ACCION Chicago, The Women's Business Development Center and the Women's Self Employment Project.

Chapter III concludes the paper with my personal recommendations for the future direction of the microcredit field in the United States, namely that the framework within which microcredit can be expected to be successful must be more narrowly defined than what was previously thought. I assert that empowerment is indeed an effect of microcredit in the United States. I argue why the limited economic benefits of microcredit ensure that an organization's goal of empowerment is the most important programmatic component in terms of potential developmental impact. And finally, I outline the additional programmatic components that maximize the empowering effects of microcredit, using the case studies to illustrate my arguments.

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CHAPTER I

MICROCREDIT: AN OVERVIEW

Introduction

The United Nations has declared 2005 the International Year of Microcredit, and with good reason. Microcredit has been touted internationally as not simply an income generating tool, but as a sustainable strategy to alleviate poverty. Additionally, microcredit may prove to be an extremely effective vehicle for empowering women.

Worldwide, there are more than 7,000 microcredit organizations serving 19 million of the world's poorest people (GDRC 2005, Microfacts). In the United States alone microcredit programs have extended more than $160 million in financing to microentrepreneurs who were presumably labeled "unbankable" by the formal financial sector (Edgcomb and Klein 2005). However, while the microcredit field continues to expand in both the domestic and international spheres, it has developed in each place with a markedly different emphasis.

It was my observation that the idea of empowerment played a much more significant role in international programs, while empowerment was virtually nonexistent in the language of domestic microcredit programs. This observation led me to several questions that intrigued me as I looked further into the development of the microcredit field within the United States. In an attempt to contribute to the existing body of literature regarding microcredit, I will address the following questions in this study. First, does microcredit in the United States have the ability to empower women? Second, is empowerment an element that is crucial to the success of microcredit in the United States?

Two concepts are fundamental to understanding my arguments: microcredit and empowerment. Drawing on the available literature, I will discuss these two elements in detail in the following sections.

Defining Microcredit

The term microcredit in this study refers to lending a small amount of money, often with little or non-traditional collateral, to an individual or through group lending. It is generally targeted at low-income clients who do not have access to traditional sources of financing. The purpose of the loans is to create self-employment for income-generating activities (as opposed to consumption) and the loans are generally given through a non-profit organization (Yunus 2003).

In addition to providing credit to the poor, many practitioners advocate offering a range of financial services, training, and technical assistance to the recipients of microcredit loans (Kay 2002; Ehlers and Main 1998). This approach is known as microfinance.

What is Empowerment?

There are many different ways of understanding empowerment. Here I will use the framework set forth by Thelma Kay who drew from the United Nations (United Nations 2001), among other sources, for her definition.

Kay (2002, 69) defined empowerment as

> the processes by which women take control and ownership of their lives through expansion of their choices. Thus, it is the process of acquiring the ability to make strategic life choices in a context where this ability has previously been denied. The core elements of empowerment have been defined as agency (the ability to define one's goals and act upon them), awareness of gendered power structures, self-esteem and self-confidence (Kabeer 2001). Empowerment can take place at a hierarchy of different levels – individual, household, community and societal – and is facilitated by providing encouraging factors (e.g., exposure to new activities, which can build capacities) and removing inhibiting factors (e.g., lack of resources and skills).

Kay goes on to note that the agency of empowerment must be accompanied and complemented by economic security: "as long as the disadvantaged suffer from economic deprivation and livelihood insecurity, they will not be in a position to mobilize. (Kay 2002, 70)"

The History of Microcredit

The remainder of this chapter will continue to draw from the available literature to review the development of microcredit, paying special attention to its perceived strengths and weaknesses as well as what challenges are facing the field. This section will begin by examining the success of the most famous microfinance organization, the Grameen Bank in Bangladesh. Indeed, no discussion of microcredit is complete without exalting Mohammed Yunus, founder of the Grameen Bank and credited as being the "father of microcredit."

The Story of the Grameen Bank

In 1976, Muhammad Yunus was a Professor of Economics at the University of Chittagong in Bangladesh. While acting as Head of the Rural Economics Program, Yunus began to challenge his training in traditional economic theory as he became wary of the fact that his teaching did not reflect the reality of the world outside of his classroom. "What good were all my complex theories when people were dying of starvation on the sidewalks and porches across from my lecture hall?" he asked (Yunus 1999, viii).

The idea of microcredit lending grew with his intrigue of a woman that he passed daily on his way to work who sold stools that she wove out of bamboo. Yunus saw her as the ultimate testament to the entrepreneurial savvy of the poor because he recognized the fact that the poor had extremely limited resources, yet somehow still managed to survive. However, these entrepreneurs were never able to rise out of poverty because the only access that poor individuals had to credit was through unscrupulous money lenders. The interest rates were so high on these loans and the terms so strict that they undermined the borrower's ability to repay. Therefore, rather than prospering from their businesses, the poor fell deeper into debt and failed to ever gain control over their profits.

As an experiment, Yunus lent a total of $27US to 42 women who were also stool makers. This was the first loan that led to the establishment of the Grameen Bank, which is now a $3.8 billion banking enterprise that serves over 2.4 million people, most of whom are women (Grameen 2005, Grameen Bank).

The Grameen Bank (Grameen means "rural" or "village" in the Bangla language) is an attempt to employ capitalist principles to achieve the noble goal of alleviating poverty. Yunus has made it clear that the provision of loans to the poor is not a handout. Rather, he believes that microcredit is a tool that creates self-reliance with the end result being the ability of the poor to lift themselves out of poverty. Yunus states that, "….the poor, once economically empowered, are the most determined fighters in the battle to solve the population problem; end illiteracy; and live healthier, better lives. (Grameen Foundation USA 2005, Resources)"

The initial methodology that the Grameen Bank utilized was quite simple: loans were administered to groups of 5 people. Two of the borrowers from the group would receive money up front and after they had made a series of regular payments, loans were then extended to the other members of the group. Additional financing was contingent on the regular payment of the entire group.

Perhaps the most important principle of the Grameen structure was to question the basic banking premise that required collateral from its borrowers. Recognizing that the poor did not possess assets that could be posted for collateral, the Grameen Bank was able to work around this stipulation by replacing traditional collateral with the social guarantee of group lending.

The Intended Results of Microcredit

As the practice of microcredit continues to adapt and evolve it is important to bare in mind the original intentions of Muhammad Yunus and what direction he intended the field to take. Yunus could not possibly have comprehended the global impact that would be the result of his original idea, but it is instructive to analyze the future he envisioned for the stool weavers in Bangladesh as a consequence of that first loan. This is necessary in order to further examine the future potential of microcredit and the greater field of microfinance.

Microcredit was primarily intended to be used as an income generating tool for people who did not have access to traditional sources of financing. In addition to making the poor economically self-reliant, the Grameen Bank had a much larger social agenda. While Yunus was acutely aware of the cultural norms to which his clients adhered, conditional agreements were placed on the loans that were able to subvert some of the more oppressive traditions.

Through a contract called "The 16 Decisions of Grameen Bank" the members addressed the pertinent issues of standard of living including health, sanitation, and birth control, as well as issues of gender relations, such as domestic abuse and the practice of marriage dowry.[1]

Since its inception, the development of the Grameen Bank and its lending techniques has been a process of trial and error. Though the face of microcredit continues to adapt and evolve, Yunus's hand and his original intentions are still evident in the organizations that are based on the Grameen Bank and now operate in over 100 countries. Even after 30 years of metamorphosis most organizations still bear resemblance to the basic tenants of the practice that Yunus desired to disseminate through

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[1] The 16 Decisions of Grameen Bank

1. We shall follow and advance the four principles of Grameen Bank --- Discipline, Unity, Courage and Hard work – in all walks of our lives.
2. Prosperity we shall bring to our families.
3. We shall not live in dilapidated houses. We shall repair our houses and work towards constructing new houses at the earliest.
4. We shall grow vegetables all the year round. We shall eat plenty of them and sell the surplus.
5. During the plantation seasons, we shall plant as many seedlings as possible.
6. We shall plan to keep our families small. We shall minimize our expenditures. We shall look after our health.
7. We shall educate our children and ensure that they can earn to pay for their education.
8. We shall always keep our children and the environment clean.
9. We shall build and use pit-latrines.
10. We shall drink water from tubewells. If it is not available, we shall boil water or use alum.
11. We shall not take any dowry at our sons' weddings; neither shall we give any dowry at our daughters wedding. We shall keep our centre free from the curse of dowry. We shall not practice child marriage.
12. We shall not inflict any injustice on anyone, neither shall we allow anyone to do so.
13. We shall collectively undertake bigger investments for higher incomes.
14. We shall always be ready to help each other. If anyone is in difficulty, we shall all help him or her.
15. If we come to know of any breach of discipline in any centre, we shall all go there and help restore discipline.
16. We shall take part in all social activities collectively (Grameen 2005, The 16 Decisions of Grameen Bank).

the Grameen Bank. This is certainly a testament to the practice of microcredit and its potential.

The Merit of Microcredit

From its humble beginnings in rural Bangladesh, the outreach of microcredit is now truly global. The influence of microcredit organizations is especially evident among some of the world's poorest populations in Asia, Africa, and Latin America and its popularity is continuing to grow in other areas of the world, including within developed nations such as the United States. However, there is still ample debate regarding the merit of microcredit and its potential.

In the process of evaluating the initial success of microcredit certain myths have been debunked in most circles, while others persist. Some theorists and practitioners (for example, Burrus 2004; Edgcomb and Klein 2005; Edgcomb, Klein and Clark 1996) have unabashedly proclaimed microcredit to be the ultimate strategy for poverty alleviation. Under this argument access to credit is the greatest need of the poor, and therefore, microcredit has the potential to create a domino effect that will eradicate poverty. Others maintain their skepticism (Ehlers and Main 1998; Lucarelli 2005; Taub 2003; Zephyr 2004), but will concede that the practice holds great potential and is indeed a key piece to a greater strategy. However, the actual effects of microcredit are still very much issues of debate, and defining a singular methodology that can produce superior results, or a best practice model, is still an elusive goal.

Banking for the Poor

One of the greatest accomplishments of microcredit has been drawing attention to the glaring omission of low-income individuals from the formal financial sector as well as countering the entrenched ideology that the poor are "unbankable." (Versluysen 1999, 39) High loan losses are expected, in theory, because of the high risk that the formal financial sector has historically associated with low-income borrowers. But, in fact, practitioners argue (Yunus and Jolis 1999; Versluysen 1999) that when a client's capacity for debt and repayment are properly assessed the default rate is surprisingly small. The Grameen Bank was instrumental in pioneering banking for the poor in order to prove that the low-income status of a client is not a predictor of future arrears.

Income Generation

Whether or not microcredit can generate enough income to move individual business owners and their families out of poverty is a contentious issue among practitioners. However, most still agree that self-employment can play a key role in expanding the opportunities of low-income individuals by "patching" their current source of income (Zephyr 2004). This implies that the revenue generated from a microenterprise may not be sufficient to propel a family out of poverty, but it may generate an additional income that will reduce the family's vulnerability to natural disasters, unforeseen emergencies or the macro-economic shocks that can devastate low-income communities.

It can also prepare a family to bear the costs of life events such as weddings, funerals, child birth, and education.

Common Programmatic Factors

Certain programmatic factors have been standardized to some extent and are incorporated in most practices. It remains impossible to generalize the administration and impact of these organizations because of the radically different social and cultural contexts in which they operate. Due to this fact it would be inappropriate and unwise to strive for a one-size-fits-all approach to serving an incredibly diverse population. However, it is still possible to identify some continuity in their methodology and desired outcomes.

Interest Rates

The provision of financial services to the poor was initially seen as a necessity in order to prevent low-income families from becoming the victims of opportunistic money lenders. The vicious cycle of debt caused by these alternative sources of financing is devastating to poor families. However, while microcredit organizations are vastly more beneficial to their clients, few offer free services and most point to the value of reasonable fees and interest rates.

For the most part, interest rates are viewed as a necessary component of microcredit lending in order to mitigate risk and cover high overhead costs incurred by the lending organization. Many organizations also agree that a reasonably high interest rate serves to differentiate a microcredit program from welfare or charity, which is most often viewed positively by donors and policy makers (Taub 2003). More importantly, it also adds value in the eyes of the client because, even if the cost to the client is nominal, they are more likely to feel a higher degree of personal investment and will therefore take their loan responsibilities more seriously.

Collateral

A primary intention of microcredit has been finding an alternative to the formal financial sector's requirement of using personal assets as collateral. This requirement has excluded an enormous population of poor people who usually possess little that is of value to a bank.

Microcredit organizations have been able to adapt the concept of collateral to accommodate low-income borrowers while still securing the loan. The guarantee may be enforced through the social pressures and support of group lending (Grameen 2005); or the collateral may be possessions of the client that are of nominal value to the lender (ACCION Chicago 2005). Both forms are effective as collateral because they appeal to the desire of the client to maintain what is valuable to them whether it be a social status or their material possessions.

Common Criticisms of Microcredit

Aside from these common factors of microcredit lending there is a large amount of diversity and debate in regards to loan products, the value of technical assistance and business training, and organizational administration. But at the core there is substantial criticism of the overall impact of microcredit (Ehlers and Main 1998; Lucarelli 2005; Taub 2003; Zephyr 2004).

Admittedly, the potential of microcredit is limited in several crucial areas. The lack of a best practice technique represents the frustrated attempts of academics to normalize a practice that is by definition non-traditional. Microcredit deliberately skirts the basic tenants of business and banking to embrace the label of alternative financing. As noble as the cause may seem, serious doubts remain as to its viability and sustainability.

Achieving Scale

Many question the ability of microcredit organizations to achieve the scale necessary to reach its goal of significantly impacting poverty (Burrus 2004). This is simply because of the overwhelming number of poor and marginalized people it is trying to serve, which includes the more than 1 billion people in the world who are living in poverty.

Similarly, by nature microcredit proposes to serve a clientele that is geographically remote and institutionally removed from the networks that the middle class relies on. Even in the densely populated urban areas that microcredit organizations have attempted to penetrate, practitioners have routinely encountered the barriers of culture and language. This makes programs costly, time and labor intensive, and severely limits outreach.

The inability to penetrate these markets and reach sufficient scale remains to be a crucial flaw and leaves microcredit organizations faced with the reality of a marginalized population that continues to be underserved. When faced with these barriers, some microcredit organizations have ended up deserting their original mission of targeting the poorest population. In fact, Aspen Institute's study of seven of the most representative microcredit programs in the United States revealed that 62% of program participants were not low-income individuals. (Edgcomb, et al 1996)

Achieving Sustainability

A popular adage in the development field states that *it is expensive to be poor*. Similarly, most practitioners would agree that it is expensive to serve the poor, which has led to the argument that most microcredit organizations do not have the resources to provide long-term assistance to the communities they serve. Sustainability is especially important in light of practitioners reporting how greatly an organization's effectiveness depends on its ability to establish itself as a permanent resource that clients learn to trust and depend on.

One of the most influential criticisms of microcredit, especially among the business and banking communities, is that microcredit is ultimately a charity whose existence is dependent on the economic vitality of its funders. In other words, the inability of microcredit organizations to be self-sufficient puts their sustainability into question. Even with the revenue generated from the interest rates and fees on loans, these organizations often operate at a loss due to inherently high overhead and administrative costs. If macro economic factors deplete the funds of donor agencies, dependent microcredit organizations may not be able to operate. Few microcredit organizations have achieved self-sustainability, which has caused the banking community to doubt the longevity of the practice.

The Double Bottom Line

The staff of microcredit organizations can be the field's greatest strength and simultaneously its greatest weakness, namely because of the nature of practitioners to have a social service focus which often comes at the expense of a strong business sense. Based on this criticism a new business-like model has emerged. The social side of the field is increasingly embracing a new terminology, including the reference to a "double bottom line."

The double bottom line pairs the developmental or social objective that is typically associated with microcredit with a more hard-lined financial objective. Supporters of this strategy, which is also referred to as the "commercialization of microcredit", believe there is a necessity for microcredit organizations to operate like for-profit businesses. (CGAP 2005, Commercialization) In the future, it may be an organization's ability to adopt an efficient business framework and utilize the techniques and disciplines of commercial finance that will allow it to continually pursue its social mission. The commercialization of microcredit is essential if it is to operate with the efficiency necessary to achieve sustainability and scale.

However, in accordance with the double bottom line, the field must also maintain its focus on the poorest population and its goal of empowerment. It is this second goal of the double bottom line that many practitioners fear may be lost in the commercialization process. As Muhammad Yunus eloquently stated, "The engine of the capitalist system is supposed to be fueled by greed…We must envision a world which has not only greedy people, but also people with strong feelings for their fellow human beings…Both types of people can be in the same market place, using the same tools and concepts of capitalism but pursuing completely different goals. (Zephyr 2004, 1)"

Ideological Differences Regarding Methodology

Most microcredit organizations can be divided into two groups based on their methodologies that diverge on whether their programs are credit-led or training-led (MicroTest 2005, General Information). The first focuses primarily on lending and providing access to credit. The latter believes that credit is only one part of a larger development strategy and places a larger value on training and technical assistance.

Credit-led Organizations v. Training-led Organizations

The inclusion of additional services is a contentious debate because credit-led organizations argue that the financial and administrative costs that are incurred from providing these resources are too much for microcredit organizations to bear. The further strain on resources that technical assistance adds may contribute to the instability of microcredit organizations.

On the other hand, training-led organizations point to the broad and long term impact that microcredit has if training is included. Proponents of training state that it may be the single greatest predictor of success among clients. They claim that the value added from training and technical assistance significantly outweighs the costs to organizations of providing the services.

Providing access to capital is a crucial step towards poverty alleviation, but many development organizations agree that lending should only be part of a more comprehensive strategy that will facilitate empowerment. Susy Cheston and Lisa Kuhn (2002) state that, "several studies and the experiences of a number of microfinance institutions have shown that simply putting financial resources in the hands of poor women is not always enough to bring about empowerment and improved welfare."

Similarly, Susy Cheston (2004) argues that, "Empowerment effects have been especially well documented in "credit plus" and group-based programs that combine credit with other activities such as education, leadership development, community problem-solving, and business development."

Why Focus on Women?

Women have long been the target of poverty alleviation strategies, and with good reason. The gap between women and men living in poverty has continued to widen around the globe, causing a trend that is commonly referred to as "the feminization of poverty" (UNIFEM 2000).

Currently, women make up 45% of the world's workforce, yet they make up nearly 70% of the world's 1.3 billion people living in poverty. They constitute two-thirds of the exploited informal workforce, own just one percent of the world's resources, and earn one-tenth of the world's income. Women's unpaid work at home, in agriculture and in the informal sector is estimated to be a third of global GDP, though they are rarely compensated for their work (UNIFEM 2000, Women, Poverty & Economics). Cheston (2002) notes that, "Although women are not always poorer than men, because of the weaker basis of their entitlements, they are generally more vulnerable and, once poor, may have less options in terms of escape." The disadvantage that women experience globally is irrefutable. However, their potential is boundless and their role in community development is essential.

Women and Community Development

Development theory and policy has shifted significantly over the past few decades in regards to the role that women play in the process. Ester Boserup (1970) was instrumental in spurring this debate through her book, "Women's Role in Economic

Development," in which she pointed out that development theory up until that point had underestimated the contributions of women. Boserup highlighted the disadvantage that women were facing globally which she claimed was often created or reinforced by development projects and policies. The resulting approach to development was called "Women in Development" (WID) and called for the integration of women and girls in modernization processes, specifically through education and training. The belief was that increasing women's productivity, by improving their access to education and training, would positively influence the development process. Women in Development (WID) resulted in the institutionalization of development policy on women.

Critics of WID argued that the approach focused solely on women's productive role while ignoring women's reproductive roles. As a response to these criticisms, a new approach to development emerged in the 1980's called "Gender and Development" (GAD). As defined by the United Nations (1998), GAD

> links relations of production to those of reproduction, thus taking into account all spheres of women's lives. Like WID, this perspective aims at economic efficiency. However, unlike WID, it is not preoccupied with women per se, but with the social realities that shape views of sex and assign specific roles, responsibilities and expectations to women and men. Through gender analysis, it focuses attention on the differences and constraints under which men and women work, using those insights to tailor policies and programs that will improve overall productivity.

Women and Microcredit

A clientele that is primarily women is a common trait of microcredit organizations. The concept of women as the ideal client was popularized by Mohammed

Yunus and the success of the Grameen Bank, which today has a clientele that is 96% women (Grameen 2005, Grameen Bank). The experience of the Grameen Bank and the subsequent success of other microcredit organizations that have targeted women gave merit to Yunus's claim that women were not only good clients, but were indeed a far better credit risk than men.

Women have experienced great success with microcredit programs, often boasting the highest repayment rates and establishing themselves as a good credit risk. Based on repayment rates alone, women in most countries present an impressively successful portfolio compared to men in similar situations. Furthermore, many practitioners argued that, especially in group lending situations, women were simply easier to work with because men did not exhibit the same sense of solidarity, cooperation, and support.

A focus on women is also a good example of practitioner's desire to pursue the double bottom line because the success can be seen in logistical and economic terms, as well as social. Microcredit as a tool for development has been groundbreaking for women because of its ability to circumvent the social barriers that have long prevented women from gaining access to independent financial resources. It has also been professed to be a catalyst for social change in regards to gender relations because of the opportunities it opens to women.

Microcredit as a Vehicle to Empower Women

Microcredit is a powerful approach to development for reasons greater than its role as an income generating strategy. Microcredit as a development tool holds great promise not only because of its contribution to poverty alleviation, but also because practitioners argue that it has the equally important potential to empower women.

Women's empowerment as a result of microcredit is manifested in many ways. In fact, financial empowerment is just one of several areas in which women are affected. In addition to increasing income, microcredit can have a holistic impact and it has the potential to create a perpetual force of change. As Ismail Serageldin (2000) states, the goal of development is, "to truly empower the poor to be the artisans of their own well-being, not the recipients of charity."

Offering a Brighter Future

Certainly, microcredit is not the final solution to poverty, but it does provide a unique avenue to new opportunities for women and the resources that are needed to create sustainable change in their lives. Development through microcredit can give women something positive to strive for and the tools to make a better life for themselves. Speaking of microcredit as a vehicle for empowerment, L. J. Servon (1999) states that, "By helping people begin to think strategically about creating better futures for themselves and providing them with the tools necessary to make that happen, these programs shift the focus of attention from maintenance to investment."

The Multiplier Effect

Women are arguably the key element in sustainable and pervasive community development because of what is known as a multiplier effect. In other words, targeting women with poverty reduction efforts will cause a ripple effect in development because when women are empowered the quality of life within their household immediately increases. This is evident in the family's improved health, increased income and access to education, among other factors. This benefit to families serves to justify the primary focus on women within the field of microcredit because, as the Deputy Secretary-General Louise Fréchette stated in defense of women's empowerment, "what is true of families is also true of communities and, in the long run, of whole countries (UNHCHR 2003)."

Women play a key role as a cornerstone in development; meaning that they are essential because of the reverberating impact they have on the whole of society. Charles Fourier (1808, 195) asserted that, "Other events influence these political changes, but there is no cause which produces social progress or decline as rapidly as a change in the condition of women….The extension of the privileges of women is the fundamental cause of all social progress."

Women have a greater potential to cause a domino effect in development as a result of their empowerment because they generally espouse a broader social agenda than men. Research has shown that women are more likely to invest the money from loans they receive through microcredit organizations and profits from their microenterprises back into their families. The development efforts that were directed towards one woman will result in a benefit to the children and the husband, and eventually the entire society will be uplifted. Therefore, with the limited resources and outreach that are inherent in microcredit practices it makes sense that the microcredit organizations would see the most social return on their investment by targeting women.

Marilyn Gittell's (2000, 131) conclusions about women's community activism can certainly be extended to their involvement with microcredit. She argues in her article, *Social capital and social change: Women's community activism*, "To the extent that women contribute differently to the development of social capital by increasing community participation and trust, and by creating community networks and civic action, they represent a model for community developing efforts."

Proponents of microcredit as a tool for empowering women argue that the social and economic benefits far outweigh the investments made in microenterprise development. Women themselves stand a great deal to gain from the holistic effects of microcredit and they are also able to put the income earned through microenterprises to the best benefit of their families and societies.

This argument builds from the idea that targeting women with development efforts is the most effective way to indirectly affect an entire society. A complementary argument can be made about using microcredit to begin a domino effect of the results of development work. When microcredit is appropriately targeted towards women the result is much more than a one-time loan because the possibilities exist to change the course of the client's life and the society in which she lives.

Increased Income

The most obvious area in which women's lives are impacted by their participation in microcredit programs is financial empowerment. Starting on a micro level within a single family structure, microcredit can have a great impact on the life and opportunities of an individual woman because of the independent source of income that it provides her. This simple fact has profound implications for women, many of whom are experiencing independence for the first time.

The experience of women in Bangladesh is representative of this opportunity. As Muhammad Yunus (1999, 65) explains, "This is the beginning for almost every Grameen borrower. All her life she has been told that she is no good, that she brings only misery to her family, and that they cannot afford to pay her dowry. Many times she hears her mother or her father tell her she should have been killed at birth, aborted, or starved. But today, for the first time in her life, an institution has trusted her with a great sum of money. She promises that she will never let down the institution or herself. She will struggle to make sure that every penny is paid back."

Self-employment and the income that it provides can offer the means to surmount the limitations that cultural norms have imposed on women, as in the case of the women in Bangladesh. In developed nations, a microenterprise is often the only option for women who cannot bear the additional costs of transportation and child care that are incurred by working outside of the home.

Tangible effects are seen within the immediate family when a woman gains access to an independent source of income. The woman obtains the increased capacity to buy more food, which improves the family's health and diet. A woman may also be able to invest her income in education for her children. This is especially significant for female children in a family where girls were previously denied access to education.

The Impact of Microcredit on Gender Inequality

Obviously, the impact of subverting the gender inequalities that are evident within almost every society would be incredible. Microcredit has the potential to significantly change the lives of women and the societies in which they live by challenging gender inequalities because of the resulting opportunities that arise for women as a consequence of their involvement.

Within a patriarchal family, microcredit can reduce the economic dependency of women on their husbands which can, in turn, increase women's decision making capacity. Microcredit can serve as a catalyst for change in the dynamics of the patriarchal family; where once the husband held the sole responsibility for making household decisions, now the wife is able to claim a right to be involved in the decision making due to her contribution to the household economics and well-being.

Community Impact

The empowerment of an individual woman can also have an impact on the greater society in which she lives. When a woman is able to exercise her independence, her community is a witness. As a society learns to accept these non-traditional actions of women, the social status of all women is raised. This often happens when the community recognizes that women have the potential to be economic contributors and participants in the public sphere independent of their husbands. Women are exposed to new ideas through their involvement in a microenterprise and their empowerment is manifested through simple interactions, perhaps at the local market, that can alter traditional social norms. The resulting dialogue among women about social and political issues and values can increase their participation in many formal institutions.

Increased Self-Confidence

From the change in family relationships a woman can turn outward and learn to address the greater society. Subverting gender norms within a patriarchal household can then reverberate throughout an entire society. A woman with the independent income gained from a microenterprise may encounter many new options and choices. For instance, she may have the freedom to shop at a local market without first having to ask the husband for money and consulting him about how to spend the money. The woman may even be able to purchase "luxury" items with her own income.

The internal impact of this freedom is an increase in the woman's self-confidence because she has gained control over her choices. Through microcredit women are given access to new resources and networks as well as the self-confidence and courage on which to act.

Arguments that Microcredit Does Not Empower Women

Many of the initial criticisms about the potential of microcredit have been put to rest, due to its relative success. But predictably, for every argument that supports microcredit as a means to empower women there is a rebutting argument stating that microcredit has been no more successful as a tool for poverty alleviation than the myriad strategies that have come before it.

The harshest criticisms state that microcredit is simply the latest fashion in a field of ivory tower academics that are quick to proclaim each new trend as the final solution to poverty. Further arguments state that microcredit, at its best, is a benign strategy for poverty alleviation; at its worst microcredit is actually a hindrance to women's empowerment and in certain instances it has inflicted great harm.

Persistent Gender Inequality

Again recognizing the effects that microcredit can have on individual families, critics point to instances of domestic abuse that have stemmed from a woman's involvement in a microcredit program. In this situation, the husband in the household may feel threatened by the woman's increased assertiveness to her rights. It may also be the case that, regardless of the positive economic benefits that a woman's self-employment may have on the family, the man cannot overcome the social stigma that prohibits the independent activities of women that microcredit encourages. And, even if the woman is able to pursue self-employment, this does not necessarily imply that she gives up or shares any of her previous household responsibilities, which may lead to a heavier workload and greater exhaustion (Cheston 2002).

It has certainly been the case in some instances that the woman who receives the loan never actually has control over the use of the funds. Instead, the woman simply funnels the credit directly to the men in the household. While the household may still experience some of the same economic benefits because of an increased income the potential for the woman's empowerment is certainly greatly diminished. She now holds the additional responsibility and burden of repaying a loan even though she has no control over the loan funds and how they are used.

In addition to this challenge, there is the argument that microcredit perpetuates a concept of maternalism[2] by targeting women. The women-centrism of many microcredit organizations can be seen as an unfair entitlement and often serves to perpetuate gender stereotypes, namely, emphasizing the primary role of women as wives and mothers. For example, motherhood is implicit in the argument that targeting women will create a multiplier effect in community development.

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[2] Maternalism is a concept generally referred to in the context of welfare reform, in which caregiving was eliminated as a base for making claims within the U.S. welfare state (Orloff 2004).

Furthermore, traditional gender roles are often reflected in women's choices of business endeavors, which can many times limit the business's potential. According to Tracy Ehlers and Karen Main (1998), women who receive microloans tend to engage in small-scale, barely profitable operations that have been labeled "pink-collar" businesses. In other words, women often feel more comfortable doing work that is already part of their gender-specific roles, such as cleaning, sewing, or crafts. These types of businesses are rarely lucrative. In this instance, rather than empowering women by subverting gender inequalities microenterprises may encourage women to maintain their economic vulnerability and social marginalization instead of entering into the mainstream business world.

The Economic Limitations of Microenterprises

Another major criticism of microcredit reflects the limited economic potential that is inherent in most microenterprises. Many microentrepreneurs use self-employment to "patch" their income. Rarely is the income generated from a microbusiness enough to function as more than supplementary (Ehlers and Main 1998).

Furthermore, most microentrepreneurs operate small-scale businesses within an informal market. These businesses do not have the ability to achieve the scale necessary to compete with larger, more sophisticated businesses in the formal market and therefore have a limited growth potential. In this instance, microcredit may not be the path to economic freedom and wealth that it is often purported to be by its supporters. Rather, the additional debt can be a substantial burden and the intensive time commitment that is required for self-employment stretches the already limited resources of low-income clients too thin.

Additionally, the risk involved in self-employment is rarely addressed by proponents of microcredit when the fact remains that the global failure rate of start-up businesses can be as high as 80 % (UNDP 2004). Most low-income people cannot afford the risk involved with self-employment because a loss would be devastating.

Free Will

Finally, the argument that microcredit will empower women and, consequently change societies, rests on the assumption that women will choose to reinvest the capital from their microenterprises back into their families instead of spending the money elsewhere. As Naila Kabeer (1999,49) writes, "There are sound reasons why women's interests are likely to be better served by investing effort and resources in the collective welfare of the household rather than in their own personal welfare." But she also cautions that, "It is important to recognize that those incentives may change when women become empowered and have new options. Women who are empowered will have the power to make the life choices that are best for them, and although many empowered women will choose to invest in their families, development organizations must be prepared for the possibility that some will not."

CHAPTER II

MICROCREDIT ORGANIZATIONS IN THE UNITED STATES

Introduction

In this chapter I will critically examine the practice of microcredit in the United States, paying special attention to the ability of microcredit to empower women. This research and review of literature will be followed by a case study comparing three microfinance organizations in the Chicagoland area: ACCION Chicago, the Women's Self Employment Project, and the Women's Business Development Center. The case study will include analyzing the programmatic components of each organization including lending techniques, financial products, nonfinancial services and program management procedures. From information gathered through interviews with practitioners I will assess each program's stated mission versus their practice, whether or not the organization specifically targets women and if the empowerment of women is a specific goal of the organization. I will also examine how success is evaluated in each organization and whether non-economic empowering factors are underutilized or sometimes altogether ignored.

The Practice of Microcredit in the United States

Due to the popularity and success that microcredit has enjoyed internationally, it is not surprising that practitioners eventually tried to replicate its success within developed countries. The microcredit field in the United States is relatively young compared to its international counterpart. However, over its short history there have been many achievements as well as lessons learned.

The History of Microcredit in the United States

Bill Burrus (2004), director of the prominent microcredit organization ACCION USA, attributes the emergence of the microcredit field in the United States in the early 1980's to new economic trends and a changing environment that encouraged self-employment. At the time, the need for welfare reform was becoming a contentious issue as it was increasingly recognized that public assistance programs were failing to move the poor out of poverty.

Throughout the 1980's the inequality in income distribution continued to grow and more workers were struggling with the reality that they could not support their families through minimum wage employment. New immigrants were also caught in the minimum wage trap and faced additional language and legal barriers that frustrated their attempts to achieve economic mobility. The large numbers of women entering the workforce at that time were often seeking ways to balance work with their family lives; and a decline in rural economies forced the decision on residents to either seek self-employment or leave their communities to pursue work in urban centers (Burrus 2004, 1-2).

In addition to these changes at the ground level, the attention of the formal financial sector was drawn to microcredit by national legislation that was implemented with the purpose of spurring development at a local level. The Community Reinvestment Act (CRA)[1] mandated that banks channel a portion of their resources directly (or indirectly through the emerging microfinance sector) into low-income communities.

Created in this environment and strengthened by an awareness of the growing need, the microfinance field has enjoyed 20 years of growth. The microfinance field in the United States now includes programs that provide loans, training, or technical assistance directly to microentrepreneurs. There is also a large support network that provides services such as funding, development, advocacy, evaluation, and training to the microenterprise organizations. The Aspen Institute has identified over 500 practitioner programs in the United States, all based in some respect on their predecessors, such as the Grameen Bank (Aspen Institute 2005, Fast Facts about Programs Assisting Microentrepreneurs).

There are several similarities between the practice of microcredit in the developing world and the operations of organizations in the United States, making it useful to identify the parallels. For instance, microcredit in both contexts targets a

[1] The Community Reinvestment Act (CRA) was passed by the US Congress in 1977. The law was a response to the practice of "red lining" in which some banks and savings and loans were discriminating against low and moderate income communities, while targeting wealthier neighborhoods. The CRA requires lenders to meet the credit needs of underserved populations (LISC 2005).

clientele that is persistently poor, disadvantaged because of their race, gender, or economic status, and typically lacks access to credit for similar reasons. Organizations in both contexts share the goals of poverty alleviation and income generation, and most organizations view microcredit as an avenue to empowerment, whether economic, social or both.

Common Criticisms of Microcredit in the United States

While the acceptance of microcredit has continued to grow over the last three decades, it has not yet achieved the popularity that is seen abroad. The international excitement over the potential for microcredit to have a significant impact on poverty revolves around the statistical and anecdotal evidence of clients who have utilized minimal capital and savvy entrepreneurialism to transcend absolute poverty. Indeed, there are also many areas in which the ideologies diverge between the international and domestic contexts. In these instances the international experience has provided lessons that can be learned from.

Certainly, the climate in the United States, both in economic and social terms, is vastly dissimilar to the contexts abroad where microcredit has flourished. There are several important factors which differentiate microcredit programs within the United States from the international field, which has led some policy makers to question whether microcredit is a viable strategy to pursue domestically.

Is There a Need for Microcredit in the United States?

Before a deliberation about best practices can progress it is necessary to address a basic assumption of practitioners: that a need for microcredit exists in the United States. When Muhammad Yunus developed his framework for the first microcredit organization in Bangladesh his target clientele was a population of people living in a condition of poverty that is virtually alien to citizens of the United States. For many, microcredit is best used as a tool for poverty alleviation and, given that it is audacious to equate poverty in the United States with poverty in a developing nation, it becomes difficult to claim economic hardship for the American poor and it weakens the case for microcredit.

The desperation of the situation in the least developed countries may serve as an impetus to sustain microbusinesses and therefore, there will continue to be a need for microcredit organizations. When faced with the daily perils of survival, individuals may view their microenterprise primarily as a survival strategy. Therefore, repaying a loan in order to obtain further financing could mean the difference between life and death (Taub 2003, Poverty and Its Meanings). The same sense of urgency does not exist for most entrepreneurs in the United States who remain buoyed by the welfare system. The quality of life for American entrepreneurs will not change drastically because of a miniscule amount of money, which is often the case abroad.

However, even in the United States the gap between those with economic security and those at risk of economic crisis continues to widen. A substantial number of Americans, particularly women, find it extremely difficult to bridge the gap to employment because of factors including insufficient training opportunities and well paying jobs for unskilled workers, inadequate transportation, and the lack of affordable child care and health care (Servon 1999). And once engaged in steady wage employment, American women continue to face a wage gap in which women earn only 78 percent of men's wages (US Department of Labor 2003).

Historically, women of all economic classes in the United States have faced economic discrimination. Even Congressional legislation has failed to make women in America full and equal participants in the economic realm. It wasn't until 1963 that Congress passed the Equal Pay Act making it illegal to pay women and men different wages for equal work; and before the Equal Credit Opportunity Act of 1974 most women did not have access to credit without a male cosigner. The current state of women's economic rights in the United States supports the argument that the social and cultural impact of microcredit is of a different nature in developed nations because of the obvious contrasts, but the impact is of no less significance.

Impacting Poverty

It is often difficult to persuade donor agencies to fund domestic microcredit programs because the prospects of affecting levels of poverty in America and those abroad are seemingly incomparable. However, a needs assessment in both contexts would reveal that poverty stricken Americans and poor individuals in the international community similarly desire access to capital and the opportunity to engage in income generating activities that will allow them to break the cycle of poverty that is familiar to the poor in any context.

Poverty is a looming reality and nearly anyone in the social service sector would argue that the situation is growing increasingly dire as many Americans continue to accumulate debt that they are unequipped to service. As in developing nations, the alternative sources of financing that are presented to the poor are typically disingenuous. The poor in America are constantly bombarded by advertisements from money lenders, bankruptcy lawyers, and pawn shops who offer quick capital tied to exorbitant fees and insurmountable interest rates. For instance, an individual can expect to encounter an interest rate of up to 25% from many money lenders and even many top credit card issuers and respected banks impose penalty fines on their customers of up to 30% (USA Today 2005). Of states that limit the total interest rates charged at pawn shops, the nations highest is Georgia at 300% (Biewen 1997). These alternatives are more likely to increase the burden of debt rather than relieving it.

Barriers to the Success of Microcredit in the United States

Richard P. Taub (2003) predicted that the emergence of microcredit in the United States would be met with great approval from the American public. He stated that, "any program that promises to help poor people climb out of poverty, costs little, and encourages individual entrepreneurship has clear appeal to American values" (Taub 2003, 1).

Ironically, it may be these very values that will limit the possibilities of success for these programs. Specifically, this refers to the exaltation in this country of individualism, entrepreneurship, and a mastery of the capitalist system. While these may be noble goals in themselves, collectively they play a role in deconstructing the potential of microcredit in America.

Individualism and the Lack of Social Capital

Individualism is a trait that Americans take great pride in. It is also a characteristic that is heavily criticized by outsiders because of its drain on social capital. Social capital "refers to the collective value of all 'social networks' and the inclinations that arise from these networks to do things for each other," according to Robert Putnam, author of *Bowling Alone*. (Putnam 2001) Social capital and the willingness of group members to rely on one another for support, assistance, and advice was at the core of the Grameen Bank's ideology (Yunus 2003, Grameencredit). But group lending has been nearly abandoned in the United States. It was recognized that Americans do not want to rely on someone else to be successful, nor do they accept the responsibility of someone relying on them.

The lack of social capital in the United States contributed to the breakdown of group lending for many reasons. First, while Grameen borrowers usually formed their own groups before approaching the bank for financing, practitioners found that the same networks did not exist in the US. This was both because the increased mobility of individuals did not allow for the formation of these relationships, and because the prevalence of wage employment in the United States made finding fellow entrepreneurs difficult. Whereas in developing countries, where the poor rely heavily on their participation in an informal market, an individual would most likely be engaged in a community of people who were also involved in self-employment; while an entrepreneur in America is far less likely to be able to identify several entrepreneurs with whom he or she has a close relationship.

Programs in the US started to bypass the self-formation of groups and instead accepted applications from loosely associated borrowers. But this simply highlighted the inability of peer lending to apply sufficient social pressure. Without group pressure to guarantee the repayment of the loan most programs had to start requiring physical collateral, which Americans seemed to be more attached to.

Individualism in America has also hindered the ability of microcredit to be a catalyst for social change. Microcredit abroad has provided not only capital to start a business, but was also able to utilize social pressure to promote the attitudes and behaviors that are changing societies. The social change that microcredit initiated relied in part on the collective enforcement of a social agenda, such as the 16 Decisions of the Grameen Bank. Such programs extended microcredit beyond an economic program into a social one, while individualism in America has been a major factor in reversing that trend. Without the social enforcement garnered through peer lending and programmatic factors that promoted change, microcredit in the United States has thus far failed to have the same social effect.

Self-made Success and the Entrepreneurial Spirit

Elaine Edgcomb, Joyce Klein and Peggy Clark (1996, 1) state that

> The philosophy of microenterprise assistance in the US and in the developing world recognizes the fundamental ability of people to apply their individual talents, creativity and hard work to better their lives. Microenterprise programs build on the unique ideas and skills of entrepreneurs and would-be entrepreneurs by providing business assistance and small amounts of credit to support the development or start-up of businesses. The services of credit and technical assistance are offered in a supportive context that conveys the message that people can, and do, improve their lives through initiative and hard work.

Americans hold a great deal of respect for self-made success. But with respect to microcredit it is arrogant to ask entrepreneurs to rely solely on their hard work and spirit, while ignoring the factors that perpetuate the cycle of poverty within this country. It is disingenuous to imply that entrepreneurs in the United States need only to apply initiative in order to be lifted out of poverty by their business' success. Microentrepreneurs in the United States face a gauntlet of social and legal barriers. These are often the same policies and institutions that keep them poor as individuals and present a significant obstacle to escaping poverty through microbusiness.

Prior to the welfare reform legislation of 1996[2], perhaps the strongest disincentive for pursuing microentrepreneurship was the welfare system in America. Microcredit

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[2] The Personal Responsibility and Work Opportunity Act 1996 (PRWORA) instituted Temporary Assistance for Needy Families (TANF) and replaced what was then known as the Aid to Families with Dependent Children (AFDC) program. The impact of this legislation was to impose greater work

aimed to target the poorest in society; however, entrepreneurship was not an option for those that relied heavily on the safety net that welfare provided because those individuals could not afford the risk.

The United States, up until that point, had fostered a population that was dependent on social assistance for the basic elements of survival: food, housing, and health care, not to mention essential services such as transportation and child care. When faced with the risk of loosing these benefits when the individual's income surpassed the set amount, as stipulated by government regulations, a person was sometimes wiser to walk away.

The Complex Economy

In the instance that a microenterprise is successful in America, despite the odds, the small business owner still faces considerable challenges. Whereas microbusiness owners in developing countries are able to thrive in a localized and informal market setting, the abundance of low-cost goods and the extensive distribution network in America undermines that possibility by pitting the very smallest microbusiness against the largest corporations. The complex economy within the United States makes financial independence for microentrepreneurs in America seem unobtainable.

However, one benefit of America's complex economy is evident through the economic development that microcredit can further. The effects of increasing household

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requirements on recipients, to reduce the number of recipients by placing a lifetime limit of no more than 60 months of benefits, and to give individual states greater freedom to regulate their own programs (OPA 2004).

incomes may have a more tangible effect on community economic development in the United States than in developing countries. The result is reflected in increased public tax revenues and private incomes, which in turn can reduce a family's dependence on public assistance which is a strain on national budgets.

Scale and Sustainability

The inability of microcredit organizations to successfully reach the poorest population undermines the mission of being a tool for poverty alleviation. The importance of achieving scale and financial sustainability has been adopted from the international practice of microcredit and may be the lesson that is most crucial to the field's success. Additionally, an organization's ability to emphasize a business approach to achieving scale and sustainability may be its greatest predictor of longevity.

After 20 years in existence, the microcredit field has failed to move large amounts of people off of welfare and out of poverty. The Aspen Institute estimates that the percentage of the target market reached is far below 1% (Aspen Institute 2002). Practitioners surprisingly encountered a lack of demand that contradicted the knowledge of a huge target market. Some attributed the small outreach to the welfare system which had accustomed potential clients to receiving assistance for free. In this situation it was difficult to convince the poor population that lending them money at market or above-market rates was somehow doing them a favor.

Angelyn M. Zephyr (2004, 10) states that because of the risk involved with entrepreneurship, "…microcredit will be most effective when utilized by those already involved in entrepreneurial activities, rather than as a means of coaxing the uninitiated into self-employment." Many organizations have used this argument to abandon their failing attempts to recruit large numbers of poor individuals and to justify limiting their clientele to low- and middle-income borrowers.

Additionally, domestic programs have incurred significant costs due to their need to recruit and then train clients, an expense that was not common to international organizations. Once recruitment had taken place, it was often still necessary for the client to receive training and technical assistance. Because clients in the US were likely to have less sufficient business experience than their international counterparts, it was not possible to reduce these services without significantly increasing the risk of default. In most cases, it was not possible to cut these costs from the US programs.

Due to the high overhead costs of recruiting and training, it became rare to encounter a microcredit organization in the US that was generating enough revenue from its lending activities to cover the costs of its operations. ACCION reported that its network of programs in 2004 had achieved levels of self-sufficiency ranging from 25%-60% (Burrus 2004, 11).

Framework for Evaluation

The available literature on microcredit, discussed in Chapter I, suggests that the potential for empowerment does exist in the United States; yet certain programmatic factors in domestic microcredit organizations are being underutilized. This will be the point of departure of this study for understanding the current operations in the United States. Based on the theoretical underpinnings of the existing literature and my personal experience working for a microcredit organization in Chicago, Illinois, I have developed an alternative framework. This framework will be based on programmatic factors that my research and experience suggest should be part of domestic microcredit organizations. The framework will be used to evaluate the performance of the organizations examined for this study, as well as to form conclusions about the extent to which microcredit in the United States can empower women.

Redefining Program Goals and Objectives

The available literature regarding microcredit reveals striking differences between the effects that it has had domestically and those that have been documented internationally. Certainly, in developing countries microcredit organizations have demonstrated their ability to be a resource for the very poor and marginalized populations, and microcredit has had the astounding effect of empowering women which has changed entire communities as a result.

However, microcredit organizations face many additional challenges when operating in the United States. While the basic premise of microcredit remains the same in both contexts (lending small amounts of money to individuals who do not have access to traditional financing), the cultural, social, and economic differences in the United States have forced the field to change so drastically that it barely resembles its international counterpart.

In order to maintain the legitimacy of the field and its relevance as a tool for economic development, I argue that it is necessary for the microcredit field in the United States to distance itself from its international counterpart in order to solidify its own identity. This is necessary because the goals and strategies of the two fields continue to diverge.

As the domestic microcredit field continues to forge its own identity, separate from the international sphere, organizations must take this opportunity to refocus their goals. This shift in direction will mean letting go of some of the popular claims that are laudable, but simply not reasonable or achievable. For example, most microcredit organizations claim poverty alleviation to be a primary goal and also one of the most significant results. But history has failed to prove that microcredit has had any real significant impact on poverty (Lucarelli 2005; Ehlers and Main 1998; Zephyr 2004).

Instead, the objectives that are essential for the continuation of the microcredit field are achieving scale and financial sustainability. By reaching a significant number of clients, microcredit organizations can make themselves indispensable. Therefore, it is undesirable for microcredit organizations to maintain poverty alleviation as one of its main tenants. Truly poor individuals do not represent the ideal client for microcredit organizations in the United States for several reasons. First, because of the welfare system in America, a person cannot afford the risk of pursuing entrepreneurship (Ehlers and Main 1998). Not only is small business ownership inherently risky for an individual of any income level, but when the safety net that welfare provides is jeopardized the risk becomes too great. Instead, organizations should redirect their efforts into targeting clients with characteristics that are conducive to successful entrepreneurship. Organizations can mitigate their risk by redefining their target clientele to focus on low- to middle-income individuals rather than the very poor.

Target Clientele

In addition to targeting low- to middle income entrepreneurs, the ideal client for microcredit programs has an additional source of income coming into the household and does not have to rely on the income generated by the microbusiness. The additional income serves to balance the risk incurred by the borrower and also increases the chances of repayment to the organization.

Furthermore, the client should be relatively well educated, whether through formal education or through various forms of entrepreneurship classes. The ability to live above the poverty line and without welfare assistance assumes a degree of financial literacy and business knowledge that is crucial to successful entrepreneurship in America.

This is an important distinction from the international context for microcredit in which most clients have not been exposed to formal education but are presumed to have sufficient business experience from their participation in the informal sector.

Achieving Scale and Financial Sustainability

It will be difficult for many practitioners in the United States to abandon their mission of serving the poorest people in society through microcredit. However, by narrowing the focus of microcredit towards a more sophisticated clientele, the organizations may actually see an increase in outreach because they are now targeting a more eligible client; and the organizations will become more financially sustainable because the risk of default will be lowered.

The dual goal of achieving scale and sustainability must be one that is always kept at the forefront of an organizations mission. Without the combination of the two the microcredit field in the United States will fail to maintain its relevance and its right to existence. In order to achieve this goal, organizations must pursue the "double bottom line" by emphasizing a business approach that utilizes market interest rates, enforced standards of repayment and participation. But organizations must also be diligent about pursuing the social ends of microcredit, including the empowerment of women, which are still achievable within these redefined goals (CGAP 2005).

Evaluating Success in Domestic Microcredit Programs

International and domestic ideologies seem to clash when interpreting statistics in order to define success. Among microcredit organizations and research institutes in the United States there has been an increased push to better evaluate the success of domestic programs (Aspen Institute 2005). However, the difference between domestic and international organizations is the tendency of domestic organizations to gauge their performance on primarily quantitative data. In other words, microfinance organizations in the United States rarely define the success of their programs in more than purely economic terms such as increased income and the number of jobs created. Conversely, the international organizations more readily acknowledge the anecdotal and often unquantifiable evidence of empowerment that can sometimes have a greater impact on society than purely economic gains. The failure of US organizations to place a priority on non-economic success severely limits the potential impact of microcredit because it ignores the ramifications of empowerment and the multiplier effect that it can have on communities and society as a whole (UNHCHR 2003).

The Importance of Technical Assistance

The cultural, social, and economic context may be conducive to the success of microcredit in many developing countries, but it has fallen short of achieving the desired outcomes in the United States. Simply providing a marginalized population with access to capital has not been sufficient in the United States because credit is not the only need of poor American women. It is the holistic and social aspects of microcredit programs that lead to empowerment. The construct and mission of a program will determine whether a client's involvement with a microcredit organization involves a one-time loan; or if the person is able to develop skills and strategies that will change the course of the client's life.

A far more comprehensive program is necessary to achieve the economic and social goals that have been set and to maximize the potential for the empowerment of women. This comprehensive program should include providing clients with business training and technical assistance, which for the owner of a microenterprise can be aid through business plan development, accounting and record keeping, marketing, the integration of technology, information on procurement opportunities, or other industry-specific counseling (Aspen Institute 2005). Entrepreneurs will also greatly benefit from experience in decision-making and leadership, control, and participation. Additionally, the United States must focus on building institutions that are more responsive to women's needs. (Kuhn 2002)

The Importance of Focusing on Women

Although group lending has failed in most instances in the United States, I would still argue that implementing a community element into microfinance whenever possible greatly promotes the social mission of the field. The community element of microfinance can be implemented through organizations that lend primarily to women, or through organizations that sponsor women's initiatives. Organizations with a focus on women will be better able to facilitate an environment in which women will thrive. The group formation and mutual guarantee will not reflect that of international borrowers; however, women in the United States may still benefit greatly from a peer network that can provide support, advice, and assistance.

Convincing Donor Organizations of the Worth of Empowerment

In order to realize the full effects of empowerment that microfinance can initiate, it is necessary to fully and directly pursue empowerment as an outcome. Ultimately, the empowerment of women must be an explicit part of an organization's mission. But in order to have a mission that pursues empowerment as a primary goal, organizations must be able to convince their donor organizations that the empowering effects of microcredit are just as valuable as the economic results. This argument lies at the base of all community development projects because it is often difficult to convey the trickle up effect that grassroots development can have on the greater society.

Currently, this argument is especially important to make within the microfinance field in the United States. A disturbing trend is emerging in the field in which smaller microfinance organizations are more frequently failing or merging with larger organizations. The positive result it that these mergers are producing more efficient lending techniques, best practice models, and the field continues to work towards achieving its goals of scale and sustainability.

On the other hand, the formal financial sector has become increasingly interested in what they see as an untapped market consisting of the low- to moderate-income entrepreneurs who have not previously been clients of a bank. Banks have begun to dabble in this industry and are certainly taking advantage of the trial and error processes of microfinance organizations. As they become more involved, banks will be able to capitalize on the knowledge of how to navigate a difficult industry, and combined with the incredible infrastructure and outreach of the formal financial sector, it is my prediction that banks will soon dominate the microfinance sector.

It seems as though the banking community will bring many valuable assets to the table. The tragic consequence of this vision would come to fruition if the social element of microcredit lending is not maintained by the banks that are involved. If the empowerment focus is abandoned it is very possible that, in the name of efficiency, banks will cut the programmatic factors that are discussed above. The result could be the underutilization of the empowering effects of microfinance, or it could be the failure of programs altogether because of trying to lend to a clientele that is wholly unprepared for small business ownership.

Case Studies of Microfinance Organizations in the United States

As noted before, in this section I will examine three microcredit organizations in the United States. They are: ACCION Chicago, the Women's Business Development Center (WBDC), and the Women's Self Employment Project (WSEP).

ACCION Chicago

ACCION Chicago describes itself as an alternative lending organization. ACCION's mission is to provide "credit and other business services to small business owners who do not have access to traditional sources of financing (ACCION Chicago 2005, Mission)." ACCION Chicago encourages their clients to achieve economic self-reliance by providing them with access to credit. Since its inception in 1994, ACCION Chicago has made over 1,500 loans totaling $10.9 million, which they assert has resulted in increased income for small business owners, the creation of jobs, and stronger communities in the Chicagoland area (ACCION Chicago 2005, History).

Programmatic Components

ACCION Chicago is a credit-led organization, meaning that its programmatic components focus primarily on lending. The size of an ACCION loan ranges from $500 to $25,000 and has a fixed interest rate between 10.6% and 16%, depending on the credit risk and history of the business. A loan officer is assigned to each client and is available to the applicant throughout the entire loan process to provide guidance. One client referred to her loan officer as her advocate. "I really felt like someone was in my corner," she said (ACCION Chicago 2005, Our Clients).

Although technical assistance plays a role in many clients' experience with ACCION, the organization itself does not provide this assistance and it does not require their clients to undergo mandatory pre-loan counseling or complete an entrepreneurship course, which is common for many microcredit programs.[3] However, many applicants do seek technical assistance at the recommendation of ACCION in order to complete a business plan and financial projections, which ACCION requires of start-up businesses.

For this assistance ACCION relies on an extensive community network of Small Business Development Centers, credit counselors, universities, and other non-profits to provide its clients with the business resources they need. The relationship between ACCION and other community organizations and banks is a focus of the organization because ACCION relies heavily on these partners for the majority of referrals that they receive. The referrals that ACCION Chicago receives from community organizations and banks constitute a significant proportion of the total inquiries into the organization.

Target Clientele

Although ACCION Chicago does not specifically target women, their loan portfolio includes about 33% women on average. The majority of ACCION clients reside in low- to moderate-income census tracts, and 80% are minorities. By offering a variety of loan products, ACCION has been able to target a wide variety of clientele (personal communication, June 2005).

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[3] For instance, ACCION New York provides all women clients and start-up businesses with advisory services at disbursement and clients are followed up with on a quarterly basis at the minimum, depending on their needs. All clients that have no prior formal credit history also meet with staff members, who teach them concrete steps about how to build and maintain credit. All these services are highly individualized; client needs are identified throughout the loan application process by loan consultants and underwriters, thus they are able to work with them on very specific and tangible issues. (personal contact)

The fact that a great deal of inquiries come from clients who were referred to ACCION after they had approached a bank for financing and were declined suggests that the average business that ACCION funds is perhaps more sophisticated than the traditional microcredit client because of the client's previous exposure to the formal banking system. However, ACCION does not collect data that could verify this. More comprehensive data about clients is certainly desired, however at the moment the organization does not have the resources to efficiently track and compile the necessary data.

After incurring significant loan losses over the last few years, ACCION Chicago attempted to reduce their risk by moving towards more conservative lending criteria that resulted in a reduction of loans made to individuals with poor credit histories. Recently, ACCION has made a move to counter that trend by aggressively promoting a new loan product called the Credit Builder Loan. Targeted specifically to clients who have a poor credit history or no credit history, the Credit Builder product is a business loan of up to $2,500 and is made in exception to the usual criteria that relies in part on a client's credit score. The smaller loan amount has allowed ACCION to minimize their risk, while still providing clients with a valuable resource: financing to start or grow their business as well as an opportunity to repair their credit. Credit repair is heavily emphasized in the application process, with ACCION requiring that clients take significant steps to address their credit problems. For many clients, the Credit Builder Loan may be the first step in regaining control over their finances (personal communication, June 2005).

Measuring Success

Client outreach and service is measured by the number of clients that contact ACCION to inquire about their lending products and processes. From those inquiries ACCION also tracks the number of inquiries that are eligible for a loan; these clients are "pre-qualified" and become applicants. The strongest indicator of success beyond the initial contact with the client is measured by the number of loans that are approved and the dollar amount disbursed.

However, after a loan is disbursed there is little follow-up with the client to evaluate the effect that the loan has had on the individual or to determine any subsequent business needs of the borrower. For ACCION, if the loan is repaid according to the agreed upon terms then the transaction is considered to be a success, regardless of the longevity or success of the business. In other words, there is no differentiation between a client whose business flourished and a client who, in the worst case scenario, failed as a business owner and is now burdened with debt that they are struggling to repay.

Empowering Women

While ACCION Chicago explicitly strives to enable their clients economically through increased income and job creation, it is not evident that the empowerment of men or women is a specific goal of the organization. However, while ACCION cannot substantiate claims of empowerment statistically, there is certainly remarkable anecdotal evidence of how a small business loan from ACCION has been able to transform people's lives.

One extraordinary story involves Ming Sison, owner of *Designs by Ming*. Ming emigrated from the Philippines in order to build a new life; "I had twenty dollars in my pocket" she recalls. After getting on her feet, Ming desired to make a living using her creativity and the skills she had aquired through sewing classes and design courses she took from the International Academy of the Arts and the Art Institute of Chicago. Ming approached a local bank for a business loan to expand her line of elegant, custom designed clothing and gifts that she markets to individuals and hotel chains, but was turned down because she did not meet their collateral requirements. Ming then approached ACCION Chicago for financing and was approved for an $8,000 loan, which she used to purchase presentation materials for her line and to pay for a part-time employee to assist with production. Ming was able to repay the loan and is currently applying for another ACCION Chicago loan to expand her line of custom designed blouses and to develop her website, www.designsbyming.com. As her business and her payment history continue to thrive, Ming will soon be ready to reapply for bank financing (ACCION Chicago 2005, Our Clients).

On the other end of the spectrum are clients such as Dr. Nicole King. Dr. King approached ACCION Chicago for a loan after graduating from medical school. She was excited to pursue her dream of working in the field of alternative/integrative medicine and wanted to open her own practice. ACCION was able to lend her $10,600 which allowed Dr. King to purchase supplies and market her business. The loan from ACCION was a welcome relief to Dr. King who did not expect to be able to obtain bank financing because of the usual collateral requirements and because she did not have a business history to build from. Today Dr. King's practice, Abraham's Mark, has continued to expand and she is proud to say that her business has grown from an initial clientele of 3 people to over 700 (ACCION Chicago 2005, Our Clients).

The Women's Business Development Center (WBDC)

The Women's Business Development Center (WBDC) in Chicago, IL is one of the largest and most comprehensive women's business organizations in the country. Established in 1984, the WBDC has served more than 40,000 women entrepreneurs. The stated mission of the Women's Business Development Center is to "strengthen and accelerate the growth of women owned businesses (WBDC 2005, About Us)."

Programmatic Components

The Women's Business Development Center is a vigorous advocate for women's issues such as affirmative action, equal opportunity, women's health care, violence against women, women's and human rights issues, and economic equity, among others (WBDC Annual Report 2002). However, the expertise of the WBDC lies in pioneering women's economic issues.

In addition to public policy leadership in the field of economic development, the WBDC works on the ground level providing women entrepreneurs with a comprehensive range of non-financial services. A wide variety of training opportunities are available, including workshops and one-on-one counseling on all aspects of business development as well as assistance with loan packaging. Business counseling is an opportunity for problem solving and growth through the development of a business plan, marketing strategy, or other business solutions. It is often paired with training which ranges from introductory seminars to 12 week intensive entrepreneurship courses; topics address business basics such as financial analysis, business management, technology integration, and more (WBDC 2005, Tools and Resources).

The WBDC also employs a finance department that assists in loan packaging and developing other financial solutions. While the WBDC previously offered a variety of loan products, they have since scaled down their operations which now consist solely of a small loan fund that is specifically limited to day care businesses.

Although the WBDC no longer offers microloans for businesses outside of the childcare industry, financial education and assistance is still a popular strategy for the organization. The WBDC has always maintained that credit should only be one piece of a larger program. Through the development of a financial strategy, the specialists help clients to identify the appropriate source of financing for their business, whether a microlender such as ACCION Chicago or a traditional bank, and prepares them to approach the financing sources. The counselors assert that their clients are more likely to receive funding after consulting the WBDC because the finance specialists are able to identify and address the "holes" in the loan package before an entrepreneur approaches the lender. The entire process is, therefore, more efficient for the lender and serves to encourage the lenders to continue doing business with microentrepreneurs; and it also increases the rate of success for women business owners because of their increased preparedness (personal communication, June 2005).

Achieving Scale and Financial Sustainability

When asked why the larger loan operation did not succeed, a financial specialist at the WBDC expressed how it became obvious to the organization that the larger loan fund was not financially viable for several reasons. First, was the inherently risky nature of microlending: the WBDC found that microloans had a high rate of default and were not profitable. Because of the significant cost involved and the limited success, the WBDC came to the difficult conclusion that some people must be "unbankable" for a reason. Additionally, hiring a back office staff to manage the loan fund proved to be very expensive and the organization determined that it did not want to invest the capital into developing that part of the internal structure, which would be crucial to the loan fund's efficiency and success. Finally, the WBDC recognized that it would be difficult to achieve the scale that they desired if they were allocating their resources into too many areas within the microfinance field (personal communication, June 2005).

Target Clientele

The Women's Business Development Center, as evident by its name, has a target clientele that is primarily women; although the organization makes the point to note that men are welcome to participate as well. The focus on women is intrinsic to the organization and was inspired by the success of peer lending groups in developing countries that were made up of women. Although the WBDC failed to replicate the success of the peer lending model, the staff at the WBDC still believes that an organization of women is a means of achieving a similar social network (personal communication, June 2005). One client commented that, "The Women's Business Development Center has illuminated the path to the successful beginning of my dream…of owning a design studio that educates the local business community. I have a guide, a friend, a professional resource and my very own support group in times of uncertainty. My company may not have gotten off to a smooth start without the encouragement of the WBDC counselors (WBDC 2005, Client Testimonials)."

Measuring Success

Success for the WBDC is measured in several ways including using statistical data that represents the organization's accomplishments, anecdotal evidence that exemplifies client satisfaction, and the informal, yet influential evaluation that is constantly being conducted by board members, donors, peers in the development community, and by the internal staff who ultimately determine the direction of the organization (personal communication, June 2005).

For statistical data the WBDC tracks the number of clients they serve through one-on-one counseling and training workshops. In addition to these figures, the organization lists among its accomplishments the claim that they have "made an impact on the quantity and quality of child care businesses in the Chicago area by training and counseling hundreds of women through our Child Care Business Initiative and annual Child Care Business Expo and Child Care Business Microloan program," and also that they are active in "economically disadvantaged communities (WBDC 2005, About Us)."

Empowering Women

The WBDC's website boasts that

- 84% of women surveyed believed that the WBDC services strengthened their businesses and increased their business skills,
- 70% commented that the WBDC assisted in better planning the next steps for their enterprises, and
- 87% rated the WBDC services as responsive and excellent (WBDC 2005, About Us).

Indeed, client satisfaction is a highly regarded indicator of success for the WBDC. However, a staff member pointed out that the evidence that seems to infer the empowerment of women as a result of the services provided by the WBDC is not as valuable as the economic indicators of success. While she insisted that empowerment was absolutely a result of a client's relationship with the WBDC, it was necessary to recognize that few donor organizations are interested in providing funding for empowerment. Instead, those factors must simply be added in as a side note (personal communication, June 2005).

Women's Self Employment Project (WSEP)

Compared to the other two organizations examined in this case study, The Women's Self Employment Project (WSEP) goes the furthest in its language as it refers to empowerment. From its biography that begins by describing itself as a non profit organization "with the mission of assisting women make their dreams come true (WSEP 2005, About WSEP)." WSEP seems to embrace many elements of empowerment that the other organizations shy away from. That being said, in recent years WSEP has encountered similar barriers to its pursuit of empowerment as a primary goal and indicator of success. My personal communications with the WSEP staff reflected a more conservative attitude that the current staff holds towards the use of empowerment.

The Women's Self Employment Project has operated in Chicago since 1986. WSEP has assisted over 8,000 low- and moderate-income women through educational and technical assistance programs, as well as financial assistance through its micro lending program. While WSEP does not currently have an active loan fund, in the past they have offered a wide variety of products including individual and group loans. In fact, WSEP was a pioneer for group lending in the United States (WSEP 2005, About WSEP).

Programmatic Components

At its height, the loan fund at WSEP was able to offer entrepreneurs microenterprise loans of up to $75,000. Financing was first offered to groups of women and was later limited to individual loans after the peer lending model was deemed unsuccessful. While the loans varied in size and terms, receiving a loan was always conditional on the woman successfully completing an entrepreneurial training program (WSEP 2005, WSEP Loans). Currently, the loan fund at WSEP has been suspended while the organization seeks to rejuvenate its capital. WSEP has instead turned its attention to technical assistance and training (personal communication, June 2005).

The website states that, "WSEP provides women with the foundation they need to develop a business, author a business plan, hire and manage employees, and keep track of their bottom line (WSEP 2005, About WSEP)." An additional goal of the organization is to encourage asset accumulation as a wealth creation strategy. WSEP keeps women involved with the organization even after they have completed training or received financing, continually educating its clients about savings and other strategies to obtain economic security. After their initial training, many of the women remain closely connected to the organization through ongoing programs such as *Markets and Money* which provides women with ongoing training opportunities, and WSEP also offers women business owners the chance to participate as vendors at various expos that the organization hosts.

Target Clientele

The Women's Self Employment Project has always required that the businesses they serve be at least 51% woman owned and operated. Other characteristics of their clientele have changed over the years. The staff at WSEP remembers that in the beginning the typical client probably earned less than $18,000 a year and was struggling to work her way out of poverty through self-employment. This goal of WSEP was not unlike most microfinance organization's original missions of serving the poorest populations. The recent shift in clientele now brings more sophisticated clients to WSEP who typically have a college degree or significant work experience behind them. However, the staff still believes that the most important indicator of success does not have to do with economic or educational specifics; rather, success is determined by a client's commitment to the program and to their business, which is reflected by their level of involvement with the organization and their willingness to actively participate and ask questions (personal communication, June 2005).

The staff at WSEP believes that being part of a women's business organization is crucial to their clients' success. While the organization was forced to abandon the peer lending model, it has managed to retain many of the advantages of such a structure. The advantages that can be garnered from this atmosphere are a feeling of belonging and continued engagement. By maintaining a close network of women business owners WSEP is able to keep the women connected to a system of personal support. Being part of an organization such as WSEP also gives the clients access to business and market resources that the women are able to provide for each other and the social environment helps women to maintain the energy that is needed to excel (personal communication, June 2005).

Measuring Success

Success, as a WSEP staff member defined it, is a client who has created a viable business and who remains in business after their involvement with WSEP. The essential components of business success are the economic indicators, such as maintaining a positive cash flow. But WSEP goes beyond this in some of its literature to determine the impact of their organization. Their website states that, "People who join WSEP join an organization – a family that cares about who they are as a person and as a business owner; not just a number to report to funders and investors (WSEP 2005, About WSEP)."

The organization is also quick to talk about the impact that they have had on Chicago communities. WSEP President Connie Evans explained that, "The employers in the neighborhoods in which we work are usually large companies and fast-food and retail chains which offer women low-wage and service-oriented jobs which do not provide them with the experience and opportunities necessary for their personal and economic advancement. Self-employment can be a way of escaping these limitations. It gives women a chance to provide their children with positive role-models, to increase their own self-esteem and to raise the quality of life of their families. It also keeps economic resources within the community. Profits gleaned from local money do not end up reinvested in some other neighborhood, city or state (Whyte 2002)."

Achieving Scale and Financial Sustainability

When looking to the future, the Women's Self Employment Project has considered several different avenues to pursue in an attempt to keep up with the trends of the field and the evolving needs of small business owners. WSEP believes that as technical assistance providers saturate the market the demand for these services will dwindle. The niche that WSEP is hoping to fill is the step that small business owners have to take between receiving training and financing and actually starting a business.

Additionally, Connie Evans offers this advice for other microfinance organizations: "[these] organizations must be innovative, entrepreneurial and strategic, recognizing that we are applying market-based concepts in order to bring about positive social change for our customers. With innovation we can provide cost effective services, with entrepreneurial operating principles we always remember the customer is first and finally being strategic allows us to embrace change while maintaining high value products and services (Whyte 2002)."

Empowering Women

Of the three organizations that I profiled for the case studies, the Women's Self Employment Project certainly goes the furthest to express their desire to empower women. Their language of empowerment is exemplified through statements found on their website such as, "WSEP is an organization which exists to enhance women's capacity for success. Developing a business plan is giving a woman the knowledge and the tools that will make her successful. With the skills learned through WSEP the women are better equipped for business (WSEP 2005, About WSEP)."

However, today the talk of empowerment seems to be little more than a residual effect of WSEP's earlier days when it exalted group lending as the key to economic freedom and still retained its idealism. When asked if empowerment was currently a specific goal of the organization, a staff member declared that the empowering effects of WSEP were self-explanatory and it was no longer necessary or desirable to maintain that focus. She went on to explain that in the past microfinance organizations had overused the idea of empowerment as the revered outcome. It was now time to move past that basis for the argument and pursue other means of defining why microfinance was indispensable (personal communication, June 2005).

The organization has followed the current trend and refocused itself around the economic indicators that continue to define the field. WSEP strives to change a prevailing attitude about financing that many women business owners have: that a loan is only necessary when the business is in trouble. WSEP believes that it is crucial for women to prepare to receive financing so that they are able to utilize a loan to build and grow their business, instead of using a loan to bail out a failing business.

CHAPTER III

CONCLUSIONS

Introduction

Microcredit has been popularized worldwide by espousing an ambitious agenda and emulating the work of visionary leaders, such as Muhammad Yunus who desired for microcredit to be a socially conscious capitalist enterprise (Yunus 1998). It is indeed evident that in developing countries small loans can make a significant social and economic impact. The evidence coming from the Grameen Bank and other microfinance organizations is overwhelming and inspiring; and despite its shortcomings, like many I believed that microcredit had enormous potential to contribute to economic development and poverty alleviation in the United States. Additionally, I certainly believed that microcredit had led to an empowerment of American women that mirrored the empowerment of women internationally.

I began my research with this understanding. The results, however, point to a different direction. While the findings of this research do not call for the practice of microcredit to be abandoned in the United States, it underscores the need of re-defining the framework in which microcredit can be expected to be successful. It is my contention that the framework must be more narrowly defined than what was previously thought.

In this chapter I will present the findings of my study which assert that empowerment is indeed an effect of microcredit in the United States; however, I will explain why the scope of microcredit must be more narrowly defined in order to achieve the maximum effects. I will argue why the limited economic benefits of microcredit ensure that an organization's goal of empowerment is the most important programmatic component in terms of potential developmental impact. And finally, I will outline the additional programmatic components that maximize the empowering effects of microcredit, using the case studies from the previous chapter to illustrate my arguments.

Microcredit as a Vehicle to Empower Women in the United States

My initial research about microcredit in the United States as well as my experience working for a microcredit organization in Chicago, IL led me to the central research question: *Does microcredit have the ability to empower women in the United States?* While the literature from developing countries spoke liberally about the empowering effects of microcredit, domestic organizations rarely mentioned empowerment as a goal or desired outcome. I was dismayed by this initial observation because I found empowerment to be one of the most far-reaching effects of microcredit and the one with the most potential to create significant and sustainable change. I thought that further research would certainly reveal that there was a similar zeal about the empowering effects of microcredit in the United States as was found abroad. But this was not the case.

My research concluded that as the microcredit field developed over the past 20 years microcredit organizations in the United States gradually distanced themselves from their international counterparts by forming their own identity that was based around the American values of individualism and free market capitalism (Taub 2003). Additionally, organizations in the United States were under increasing pressure to become self-sustainable and profitable – qualities that were generally unattainable for domestic organizations given the unique social, cultural, and economic conditions (Burrus 2004).

Because of these changes the concept of empowerment is no longer at the forefront of most domestic microcredit policies in the United States. The emphasis of microcredit programs has been put on the economic benefits that proponents claim could be gained through individual initiative and hard work (Edgcomb, Klein and Clark 1996), as opposed to the social benefits that were possible through the empowerment of their clients. This shift in ideology, in combination with an organization's push to become self-sustainable, often led to the scaling back of technical assistance and training that were essential to the client's empowerment, but extremely costly to the organization. It is my argument that this drift is extremely detrimental to the microcredit field in the United States and its clients. My research supports this argument in two key ways. The first centers on the limited economic benefits of microcredit in the United States; and the second has to do with the future direction of the microcredit field in the United States.

The Limited Economic Benefits of Microcredit in the United States

If microcredit is used simply as a tool for income generation the limited economic benefits that result from microenterprises (Ehlers and Main 1998) point to the conclusion that the practice is not worth the cost. The ends, in this situation, simply do not justify the means. Despite the impact that is touted in developing countries, microcredit in the United States has encountered economic and social barriers that have severely limited its scope in terms of its ability to impact poverty or create significant economic growth (Zephyr 2004). In other words, if the practice of microcredit is limited to lending, the movement will fail to live up to its expectations of impact. An organization's explicit intent to empower women is what will transform microcredit into a tool that can further the field's goals of economic and social change. This "double-bottom line" (CGAP 2005) is necessary to pursue because the economic gains to be made will not be sufficient to sustain the field's justification for existence.

The Future of Microcredit in the United States

Given the limited economic benefits of microcredit (Ehlers 1998) that many organizations admit to, a priority must be given to expanding the concept of microcredit to include programmatic factors that have the potential to empower women on a much greater scale. Empowerment should therefore be a primary goal for all microfinance organizations. Most practitioners stress that in order to obtain maximum results microcredit needs to involve more than simply lending small amounts of capital (Cheston and Kuhn 2002). Rather, access to capital should be part of a more extensive and comprehensive microenterprise development strategy where empowerment in the form of social and cultural change is a favored effect, if not the primary goal. It is crucial to examine the field of microfinance in the United States to evaluate whether or not they are on par with international practitioners in promoting the empowerment of women.

It is my fear that if empowerment is not an explicit goal of microfinance organizations, their scope will be further limited by the trends that are now becoming evident. One likely scenario is as follows: As microfinance organizations continue to forge the way into this untapped market of a previously "unbankable" population, the products will be perfected and best practices will be established. The formal financial sector is already beginning to take advantage of this trial and error process and banks will increasingly access this market on their own terms once they establish ways to make microcredit profitable. Meanwhile, microfinance organizations are undergoing a metamorphosis in their attempt to achieve scale and sustainability, which has resulted in several mergers and acquisitions among the stronger organizations, and the failure of organizations that could not manage to survive. The next step in this process which I see to be likely will be the eventual takeover of the microfinance field by the formal financial sector, because even the strongest non-profit microfinance organizations will not be able to compete.

The takeover of the microfinance field by the formal financial sector has its pros and cons. The advantage to having banks involved in microfinance will be their scale and sustainability. Banks are established in most neighborhoods in all areas of the country and therefore already posses the infrastructure to achieve scale. Additionally, they have the financial resources that are well beyond the means of most non-profit organizations. But the goal of the formal financial sector will always be to turn a profit, and in the name of efficiency banks will surely cut many of the services that are essential for empowerment, but that they view as merely amenities that are unnecessary. A mission of empowerment must be adopted for all microcredit organizations, whether for-profit or non-profit, in order to succeed.

Microcredit has the potential to address some unique elements of American society through its ability to empower women. However, currently the empowering effects of microcredit are routinely dismissed. In the United States, empowerment is often welcomed by microcredit organizations as an unintentional side effect, but seldom pursued as a primary goal. But the continuation of these principles will render the strategy of microcredit ineffective. Because the practice of microfinance is relatively new in the United States, the potential remains for practitioners and researchers to have a significant impact on public policy and best practice methodology in the field as it continues to form. Microfinance organizations should be continually working towards the ultimate goal of achieving a sustainable and institutional solution to poverty through the empowerment of their clients.

Essential Programmatic Components

Empowerment, for the purposes of this paper, has been defined as a process through which women are able to expand their choices and take control of their own lives (Kay 2002, 69). When examining the current state of society in the United States and the status of women it is evident that microcredit does have the ability to empower women and there are several programmatic factors that could greatly contribute to this process.

Microcredit versus Microfinance

One of the most striking findings of my research was the difference in impact of a microcredit organization versus that of a microfinance organization. The terms "microcredit" and "microfinance" have often been used interchangeably in the field, but in the context of the United States it is extremely important to differentiate between the two.

Microcredit, or the service of providing individuals with access to capital, will not in most cases in the United States provide the impetus for women to take control of their lives. Instead, organizations need to realize that many women are not equipped to successfully navigate the complex economic system in a way that will empower them financially or socially. The more comprehensive components offered by micro*finance* organizations, such as providing a range of financial services, training, and technical assistance to the recipients of microcredit loans (Kay 2002; Ehlers and Main 1998) are necessary tools for empowerment.

There should be an obvious connection between training and educating clients, and lending and developing their businesses. Both components are equally important to creating the experience of empowerment. Ehlers and Main (1998) stated that there was a difference in the US between organizations that provide microcredit and organizations that provide microenterprise development; the difference being the long-term effect of providing that access to credit. In the first, the lending is a one time event. In the latter, it is an experience that will have repercussions on the rest of the person's life.

It may not always be economically feasible for organizations to provide both training and financing for their clients. However, recognizing that both technical assistance and credit are essential components to a client's success, organizations should utilize partnerships with other service providers to ensure that their clients are given the best opportunity to succeed. Kay stresses the importance of combining these services when she states that, "the process of social mobilization needs to be accompanied and complemented by economic security. As long as the disadvantaged suffer from economic deprivation and livelihood insecurity, they will not be in a position to mobilize (Kay 2002, 70)."

The Importance of Technical Assistance

The social, cultural, and economic context of the United States is vastly different from developing countries. Yet, the needs of women in both contexts are surprisingly similar. Based on the definition of empowerment laid out for the purposes of this paper in Chapter 1, I argue that women across the globe are in need of education and access to capital. In the United States it is especially important that these two are viewed as equal components of a larger strategy because of the complex capitalistic economy in which microentrepreneurs operate. Currently, it is too common to find organizations that focus on either training or credit, but the two are seldom equally valued and addressed (Aspen Institute 2005).

During my time working for a microcredit organization in Chicago, IL, I became painfully aware of the fact that most borrowers would not be in need of ACCION Chicago's services had they received financial literacy training earlier in life. Similarly, without training before the dispersal of the loan funds, many of ACCION's clients were ill-equipped to service debt. Essentially, the organization was giving a loan to many people who had a history of grossly mismanaging money, without first giving them the proper training. I equated this at times to throwing a person who did not know how to swim into a pool of water without a life jacket.

Entrepreneurship in America consists of much more than cash or barter transactions on the black market. Given the complexity of our economy, financial and economic literacy are essential for small business owners. Both the Women's Business Development Center (WBDC) and the Women's Self Employment Project (WSEP) are able to assist entrepreneurs with developing a business plan which gives clients a concrete and comprehensive vision of their business. Through business plan development clients are able to organize their ideas and test the feasibility of their business.

Indeed, it is commonly agreed among business counselors that success at this stage can also be an individual's decision not to open a business. If the client discovers through the process of examining their business plan that the business is not feasible or will not generate the necessary revenue, the client will avert a financial failure by revising or abandoning their idea for self-employment. While microfinance organizations are obviously strong advocates for self-employment, their primary concern should always be what is in the client's best interest.

For the clients that do decide to proceed with opening a business, learning about business skills such as finance, market research and advertising, and being prepared to service a loan payment will greatly affect the vitality and longevity of the business. Ehlers and Main (2002) suggest that it is not advisable to require all entrepreneurs to attend mandatory pre-loan training. "Experiences from effective microcredit programs around the country suggest that when entrepreneurs are already involved in income-generating activities and are requesting working capital loans, they usually know exactly what they will use the capital for and what the sources and timing of repayment can be. Requiring such entrepreneurs to attend mandatory training is not advisable."

While it is true that each client should be evaluated on an individual basis to assess their needs, even experienced business owners can benefit from training that will continue to help their businesses grow such as information about business trends, the integration of technology, or new marketing strategies. The primary objective here is to continually expand the opportunities and choices that are available to clients, which will contribute to the individual's empowerment.

An additional benefit of maintaining contact with clients after the loan disbursal through continued training is the relationship that it establishes. As the staff at WSEP expressed, if a client continues to learn and access valuable information through the organization, it serves to maintain the energy and enthusiasm that is necessary for successful self-employment (personal communication, June 2005); and it reduces the probability that the organization will lose track of the client which could result in loan losses due to default. Therefore, in contrast to the critics who argue that training is too costly, providing technical assistance is actually a means to increase the sustainability of the organization.

The cost of providing these services will always be central to the arguments of critics of microfinance organizations. However, the results of the education and training that is provided to entrepreneurs through these organizations need to be viewed through the larger lens of community and economic development. It is in this context that microfinance can be seen as an investment into a woman's individual empowerment and the ripple effect that it will have on her community (UNHCHR 2003). The positive effects of this are limitless and the full impact will continue to manifest itself over an extended period of time.

In a society that is controlled by money and markets, it is necessary that women have access to capital; it is also essential that women receive training to run a successful business and financial education that will enable them to utilize the money that is available to them (Kay 2002). The personal qualities of confidence and self-esteem, and the ability to make decisions are examples of the characteristics that women need to take advantage of the opportunities and choices that entrepreneurship can provide. Microfinance can effectively combine these components into a process that will spur economic growth and create positive social change.

Target Clientele

Unfortunately, microfinance has not proven to be the panacea for poverty that many in the development field were hoping it would be (Ehlers and Main 1998; Lucarelli 2005; Taub 2003; Zephyr 2004). And while in many developing countries microcredit organizations have been able to target the poorest sections of the population, it has not been the case in America.

I argue that there is a very specific clientele that should be targeted by microfinance organizations in the United States. As previously discussed in Chapter 2, the poor in America cannot afford the risk that is incurred through self-employment. Instead, the ideal client for microfinance organizations is a woman who is relatively educated, is in the low- to moderate-income bracket, possesses assets that she can post as collateral, and who has an additional source of household income that will serve to balance her risk.

Education, as a pre-cursor to entrepreneurship, can mean receiving the sufficient business training that will enable a client to be successfully self-employed. The collateral and outside source of income make the client a better credit risk for microcredit organizations, and it also puts the client in a better position to service debt. Added income in a household will make the small business owner less vulnerable to economic shocks and personal emergencies, for which the self-employed have little recourse. And organizations have long since identified personal assets as the best way to secure a loan because of the value that most American's place on their material possessions.

All three of the organizations that were examined for this research have seen their clientele trend towards these characteristics. While ACCION Chicago was making the most effort to target a wide range of clients with their Credit Builder Loan, all of the organizations recognized that engaging a riskier clientele could further their mission, but it was not contributing to their sustainability as lenders.

Utilizing Women's Organizations or Women's Initiatives

The most effective vehicle for delivering the services that empower women will be a microfinance organization that specifically targets women, such as the WBDC and WSEP. If an organization targets both men and women adjustments should be made that will enable the organization to tailor their products to the specific needs of women.

For instance, it has been established that group lending is not an effective technique for most microcredit organizations in the United States; however, women's organizations or initiatives that focus on women can foster many of the same elements that have made group lending successful in other contexts. This strategy can facilitate an organic support system and an effective business network. Women's organizations can serve as a catalyst for empowerment because they foster social mobilization as the women learn, grow, and are exposed to new ideas. Women's organizations aspire to "give [women] basic capabilities and self-confidence to counter and challenge existing disparities and barriers against them (Kay 2002, 70)." And while such outcomes may seem to be economically insignificant, all have enormous economic repercussions in terms of productivity, business growth, and community economic development.

A financial specialist at the WBDC also suggested that it is necessary to see more women placed in leadership positions and in positions with decision making capabilities in order to better identify and be more responsive to women's needs and to facilitate their empowerment (personal communication, June 2005).

Measuring Success

When measuring success, microfinance organizations in the United States are quick to highlight economic indicators such as increased income, job creation, and added wealth. Organizations attempt to justify the absence of attention that is given to empowerment within evaluations by stating the cost of conducting such research and the lack of resources available to them. WSEP put it more bluntly when they expressed their belief that empowerment was something of a cliché in the microfinance field (personal communication, June 2005), and that sentiment was echoed by the WBDC (personal communication, June 2005).

Presumably, many practitioners are willing to minimize the language of empowerment in their evaluation of programs because empowerment often does not translate directly into the economic results that donors are most interested in. For instance, it is not immediately obvious how a woman who reports that she has a higher self-esteem after completing an entrepreneurship course could result in increased tax revenue for her community.

A continuation of this justification will prove to be a major impediment to women's empowerment. The concern that lies with limiting the definition of success to economic indicators is that it also limits the potential that microcredit has to be much more than a tool for income generation. Kay (2002, 76) states that, "The yardstick for measuring the performance of these schemes should not be based on economic variables, such as loan repayment rates, alone. While financial viability is important for sustainability, indicators should also include the contribution to meeting basic needs for household subsistence, reducing vulnerability to risks and enhancing social capital and empowering women."

Microfinance appeals to many policy makers because it is a strategy for poverty alleviation that does not include another form of welfare. Microcredit can provide a bridge for individuals to participate in the capitalist system. It is therefore necessary to convince these same policy makers that the social and economic outcomes of microfinance are not conflicting goals.

However, as previously argued, the practice of microfinance without attention to the programmatic factors that will foster empowerment is not worth doing. Therefore, organizations must be cognizant of the need for empowerment and they must make this need known to policy makers, practitioners, and donor organizations. The conclusion of this research is therefore that microcredit does have the ability to empower women in the United States. The result of stressing the importance of empowerment through microcredit organizations will be threefold: first, organizations will be more effective than if they were to strive for economic achievement alone; and their work will result in economic as well as social change. Second, as the formal financial sector becomes more involved it will retain empowering programmatic factors because they will be viewed as essential to success. And third, all organizations that are involved in microfinance will have the unique opportunity to better the lives of many women and to make a positive change in the United States due to their empowerment.

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APPENDIX

METHODOLOGICAL CRITIQUE OF THE DATA COLLECTED FROM CASE STUDIES OF MICROFINANCE ORGANIZATIONS IN THE UNITED STATES

Contacts at Microfinance Organizations in the United States

For this study I examined three microfinance organizations in the United States. They were: ACCION Chicago, the Women's Business Development Center, and the Women's Self Employment Project. The individuals interviewed for this study were specifically chosen because of their role in each organization and the perspective that this role might provide on microcredit and its ability to empower women.

At ACCION Chicago I relied on information gathered from the Chief Executive and Lending Officer; I spoke with the Business Finance Specialist who worked in the Finance Program of the Women's Business Development Center; and at the Women's Self Employment Project my contact was the Director of Business and Member Services.

Each of the individuals that I contacted had significant experience in the field of microfinance and each had been with their respective organization for at least 3 years, which indicated a sufficient knowledge of the organization. In addition to knowledge of the finance and lending aspects of their respective organizations, my contacts had direct experience with clients which gave them authority to speak on the issue of empowerment as it related to microfinance.

Information Gathered

From the interviews I was hoping to gather information pertaining to each organization's programmatic components such as lending techniques, financial products, nonfinancial services, and program management techniques.

The following questions were asked during the interviews:

1. What are the programmatic components of your organization?
2. What are your lending techniques?
3. What financial products do you offer?
4. Do you offer any nonfinancial services?
5. What are the program management procedures for this organization?
6. What is your program's stated mission?
7. Does your organization, in practice, further the mission?
8. Does your organization specifically target women?
9. Is the empowerment of women a specific goal of the organization?
10. How is success evaluated in your organization?
11. Does your organization employ any non-economic empowering factors?
12. Are there empowering factors of microcredit organizations that are underutilized or sometimes altogether ignored?

13. Do you have statistical evidence that your organization has empowered women?

14. Do you have anecdotal evidence that your organization has empowered women?

15. What changes could be made in your organization that could lead to the greater empowerment of women?

Quality of Data

A self-critique of the data gathered reveals two weaknesses in the quality of data. First, much of the information gathered about the programmatic components of each organization was taken from websites (www.accionchicago.org, www.wbdc.org, www.wsep.com). This presents the possibility of inaccurate information and also a misrepresentation of the organization's intentions. For example, my evaluation of each organization's intent to empower women relies heavily on statements presented on each website. However, it was never established that, in practice, these statements remain true. A second weakness of the data lies in the absence of client contacts. My research relies completely on the input of practitioners and ignores the perspective of the recipients of microcredit loans and services.