REVISITING LOAN GRANT AND DEFAULT CHARACTERISTICS AND WOMEN IN MICROFINANCE

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ABSTRACT
Loan grant and default characteristics in microfinance speak tremendously of women and its participation. Although the availability and adequacy of income and the presence of the guarantor play an important role in loan grant and default characteristics, the significant role of women in the process cannot be discounted. The paper intends to understand, relate and connect loan and default characteristics and women involvement in microfinance. The review further highlights the positive and innovative contribution of women in the development and financial sustainability of microfinance institutions as well as women empowerment. Microfinance has both the capacity to empower and may disempower women as well. The truth remains that nurturing empowerment among women can’t be completely developed by microfinance alone but instead through a series of intervention available to women. The fact remains to be true in relation to other invention for poverty alleviation and gender bias reduction. The value however is identifying and replicating best practices and minimizing practices that deplete opportunities for enhancing women empowerment in microfinance.

Keywords: Loan Grant, Default Characteristics and Women Empowerment through Microfinance

I. Introduction
Yunus(2003) defines microfinance as giving access to financing to as many poor people as possible, allowing use of their capacities in favor of durable development. Such access to financial resources in terms of loans however small in amount opens opportunities for both men and women to improve and uplift their present condition. The paper asserts equal capacity of women to contribute to the work force and enhance productivity of a market. Although influential men spoke of debunking the credibility of microfinance, the industry has made contributions to minimizing barriers of empowerment and overcoming those barriers to women.

A study conducted of a special unit of the United Nations Capital Development Fund mentions that at most 60% of its microfinance clients were women. Consistent with the USAID study from Microenterprise Results Report (2000), it reports that approximately 70% of its MFI borrowers were women which stand 8% much larger in Asia.

Several clamor for more focus on men instead of women. Fact of the matter is the urgent requirement for a role model to rise to the responsibility of providing for the family, forces women to lead as economic providers. As more men tend to take the way out, data indicates that the range of women requiring microfinance assistance scaled larger in Asia where poverty incidence was also higher.

Empowerment as culled from Gueren and Servet(2005) defines the process as involving full and equal participation in all spheres of society including decision making and access to power. The definition
however is limited to aspects like access to rights and options available. As such, the access to empowerment is less valued when it is not attached with the concepts of responsibility and accountability that goes with real empowerment.

In a finding of the CD Howe Initiative (2012), they measure extreme poverty in terms of the country’s average per capita GDP. At less than US$2,500 over a ten year period, opening channels for working capital and training programs for women increase productivity for women as opportunities to alleviate poverty and greater self-esteem are also impacted. In a study of ADB (2011) of 53 countries including the Philippines, female literacy rate stand as high as 80%. Although women account for nearly 74% of the 19.3 million of the world’s poorest, UNIFEM holds claiming success at this point in time. Issues such as women empowerment and innovations in financial sustainability are still open for debate.

II. Review of Related Literature

Sharma (2012) cites definition of Ahirrao(2009) on microfinance as referring to provisions of financial services to low income clients, including consumers and the self-employed. Clear provisions for access or provisions to financial services are another aspect of microfinance is enumerated by Sharma (2012). Among the political impacts, Sharma (2012) include increasing women’s income level and control, access to networks and markets, access to information and possibilities for development, enhancing perceptions of women’s contribution household income and family welfare and general improvement in attitudes to women’s role in household and community.

Microfinance institutions have been aiming to be unique and innovative in developing not only products and services but especially concrete approaches and mechanisms to enhancing access to capital. First step in the process requires the identification of several traditional operating procedures found to be destructive and causing delay in the spontaneous conduct of service. These include collateral requirements, documentation requirements, male or salaried guarantor requirements, cultural barriers, limited mobility and literacy (UNIFEM).

Moreover, there are countless arguments on why place poverty initiatives on women rather than on men. Although, gender inequality has been found to be more costly compared to the cost of implementing programs to equalize the playing field, UNIFEM(2012), reveals significant impact of gender disempowerment vis a vis gender development as such the larger the gender inequality the slower the development experienced. Although women were found to be more costly compared to the cost of implementing programs to equalize the playing field, UNIFEM(2012), being subjected to weaker basis for entitlements both in opportunities and rights women stand more vulnerable both physically and legally in the course of things. It is a double negative which never equates to a positive as the number system would suggest. Perhaps so, when women spend their income on their families. Similar source cites women spending 55% of their income to household items, 18% for school and 15% on clothing.

Sharma (2012) indicates reports on a number of factors why a woman has become a focus among most donors and grants agencies. These factors include issues on women’s human rights as women stand being vulnerable and often the disadvantage. He further enumerates several problems and challenges for micro entrepreneurs, citing the poor’s inability to offer collateral, poor institutional viability of micro entrepreneurs, lack of knowledge about microfinance services, shortage and misallocation of funds, inability to exploit opportunities, low bargaining power and vulnerability to shocks. It is obvious and may even be moot to list items clearly associated with the poor whether women or men.

What Sharma(2012) observes critical has been the facts: that credit is important but not the only factor to enable women and men to overcome poverty. This notion reinforces the idea that indeed overcoming poverty as well as empowering women requires a comprehensive approach. Interestingly he added that making credit available to women does not equate to having control over its use and expenditure. Although Sharma(2012) posits that making saving services is better than offering credit, accessible credit is still crucial in making options and opportunities available for women thus enhancing opportunities for empowerment.
Banerjee et al (2009) on the other hand cites that within 15-18 months after a microfinance program, there was no significant effect of access to microcredit on average monthly expenditure per capita, though durable expenditure increase. The paper furthermore finds no impact on measures of health, education or women’s decision making. However given the short period of time covered in the study, Banerjee et al (2009) also surmised that perhaps covering a longer period would reveal differences in results. This has to be expected as issues of health, education and empowerment among women naturally requires longer time construct to fully measure its course. The finding moreover affirms significant impact on household’s capacity to borrow, invest and expand business.

Empowerment on the other hand, on both gender is often linked to the culture of society. Thus it will be clear that in principle, empowerment upholds similar concepts and guiding principles except that the manifestations of empowerment vary from one culture to another. UNIFEM (2012) demonstrates empowerment in forms as increased participation in decision making, more equitable status of women in the family and community, increased political power and rights and increased self-esteem. UNIFEM (2012) enumerates several impact characteristics manifesting as form of empowerment as experienced by women. These include the impact on self-confidence, which is the most crucial and difficult to measure. Impact on women’s status and gender relations at home, involves income generation options allowing women stronger bargaining power at home, work and community.

Impact on family relationships and domestic violence identifies microfinance mechanisms declining opportunities for women to be subjected to physical and verbal abuse, enhancing women economic autonomy to assert and expound rights in few if not all transactions. Impact on women’s involvement and status in the community equates potential role of women as leaders of community. Contributing financial resources to the family elevates women to a status of respect and power, maximizing access to greater role and function both in family and community. Impact on political empowerment of women and women’s rights is similar in impact on women’s involvement in community. The contrast however is on transforming the involvement away from the individuals towards group cohesion in forms of collective action and mobilization.

There are instances found to be negative in impact to women and its empowerment. More often the situation refers to the additional burden of stress and priorities to manage family, husband and children requirements.

Hunt et al (2009) cites important dimensions to analyzing women empowerment in microfinance. Significant to the finding has been the need to identify gaps that links between access to credit and women empowerment. Several studies point that the link is not automatic. This s expected as access to credit on a standalone basis does not guarantee complete and meaningful empowerment. Fact of matter remains that women having access to credit stand will have a higher chance and an option to improve livelihood and status in contrast to women without.

Although it may not be automatic but in other instances, it will. What is crucial is determining which factors hinder and which intervention works. A number of strategies have been recommended to enhance women’s empowerment and transform gender relations. Hunt et al (2009) includes understanding gender issues and women’s rights, close monitoring credit and loan implementation, technical and more education and training on marketing, cash management and even on social development training.

III. Theoretical, Conceptual and Operational Framework

Mayoux (2005) identifies in Table 1, three paradigms to explain women empowerment through microfinance - feminist empowerment paradigms, poverty reduction paradigm and the financial self-sustainability paradigm. The feminist empowerment paradigm promotes gender equality and women’s human rights. Poor and marginalized women are center to its ideals, taking into consideration the community as integral in complete social transformation of an individual woman. Microfinance is seen as an entry mechanism to the achievement of the process. The poverty alleviation paradigm on the
other hand, focuses on developing sustainable livelihood, community development and social services provisions like literacy, healthcare and infrastructure development.

UNIFEM (2011) defines poverty alleviation in terms of increasing capacities and choices and decreasing vulnerability of poor people. Financial sustainability program or financial systems approach and sustainability approach targets profitable and self-supporting programs able to raise funds from development agencies and grant aids and able to create significant outreach among its target.

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Feminist Empowerment Paradigm</th>
<th>Poverty Alleviation Paradigm</th>
<th>Financial Self Sustainability Paradigm</th>
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</thead>
<tbody>
<tr>
<td>Main policy focus</td>
<td>Microfinance as entry for women’s economic, social and political empowerment.</td>
<td>Microfinance as an integrated program for poverty reduction</td>
<td>Financially self sustainable microfinance programmes increase access to microfinance services to the poor</td>
</tr>
<tr>
<td>Target Group</td>
<td>Poor women</td>
<td>The poorest</td>
<td>Entreprenuerial poor</td>
</tr>
<tr>
<td>Reason for Targeting Women</td>
<td>Gender equality and human rights</td>
<td>Higher levels of female poverty and women’s responsibility for household and well being</td>
<td>Efficiency of high repayment rates</td>
</tr>
<tr>
<td>Underlying paradigm</td>
<td>Structuralist and socialist feminist</td>
<td>Interventionist poverty alleviation and community dev’t</td>
<td>Liberal market growth</td>
</tr>
<tr>
<td>Main policy instruments</td>
<td>Gender awareness and feminist organization</td>
<td>Small savings and loan formation, group formation and methodologies to target remote areas</td>
<td>Setting interest rates to cover cost, separation of microfinance from other interventions, groups to decrease transaction costs</td>
</tr>
<tr>
<td>Main focus of gender policy</td>
<td>Gender awareness and feminist organization</td>
<td>Women’s participation and self help groups</td>
<td>Framework for equal access for women</td>
</tr>
<tr>
<td>Definition of Empowerment</td>
<td>Transformation of power relations</td>
<td>Increased well being, community development and self sufficiency</td>
<td>Economic empowerment, expansion of individual choice and competence for self reliance</td>
</tr>
<tr>
<td>Underlying Assumptions</td>
<td>Women empowerment requires fundamental change and explicit support to gender equality.</td>
<td>Increased well being and group participation to empower themselves</td>
<td>Increasing access of microfinance lead to economic empowerment without necessity of other intervention</td>
</tr>
</tbody>
</table>

Culled from Perez (2005), Black Scholes and Merton states that Option Pricing Theory equates asset value as dependent on another underlying asset. Vasicek (1986) explains that the value of a firm is the value of firm as a going concern. Value depends on firm’s future prospects, profitability, risk and its standing relative to other investment opportunities existing in the economy. The firm’s business constitutes of its assets and the present assessment of its future returns from the value of its assets. He
points out that value can also be measured by the various liabilities of the firm such that the sum of the market value of the liabilities is the total of the firm’s assets.

**Figure 1: Borrower – Lender Link**

<table>
<thead>
<tr>
<th>Market Value of the Borrower’s Asset and Liabilities</th>
<th>Market Value of Lender’s Assets or Net Worth.</th>
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In Figure 1 shows the asset liability structure of the borrower and its effect to that of the lender. When assets are greater than debt, market value of borrower improves, lenders will be able to recover investments. When assets falls below debt, borrower experiences default causing lender’s portfolio to decrease while the third situation implies an important aspect of lending. It reckons with the character of the borrower to pay. Although the second scenario is obvious to lead to default, character among borrowers count.

**Table 2: Asset Liability Situations**

<table>
<thead>
<tr>
<th>Situation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st Situation</td>
<td>If borrower’s asset &gt; debt, borrower pays loan. Lender’s market value of asset increases, net worth improves, lender sustains lending operations.</td>
</tr>
<tr>
<td>2nd Situation</td>
<td>If borrower’s asset &lt; debt, borrower defaults. Lender’s market value of asset decreases, net worth suffers, lender faces bankruptcy.</td>
</tr>
<tr>
<td>3rd Situation</td>
<td>If borrower’s asset = debt, borrower pays/defaults. Lender’s market value of asset maintains, net worth remains as business continues.</td>
</tr>
</tbody>
</table>


**IV. Methodology**

Perez(2005) adheres to the Bank of International Settlements (2000) two kinds of risk in the valuation process, market risk relating to change in market value resulting from broad market movements and credit risk associating with the chance that borrower will not be able to meet obligation as they come due. In three situations, the risk associated to default exits of which such probability increases double in the second situation. Such scenario will be operationalized by the probability of loan grant and the probability of loan default, exactly at the moment payment falls due. She further attempts to measure both probabilities as affected by economic and demographic characteristics of borrowers and the value or price of the asset (lending portfolio) of microlender as a function of risk. Risks from the 91 day treasury forward rates and from the chance borrowers will fail to repay. Survey research provides for credit risk and the estimation for market risk includes the economic and demographic, institutional profile of the borrowers and the application of the Pure Expectations Theory of Term Structure Modeling to estimate forward treasury rates.
Table 3. Definition of Variables

<table>
<thead>
<tr>
<th>Variable</th>
<th>Definition</th>
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<tbody>
<tr>
<td><strong>Status of Loan (Status)</strong></td>
<td>The percentage of the amount of loan paid by the debtor.</td>
</tr>
<tr>
<td><strong>Amount of Loan (Applyloan)</strong></td>
<td>The amount in peso terms, the creditor loaned the debtor.</td>
</tr>
<tr>
<td>Degree</td>
<td>Dummy, takes value 1 if debtor has a college degree</td>
</tr>
<tr>
<td>Guarantor</td>
<td>Dummy, takes value 1 if debtor has a guarantor</td>
</tr>
<tr>
<td>Income</td>
<td>Dummy, takes value 1 if debtor’s annual income is P101,000 or higher</td>
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Table 3 summarizes variables of which probit regression as applied similar to Jacobson (2000) marked to derive probit weights or asset weights for the Monte Carlo Simulation. The probit regression as Garson (2001) prefers, follows a log-linear approach to handling categorical dependent variables correlating risk factors measuring the extent to which various risk factors change together. Two separate probit regressions of cross section data define the probability of default (Status) and the probability of loan amount (Applyloan). Perez(2005) defines process in STATA to include: Svyset strata lender - account for the stratification, Svyset pweight - adjust for the weights, Svyprobit applyloan age gender civilstat degree org income sourcepa resorbor guaranto lengthr status - derive the asset weights for the probability of loan grant. Svyprobit status age gender civilstat degree org income sourcepa resorbor guaranto lengthr applyloan - derive the asset weights for the probability of no default.

V. Results and Discussion

Table 4: Demographic Factors

<table>
<thead>
<tr>
<th>Demographic Factors</th>
<th>Total Resp</th>
<th>Answer</th>
<th># of Resp</th>
<th>% to Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sex</td>
<td>212</td>
<td>Female</td>
<td>138</td>
<td>65.09</td>
</tr>
<tr>
<td>Civil Status</td>
<td>191</td>
<td>Married</td>
<td>129</td>
<td>67.54</td>
</tr>
<tr>
<td>Educational Attainment</td>
<td>211</td>
<td>College</td>
<td>151</td>
<td>71.56</td>
</tr>
</tbody>
</table>


Majority of respondents in Table 4 are female (65.09%), married (67.54%) and has attended college (71.56%). The result confirms Kondo’s(2007) findings that several of microfinance recipients are not really the poor neither are they the poorest of the poor. Although several proponents of microfinance...
assert high repayment rates as simply due to the fact that women faces with few options and experiences dearth of alternatives in terms of loan or borrowing, the unique situation disciplines women positively. Although many have marked the situation as disempowerment of women (Cheston et al, UNIFEM), in final analysis, it still has been beneficial for women to be able to pay back loan.

Moreover, the issue of gender bias (D’Espellier et al,2009) expounds that a conscious gender bias allocation is significantly positive for firms. The bias is associated with group lending methodologies, international orientation, female leadership, smaller loans and noncommercial legal status.

Women in study of Perez(2005) earns between P10,000 and P50,000 every year with supplementary sources of income and other debts. Repayment has been 100% as respondents saw the need to establish an excellent credit reputation to facilitate future loan applications. Women are more often charged with interest rates ranging from 1-5% per month.

Thus it is obvious without exaggeration that expectedly one is considered poor because in the first place, he can’t afford to buy any more assets than that of what he can afford. It is academic for Sharma(2012) to emphasize the poor’s inability to offer marketable collateral for loan otherwise, they will not be considered as poor. Nevertheless, it facilitates innovation in addressing requirements for collateral. It innovates collateral options available for use such that in the study of Perez(2005) the collateral was not a tangible asset but instead through the presence of a guarantor.

Findings of Perez(2005) reveals close to 50% of the sample enjoys high income, 54% of them applies with a guarantor and nearly 84% has college degrees. Although microfinance programs have mechanisms to transform and empower lives of women, recently however there has been a decreasing percentage of loans to women. Despite belonging to the same credit program, women were granted smaller amount of loans such result is consistent with the review that the traditional approaches to lending credit are more often involved with requiring guarantor.

Noreen(2011) identifies several variables to correlate empowerment and has been found to be influenced significantly by age, education of husband, number of live sons and father inherited assets. Microfinance is a significant explanatory factor but the effect is not as significant. Age and education of husband are positively correlated to empowerment; the older and the more educated the husband, the more empowerment is experienced. What is cultural on the Indian findings (Sara, 2011) deal with preference for male over female as males are considered contributing to family income compared to women. What is different with the empirical results is that in the sample are individual borrowers not tied up to a group which serves as a social collateral or a social collateral scheme. The lenders are also individuals or partnerships aimed to gain profit and not in any way organized to contribute to social development of the community.

Expectedly, unlike in the studies undertaken by the UNIFEM(2011), clients are beneficiaries of subsidies from both grant institutions and its objectives are more aimed at social development and mission achievement. In other words, there is a need to be clearly understood on the review and assessments of facts and differences in ownership, funding, clientele and objectives in the microfinance scenario.

Despite the cost of monitoring and of transaction in relation to small loans, D’Espellier et al(2009) finds positive repayment associated with the conscious choice of lending to women. The empirical finding links with Murdoch’s(1999) argument on women as target choice for lending. In a study of Kondo(2007), the status of women as claimed in the study however has not been explicit. It however points out that most of the target respondents are actually not poor, implicating the need to carefully assess the program implementation. The finding runs consistent with the results of Perez(2005). In Table 5, results indicate it is more likely for lenders to grant loans to borrowers with college degree which makes sense lenders in Perez(2005) were lending investors whose main motivation is to maximize profit.

Table 5

[52]
Associating with the results of UNIFEM (2011), although the smaller loan amount may sound discouraging, fact of the matter is that women have low capacity to absorb the loan. In other words, the situation may contribute positively to gradually empowering women to take greater exposure of borrowing larger amount of capital as business continues to be profitable. Contrary to popular belief, the situation has in fact insulated women from exposing themselves and their business to unnecessary risk of surplus capital and instant inflows of borrowed liquidity.

Default is defined as the failure to pay obligations as they come due. It is worth noting that when it comes to settling debts, higher income does not guarantee repayment (Perez, 2005). She further states that a positive correlation between years of education and the probability of transfer receipt, meaning that more education will yield higher future income and, consequently, a higher probability of payback. Table 6 exhibits that it would be less likely that an individual borrower with high income, with a guarantor and having attained a college degree to be granted a lower amount of loan. However, it would be more likely that an individual with a guarantor to default in his loan payments raising the fact that the variables found significant in the probability of loan grant are similar with those of the probability of default. This has been evident since the criteria that the lender capitalized for granting loan were consistent with what the lender anchored for minimizing default risk. It is again worth reiterating that one of the significant implications of this study implied that once the borrower has a guarantor, the borrower could apply the option to self-select and might opt not to completely pay the loan. This situation would dramatically elevate the probability of loan default.

VI. Conclusion and Recommendation

Microfinance has both the capacity to empower and may disempower women as well. The truth remains that nurturing empowerment among women can’t be completely developed by microfinance alone but through a series of intervention available to women. The fact remains to be true to other invention in poverty alleviation and gender bias reduction. Women integrate unique characteristics common with their gender which limits their access to credit positively shielding women from unnecessary exposure of capital and borrowed liquidity risk.

It is impossible to nurture empowerment among women without taking into account effects of social systems and values within family and community. The challenge is identifying and replicating best practices and minimizing practices that deplete opportunities for enhancing women empowerment. Empowerment necessitates full and equal participation in all aspects, although real empowerment both in men and women requires access to rights and options in all forms attaching a higher level of responsibility and accountability that goes with real empowerment.

There is also a need to appropriately determine the target as several recipients are not considered poor. This is expected as the informed or those with information will more likely work on the information afforded by the system.

Although it has been assessed that the link
of access to credit and women empowerment, has not been automatic, what is crucial is the fact that there is a link and it is best to focus on determining which factors hinders and which intervention enhances the link and the impact.

VII. References

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