Microcredit, Poverty, and Empowerment:
Exploring the Connections

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Abstract
In recent years microcredit has grown rapidly based on its promise to alleviate poverty and empower women. However, as the microcredit industry has grown, the initial emphasis on poverty alleviation and empowerment has changed; some critics argue that the industry now looks like commercial finance. This article explores these criticisms by comparing two microcredit programs in Chennai, India. Both programs work with the same population but take different approaches to credit delivery. Drawing from the participants’ testimonies, the findings suggest that in general, the loans do not permanently move participants out of poverty; however, they do reduce some of the vulnerabilities associated with poverty.

Keywords
microfinance, gender, empowerment, poverty alleviation, India

Introduction
As microcredit becomes part of the new development orthodoxy (Fernando 2006), its reach continues to grow. As of December 2002, microcredit institutions reached about 67 million clients, approximately 42 million of whom were among the poorest when obtaining their first loan (Daley-Harris 2003). By December 2007, microcredit programs reached approximately 154 million clients, around 107 million of whom were among the poorest when obtaining their first loan. Assuming five people per family, this accounts for 533 million people (Daley-Harris 2009). It has once again become part of the public discourse—2005 was the U.N. Year of Microcredit; Muhammad Yunus, for his pioneering work in the field, won the Nobel Peace Prize in 2006 and the Presidential Medal of Freedom (the highest civilian honor awarded by the United States) in 2009; celebrities have made microcredit their cause; individuals can now donate money via the internet to microentrepreneurs across...
the world; and there are renewed references to the power of microcredit in the popular press (Kristoff and WuDunn 2009).

There are many expectations of microcredit for women, chief among them poverty alleviation and empowerment (Mayoux 2001; Burra, Deshmukh-Ranadive, and Murthy 2005). For the neoliberal state, this approach to poverty alleviation fits nicely into a market-led approach to development. For banks and financial institutions, it has opened up a previously untapped pool of clients—poor women—whose rates of repayment have historically been very high. For many advocates of women's empowerment, the presumed link between credit and empowerment is microcredit's primary attraction. Credit to women is thought to increase their income, and empowerment, though not clearly defined, is frequently assumed to be an outcome of this increased income.¹

However, as the microcredit industry has grown, the initial emphasis on poverty alleviation and empowerment has changed. In order to increase their reach and loan portfolios, microcredit programs have had to tap commercial and quasi-commercial financing, therefore requiring consistent profitable returns. There have been cutbacks in non-financial services and the tracking of social outcomes, among other things (Daley-Harris 2009; Fernando 2006). As a result, some critics argue that what started as microcredit programs now increasingly look like traditional financial institutions (Daley-Harris 2009). This makes it an opportune time to examine the assumed link between microcredit, poverty alleviation and empowerment, which this paper does by seeking answers to two sets of questions. First, does microcredit help to alleviate poverty? And second, what impact does such credit have on participants' lives? Does credit empower, or is it the manner in which credit is delivered that is empowering?

To explore these questions, this article compares two microcredit programs in Chennai, India, that draw participants from the same pool—poor women living in the “slums” of Chennai. Working Women's Forum (WWF) lends money to women organized in borrowing groups of ten. Each group has a

¹ The following quotation from FINCA, a global microfinance institution that works primarily in Latin America, is a typical statement of this view: “Without credit, low-income people may work hard but stay poor because of a lack of opportunity and capital. FINCA borrowers receive working capital so their efforts can become more productive…. As (they) become more productive, they increase their income and are able to accumulate savings for other investments and for emergencies… FINCA borrowers often say they spend increased income on children first, increasing nutrition, health and educational status, in that order… Having a steady income and a savings account raises a woman's self-esteem and status, even in a society where women are consistently treated as second-class citizens” (www.villagebanking.org).