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In Defense of Microcredit Over Cash Transfers

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Qualitative and quantitative research on group-based microcredit in India and Bangladesh have shown that program participation enhances women's physical mobility, capacity to interact with a broad range of people outside of kin groups, and improved decision-making powers on certain dimensions.

Microcredit—offering very small loans to groups of borrowers, typically groups of women, in the developing world—has been the biggest trend in development policy for the last twenty years. But lately, microcredit has been losing its luster. The latest development trend that has been competing for policy attention is conditional and unconditional cash transfer programs. According to some scholars, cash transfers can promote educational enrollment and health outcomes of children and boost household income. Countries in Latin America and Africa have long running and an ever-growing number of cash transfer programs.

Recent randomized control trial studies by economists have found mixed evidence on microcredit's impact on alleviating poverty in any permanent and secure way, and anthropological studies disparage microcredit's use of shame as a monitoring and disciplinary tool. So why prefer microcredit to cash transfers? Why not give poor people free money that is non-repayable, and that they can use on things they decide are important? Why give them credit that is usually stipulated for productive investment and which must be repaid with interest? My answer to these questions, elaborated in my book Credit to Capabilities, is that microcredit has important social effects that cash transfers cannot replicate (Sanyal 2014).

Development, conceived in the broadest sense, is not solely about alleviating financial poverty, but must also seek to promote freedom and equity. Worldwide, there is a gap in gender equity. Consequently, women's empowerment has been recognized to be an important development goal and policy action should focus on achieving equity in capabilities and agency. Microcredit and cash transfers are significantly different on the goal of fostering women's empowerment and dismantling extreme forms of gender barriers, particularly in contexts of classic patriarchy, where women's ability to participate in markets, state institutions, and civil society is severely hampered.

Microcredit programs that operate through the formation of women's groups have a greater potential than cash transfer programs for promoting women's capabilities and inaugurating a new associational life in the public sphere for women. The potent mix of the financial incentives of saving and credit combined with mandatory group meetings has the capacity to dismantle social barriers against women's freedom and enhance their capabilities through regular face-to-face interactions and deliberations. These deliberations include discussion of financial issues and discussion of issues relevant to life in the community. Qualitative and quantitative research on group-based microcredit in India and Bangladesh have shown that program participation enhances women's physical mobility, capacity to interact with a broad range of people outside of kin groups, and improved decision-making powers on certain dimensions.

Microcredit has also been found to improve women's social capital – cooperating for collective action and the underlying social network and relationships of trust among women. For a certain proportion of women enrolled in these groups there is a dramatic improvement in their capacity for spontaneously organizing collective action targeted at member and non-member households (especially for rescuing women from domestic violence) and aimed at addressing community concerns (for remedying public goods deficits and anti-alcohol campaigns) (Sanyal 2009). Microcredit groups have also been reported to facilitate women's mobilizations against witch-hunts in tea plantations (Chaudhuri 2013) and against loan-sharks and coercive disciplinary practices of commercialized microfinance institutions (Ajit and Rajeev 2012). Lately, even economists have come to acknowledge that group-based microcredit fosters social capital. A five-country field experiment found that group-based microcredit strengthened general "societal trust" among women (Cassar and Wydick 2010). Another set of field experiments in India found that microcredit groups (particularly groups that had more frequent meetings) promoted friendship formation and economic ties among the enrolled women (Feigenberg, Field, and Pande 2013).

Using these social benefits of microcredit as a yardstick of comparison with cash transfer programs highlights the difference in the scope of their impacts. First, although cash transfers may be financially beneficial to indigent families and might possibly translate to some degree of individual empowerment for women (if the cash boosts women's income earning potential), it is hard to imagine how individually targeted cash might improve women's collective action capacity and social capital. Second, if women transfer the free cash to their husbands (as might happen under classic patriarchy), benefits for women's empowerment would be severely limited. This is where microcredit differs because even though women in male-headed households commonly transfer the microcredit loans to their husbands, they nevertheless gain substantial measure of agency from being tied to the group network and from access to the associational life. Third, men's attitudes regarding what is appropriate gender behavior often changes as a result of experiencing their wives and other neighboring women participate in microcredit groups over a prolonged period. This is an invaluable effect that creates an environment at home and in the community that is conducive to expressions of women's agency. It is hard to imagine how cash transfer programs could have a parallel effect on transforming husband's conventional gender attitudes regarding their wives, which are one of the primary hindrances women confront. Overall, considering its effect on promoting women's social empowerment, microcredit has a value added that cash transfer programs, as they are currently designed, cannot yet replace.

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