Investing in women

SEARCHING FOR THE SILVER BULLET THAT WILL TRANSFORM THE LIVES OF IMPOVERISHED WOMEN WORLDWIDE

by Jane Elizabeth Hughes

When Professor Muhammad Yunus *first encountered Sufiya Begum in 1976, the 21-year-old mother of three was mired in intractable, grinding poverty. She wove beautiful bamboo stools but earned virtually nothing due to the stranglehold of middlemen, who lent her 22 cents for the raw material for the stool, and bought the finished stool back at 24 cents—yielding Sufiya just two cents profit per stool. For lack of just 22 cents, Sufiya was essentially a bonded slave to the middlemen. Yunus realized that Sufiya's life could be changed with a 22-cent loan, and that there were many more women like her. So he tried a small experiment, lending $27 to 42 people in the rural Bangladeshi village of Jobra who, like Sufiya, were dependent on middlemen. And thus was born Grameen Bank and the worldwide, multibillion-dollar microfinance industry—an institutional response to the trap of poverty and a lifeline for millions of women around the globe.*[1]

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The development of innovative financial instruments to transform women's lives has included groundbreaking initiatives from microfinance to gender lens investing to women's impact bonds. While these approaches vary in their methodology, metrics, and outcomes, they share a common commitment to investing in women, as well as the dual goals of improving women's lives and, through empowered women, improving economic and social development for all.

Most of these financial innovations focus on women's access to credit—or lack thereof—and on the development of women entrepreneurs and women-owned businesses. The open question, then, is whether these innovations have proven to be truly transformational, or merely new and shiny. Is support for women entrepreneurs the most efficient and effective use of capital? Does it achieve the scale and scope necessary to become truly transformative? Or are there deeper problems that are being overlooked that will impede the broader transformation these investments are hoping to achieve?

A multiplier effect: The business case for investing in women

Why invest in women? Why develop innovative financial instruments and techniques to improve outcomes for women?

The most common argument is based upon the (well-documented) truth that investing in women can be a silver bullet to catalyze broader development within a family, community, region, and society. This has been dubbed the multiplier effect, since women are known to spend more of their money on food, health care, home improvement, and schooling for children than men do.

The emphasis on women as drivers of broader economic and social advancement largely eclipses the moral argument that providing equal education and opportunity to slightly more than half the world's population is, quite simply, the right thing to do. Women's empowerment advocates seem to shy away from this values-based argument, relying instead on the "business case" for investing in women.

An offshoot of the business case argument is the equally oft-cited goal of creating more women entrepreneurs and women-owned businesses. A growing body of evidence suggests that women-owned businesses outperform those led by men, so will automatically produce greater community benefits.

Innovative finance for women: Microfinance

Microfinance—and specifically, microlending—was the first, and remains the most visible, example of wide-scale investment in women in developing countries. There is no doubt that microfinance was truly innovative; the notion that banks could lend small amounts of money to poor, unbanked women—and make money doing so—was so revolutionary as to be risible when the industry was born. More than that, Yunus and others expected microfinance to drive a breathtaking, worldwide transformation for both women and societies.

But, four decades into the microfinance revolution, has microfinance transformed the lives of women and, through them, transformed societies?

What happened to Sufiya Begum, Muhammad Yunus's first borrower who was locked in abject poverty for the lack of 22 cents to buy raw material for a bamboo stool? The answer is murky. In 2010, journalists returned to her village of Jobra to find Sufiya and/or her descendants; a woman claiming to be her daughter was featured in the controversial documentary, "The Micro Debt." According to journalist Tom Heinemann, Sufiya herself died in abject poverty in 1998. In response, other videos posted online claim that the "real" Sufiya is alive and well.*

In fact, nobody really knows the fate of Sufiya Begum.

Sufiya's tale is a metaphor for the debate over microfinance that rages today—for all the volume of research and writing on the topic, for all the millions upon millions of dollars lent and repaid, nobody really knows with any certainty what the global impact of microfinance has been, or is likely to be.

While some studies show a positive impact, there is also evidence that microfinance throws up some new challenges for women; that it can be ineffective

**Some have suggested that these videos were posted by Grameen Bank, the bank Yunus founded, but there is no evidence of this one way or another.*

in achieving its goals, and that its overall potential for improving women's lives is limited.

Common sense suggests that simply handing money to women with no experience of handling it, and giving them access to financial resources, creates a new set of challenges and burdens for the borrowers. It is becoming increasingly clear that access to small amounts of money is not enough. In fact, there are multiple reasons why microfinance is proving an uncertain path to women's empowerment:

1. Patriarchy is a powerful constraint;
2. Microfinance borrowing can exploit and undermine women, reflecting the dangers of bringing poor and vulnerable women into the financial marketplace without adequate safeguards and protections; and
3. Microfinance loans are often not invested in productive activity.

In the end, the demonstrable impact of nearly four decades of microfinance on women's life outcomes is disappointing. Deeply embedded cultural constraints, coupled with the limits of microfinance itself, mean that the industry has not yet succeeded in moving the needle on women's empowerment.

Gender-lens investing

Moving on from microfinance and entrepreneurship, in the past decade or so women's advocates have advanced the notion of gender-lens investing (GLI)—an approach that espouses the same goals as microfinance, but deploys different tools. GLI involves creating financial products across different asset classes that aim to support companies and other institutions seeking to help women advance. In addition to standard financial metrics, these investment managers approach the investment process with a gender lens as well.

GLI can include innovative financial instruments, or a re-direction of existing financial instruments. Examples include mutual funds that promote women in leadership positions or offer loans and other financial services to microfinance institutions; women's bonds to raise capital for women-owned businesses; pay-for-success projects aimed at supporting women; and sector-based funds such as Root Capital's Women in Agriculture initiative.

As in the case of microfinance and other women-focused financial initiatives, GLI too is founded on the premise that empowering women will improve not only their lives, but society as a whole. This is a valid and valuable premise, but the field suffers from fundamental weaknesses related to scale and impact. Most GLI initiatives, such as Calvert's WIN-WIN program and the Women's Livelihood Bond currently under development, are in the $20 million range—a mere pittance when measured against the global women's credit gap of around $320 billion. And even the most highly respected institutions in this area, such as Women's World Banking, lack hard evidence of the impact of their work on women's lives.

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Scope, scale and impact: When does innovation become transformation?

Innovative financial techniques from microfinance to women's bonds have been developed and deployed in the last half-century in the name of women's empowerment. But innovation for innovation's sake is not particularly useful. The more important question remains: Have these innovations demonstrated the ability, or at least the potential, to be actually transformational in the lives of women and their broader community?

The long-term outcomes of the above initiatives in microfinance, entrepreneurship, and GLI are yet to be determined.

The institutional emphasis on directing innovative finance to women entrepreneurs, while well-intentioned, suffers from a lack of critical introspection, and diverts attention—and funding—away from other avenues. Directing the bulk of innovative women-focused finance to women entrepreneurs threatens to exclude women who lack the will and/or capacity to be enterprise owners/managers. This narrow focus diverts attention away from developing innovative financial techniques to improve women's life outcomes by other means, notably education. Jeff Skoll remarked at the Skoll World Forum in April 2015, "If there's a silver bullet to global development, it's girls' education." Funding women entrepreneurs is, to say the least, a rather indirect path to fostering girls' education.

This emphasis on financing women-owned businesses probably stems, in large part, from the focus on the business case for investing in women. Almost certainly, a more values-based argument would support increased flows of investment for other aspects of women's development than financial inclusion and entrepreneurship.

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—Jeff Skoll

Take education, for example: At current rates of progress, according to a recent UNICEF report, girls from the poorest households in sub-Saharan Africa will not achieve universal lower-secondary school education until 2111, almost a century from now.

This is a missed opportunity of tragic proportions, since education is the silver bullet. As Jeff Skoll says, "The fight to achieve global gender equality in education is one of the most incredible opportunities sitting in our laps right now." If all agree that girls' education is both a huge challenge and a shining opportunity, then there is an urgent need for innovative finance to develop the scope and scale needed to fund it.

This is not just a call for more money to flow to this sector, for two reasons. First, this is simply not going to happen in today's constrained environment for governments, aid organizations, and philanthropies. (At present, US-based foundations spend just one percent of their development resources on basic education in poor countries.)

Also, there is plenty of potential funding available—in the form of trillions of investment dollars in the hands of investors with a demonstrated interest in achieving both financial and social value. If these impact investors chose to channel some of their wealth towards education, the sector could be awash with funds. The scarcity is not a lack of dollars; it is the lack of viable financial instruments to enable the investment of dollars in the social sector.

This leaves a gaping hole; the demand for real and transformative financial innovation in this area is massive. Where is the Muhammad Yunus or Bill Gates of girls' education? When will finance for women move beyond the narrow focus on entrepreneurship to enable progress in education and real gender equality?

Microfinance, women's entrepreneurship, and gender-lens investing are indeed novel ideas and have a particular appeal to the wealthy Western classes—many of whom gained their own wealth through entrepreneurship and investing. But the limited scope, scale, and proven impact of these financial initiatives reveal a lack of creativity and daring. Deeply complex and deeply entrenched social challenges demand financial innovations that harness the power of capital markets in new, even disruptive, ways in order to be truly transformational for women's lives worldwide. ■

[1]*Muhammad Yunus, Banker to the Poor: Micro-lending and the battle against world poverty (Public Affairs, 1999), p 45-9.*