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Advancing a Global Women's Economic Empowerment Movement through Microfinance, Entrepreneurial Culture, Economic Freedom

By Michael Strong, CEO & Chief Visionary Officer, FLOW

*"When men get a chance, they start dreaming about themselves;
when women get a chance, they dream about the home and their children –
they dream about what they can contribute to the community."*

~ Grameen Bank, Bangladesh

Microfinance, in addition to providing direct support for tens of millions of women entrepreneurs, delivers entrepreneurial education, thereby seeding widespread entrepreneurial culture around the world. In combination with economic freedom and entrepreneurial support organizations, microfinance can give birth to broadly shared economic growth through entrepreneurial capitalism across the developing world. By providing women with access to the following factors, we can effectively spread wealth-creating entrepreneurial capitalism:

- Access to credit (initially through microcredit)
- Entrepreneurial education, mentoring, and support systems
- Economic freedom, especially:
 - Secure property rights
 - The freedom to launch and grow new legal businesses

Given a level playing field, with few legal barriers to entry, entrepreneurial capitalism rewards innovation, genuine service and value creation.

In the absence of economic freedom, capitalism often degenerates into crony capitalism: A playing field in which the operations of capitalism are systematically biased in favor of the "good ole' boys," in which those organizations are rewarded in which elite males reward their loyal friends, family, and fellow partisans with contracts. This is a system that rewards insularity, elitism, and exclusion.

A pure version of either form has never existed; all existing forms of capitalism are some combination of the entrepreneurial ideal and the crony reality. But because the entrepreneurial ideal is humanity's best hope, it is in the interest of all well-intentioned and socially conscious people to support and promote the entrepreneurial ideal.

Because of widespread legitimate distaste for crony capitalism, many people around the world have hated capitalism itself and regarded its crony form as the sole reality of capitalism. In the 20th century this hatred of capitalism indirectly led to the 100 million Marxist murders. In the 21st century it may lead to the long-term impoverishment and violence in those regions – especially some parts of the Muslim world and Latin America - in which capitalism is being rejected.



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Microfinance and Women's Empowerment

Mohammad Yunus, founder of Grameen Bank and 2006 Nobel Peace Prize Winner, early on discovered the critical importance of access to capital in empowering women:

When she finally receives the twenty-five dollars, she is trembling. The money burns her fingers. Tears roll down her face. She has never seen so much money in her life. She never imagined it in her hands. She carries the bills as she would a delicate bird or a rabbit, until someone advises her to put the money away in a safe place lest it be stolen.

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. To her family she has been nothing but another mouth to feed, another dowry to pay. 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.ⁱ

Today, tens of millions of women around the world have greater economic independence and self-worth as a consequence of microfinance projects. Roughly 97% of micro-loans go to women.ⁱⁱ In microfinance projects organized with the Grameen Bank model, women form groups of five, all of whom must pay back their loans in order for group members to be eligible for subsequent loans.

Grameen Bank, in particular, has combined access to capital with a list of "Sixteen Decisions" which every group of women commits to in order to obtain a loan. These "Sixteen Decisions," in conjunction with the group practice of borrowing and re-paying ever larger sums, makes Grameen Bank, in effect, an educational institution. Some of the Grameen borrowers who started out borrowing \$50 at a time are now borrowing thousands of dollars at a time. Grameen Bank is as much an entrepreneurial training ground as it is a bank. Yunus himself says that he is running a school, and the loans are to encourage people to participate.

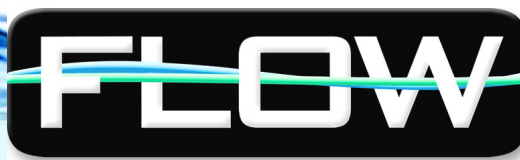
Because microfinance has not eliminated poverty, some observers have become critical of its rapid growth in recent years. This is a mistake; the problem is not that microfinance alone has failed to alleviate poverty, it is that *microfinance has not yet been integrated with larger reforms that could result in the successful global dissemination of authentic entrepreneurial capitalism.*

Would Economic Freedom Release the Power of Microenterprise?

Britain and the United States, the first two nations in which, for the first time in history, mass poverty was replaced with mass prosperity, did so by means two key principles:

1. Entrepreneurial culture
2. Institutions that supported economic freedom

Many thousands of working class boys with little formal education but tremendous entrepreneurial ambition, such as Ben Franklin, Andrew Carnegie, and Thomas Edison, created much of the wealth that transformed the world. They were able to do so because the government's primary role was to secure



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property rights and enforce contracts. These core government functions are the fundamental facilitators of entrepreneurial creativity. To realize entrepreneurial visions, one must be able to secure and employ capital, labor, and resources.

Our inability to accurately communicate and transfer the grounds of our success is one of our greatest failures. Hostility to capitalism, expressed by generations of intellectuals, prevents us from providing the world's poor with the information and opportunities they need to experience extraordinary wealth creation, comparable to our own.

While this claim is typically perceived as "political," if we look closely at empirical data, the controversy dissolves. The Fraser Institute Economic Freedom of the World Index, a measure of economic freedom that uses only objective statistical data, rates each nation on earth based on their level of economic freedom.ⁱⁱⁱ This data reveals that the "socialist" economies of Scandinavia actually have more economic freedom than does any developing world nation. In short, if every poor country were as "free market" as Scandinavia, there would be no more poverty on earth. On this index, with Hong Kong in first place, Iceland is 9th, Finland is 12th, and Denmark is 17th (the U.S. ties for 3d with New Zealand and Switzerland). Bangladesh is 95th. To simplify exposition, we will continue to use Bangladesh for comparisons, but other poor nations share similar characteristics.

Sweden and Norway have somewhat lower rankings, 24th and 30th respectively, in large part due to their large governments. Indeed, many women's organizations look to Scandinavian socialism as a model for women's empowerment because of their extensive "cradle to grave" welfare states. Relatively free market policies produced the wealth needed to finance these welfare states; between 1870 and 1950 Sweden had the highest per capita GNP growth in the world, with government spending relative to GDP per capita lower than that in the U.S. Only after Sweden became one of the wealthiest nations on earth did government spending increase. Moreover even in Scandinavia, growth in government peaked in the 1970s, and they have become increasingly free market ever since.

Quite aside from the level of government spending, it is more helpful to regard Scandinavia as "free market welfare states" than socialist. Sweden regulates business less than almost all other nations on earth; it is ranked 6th in level of business regulation whereas the U.S. is ranked 16th. Bangladesh is 101st. (Iceland is first in the world, Finland is second, each with less business regulation than Hong Kong). With respect to credit market regulation, the U.S. is ranked 9th and Sweden 11th. Bangladesh is 116th.

These abstract ratings have very concrete real world consequences. The Peruvian economist Hernando de Soto and his team have worked in dozens of poor countries estimating how long it takes to open up a legal business. They have discovered that in poor nations it takes between one and two years, working full-time going from government office to government office, in order to open up a legal business.

Only elites can afford to go through these labyrinthian procedures – or, more likely, to bribe officials so that they don't have to submit to such nonsense. Indeed, over-regulation is a primary cause of developing world corruption. The consequence of such over-regulation is that when the poor do become entrepreneurs, they have no property rights, no secure contracts, no insurance, none of the standard protections that every business person in the developed world takes for granted. Their opportunities as business people are severely constrained by the absence of an accessible legal system.

Secure property rights have long been recognized as a cornerstone of free enterprise. De Soto has also



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documented how the poor throughout the world also do not have access to governmental protection of their property rights. Again, this is in sharp contrast to Scandinavia, where Denmark provides the most secure property rights in the world, and Finland ranks 6th. On this measure, Bangladesh ranks 116th. The wealthy nations all share secure property rights, rule of law, sound money, relatively unregulated economies and free trade. The poor nations, for the most part, do not have these economic freedoms.

Perhaps this is why Mohammad Yunus has said "Government doesn't have the answers and never will." What if all the intellectuals, academics, and NGO leaders around the world got on board to celebrate making the developing world at least as free market as Finland?

Women's Empowerment, Economic Freedom, and Economic Growth

Until "The License Raj" was overturned in India, it was estimated that India would not reach a U.S. standard of living until 2300; at more recent free market growth rates, India is estimated to achieve a U.S. standard of living by 2050. Had it continued, the absence of economic freedom would have kept a billion human beings unnecessarily poor for an added 250 years.

There is no charity or NGO on earth that can raise a billion people out of poverty. This is why Nobel laureate Bob Lucas said, "Once you start thinking about economic growth, it becomes hard to think about anything else." From this perspective, thinking about ways to increase economic growth becomes the ultimate form of charity. (And our first obligation here is to help developing nations increase their economic growth by unilaterally reducing or eliminating trade barriers and agricultural subsidies in the developed world, as Oxfam and Joseph Stiglitz emphatically support.)

Economists talk about the "demographic transition," the move from large families to small ones. Around the world, every single nation that has experienced sustained economic growth has seen a dramatic collapse in family size. As economist Brad DeLong points out,

In a poorer country the average level of education is low, and children can be put to work at a relatively early age, thus augmenting the production resources of the household. In a richer country the average level of education is high, and children are a major drain on household cash flow for nearly two decades.^{iv}

In developed nations, women now average two or fewer children.

The transition from many children, used as resources to bring income into the household, to few children, each of whom is a significant investment, takes place as women become more valuable as income earners than as producers of children. This transition is also associated with the move from rural life, where children are used as labor, to urban life, where women work in factories. It must be said, as even some Marxist feminists have admitted in Irene Tinker's *Persistent Inequalities: Women and World Development*, that multinational factory work often empowers women relative to existing alternatives.

But the concentrated power of multinational corporate decision-making all too easily favors crony capitalism. We should promote a "Conscious Capitalism" as much as possible that aspires to avoid crony capitalism. But in addition, we want to promote an open society in which achievement is open to all. The best way that we can do this is to remove the obstacles to entrepreneurial capitalism and let millions of women microentrepreneurs become macroentrepreneurs.



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A one point increase in economic freedom results in an average one point increase in the rate of economic growth. As obstacles are removed, millions of entrepreneurs will take advantage of the new opportunities - with societies around the world benefiting from the resulting wealth creation. Increased economic freedom, and the resulting increased economic growth caused by both male and female entrepreneurs, brings unbelievably large positive results for women. Economic freedom is the fertile soil that yields that economic growth that is the ultimate form of charity – through broadly distributed opportunity and income growth.

The nations in the top quartile of economic freedom have infant mortality rates of 5.9 per 1,000 live births; mothers living in those nations in the bottom quartile of economic freedom lose 72 infants out of every 1,000 live births. In the top quartile, .3% of children are in the labor force; in the bottom quartile, 19% of children are in the labor force. Life expectancy in the top quartile is 78 years, in the bottom quartile 58 years.^v

As we've seen above, ***regulatory obstacles and weak property rights limit the access of the poor to the most basic functions of business.*** Once upon a time, people believed that business was bad and should be choked in every possible way. This is no longer the case. Once upon a time people believed that poor women were not capable of entrepreneurial activity and were a high credit risk. Yunus has proven this false. It is time to create a positive entrepreneurial vision for women's empowerment for the 21st century.

Women's Empowerment and the Rise of Authentic Entrepreneurial Capitalism

In the global struggle between crony capitalism, on the one hand, and authentic entrepreneurial capitalism, on the other, an invisible ally has been ignored for too long: women entrepreneurs. If the problem with crony capitalism is the appointment of cronies through the "good ole' boys network," then the solution would be to find a large group of entrepreneurs who had no allegiances to this network.

Women entrepreneurs of the world, unite!

The gulf between existing microentrepreneurs and large scale capitalism is substantial, even intimidating, and generates skepticism about possibilities for significant change. But we must not underestimate the human spirit.

We must remember that not only was the industrial revolution created largely by teenage boys, but so, too, was the IT revolution of the 1970s and 80s. Certainly massive research by government, academia, and the corporate world were pre-requisites to the revolution, and these large institutions continued to play a role. That said, arguably the biggest difference between the Soviet IT industry, which went nowhere, and American IT industry, which changed the world, was the fact that teenage boys and college dropouts were free to jump in and take leadership roles. Bill Gates, Steve Jobs, and Linus Torvalds are just a few of the many thousands of college drop outs who changed the world. Silicon Valley was built on math, sand, and the institutions of freedom. It is time to share those institutions around the world.

Sugata Mitra is an Indian physicist who placed a computer terminal in a Delhi ghetto, in a protective covering, just to see what the kids would do with it. The "Hole in the Wall Project," as he called it, soon had illiterate ghetto kids teaching themselves how to use the internet, navigate through English-language menus, and even circumvent the site-blocking software that he had put on the system to



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control what they had access to. Boys and girls alike, they did this with no input from any adults. As Internet access gradually becomes available in every village on earth, extraordinary opportunities for wealth creation will be created. Developing world women will be part of this; we need to support their transition from village entrepreneurship to global entrepreneurship.

When Yunus first proposed Grameen phone, he was told that illiterate peasant women could not learn to use such technology. When he returned to a village weeks later at which a phone had been distributed, a woman came up to him with her phone, closed her eyes, and asked him to give her a number, any number. He did, and she dialed it almost instantaneously without looking. Yunus knows that these people will learn what they need to learn to be successful, once they are given access to the tools of capitalism:

Government decision-makers, many NGOs and international consultants usually start the work of poverty alleviation by launching very elaborate training programs. [They assume] people are poor because they lack skills....Experts on poverty alleviation insist that training is absolutely vital for the poor to move up the economic ladder. But if you go out into the real world, you cannot miss seeing that the poor are poor not because they are untrained or illiterate but because they cannot retain the returns of their labor. They have no control over capital, and it is the ability to control capital that gives people the power to rise out of poverty.^{vi}

Why do we persist in believing that they are ignorant and helpless?

Entrepreneurial culture and economic freedom created enormous wealth for us. The success of Grameen (and other microcredit institutions) prove that, given opportunity, women and their families flourish. And the microfinance movement is sowing the seeds of entrepreneurial culture among millions of women around the world.

Beyond the microfinance industry, there are dozens of other organizations focused on providing entrepreneurial education, mentoring, and support. Though not focused primarily on women, Technoserv, Endeavor, Ashoka, Avina, Global Giving, Junior Achievement, The National Foundation on Teaching Entrepreneurship (NFTE), The Center for International Private Enterprise (CIPE), Bootstrap, The Indus Entrepreneurs (TIE), The Young Entrepreneurs Organization (YEO), and dozens of other such organizations are providing new models for empowering people around the world. These and other organizations, are establishing the foundations for the transmission of a rich entrepreneurial ecosystem, far beyond microfinance. It is time to integrate and activate these systems for greater wealth creation around the world.

To profoundly advance women's economic empowerment in the developing world, we propose an unabashed global celebration of entrepreneurial culture and economic freedom, explicitly designed to empower women around the world, by means of media, conferences, concerts and other public events, dialogues, celebrity spokespersons, on-line communities and games, and the support of caring people of all cultures, ethnicities, religions, nationalities, and political perspectives.

We envision a world overflowing with peace and prosperity, co-generated through the entrepreneurial energy of women in developing countries, the marketplace, and a conscious culture of communication and collaboration with women and men around the world. We can manifest the economic empowerment of women and the end of poverty, by liberating the entrepreneurial spirit for good. Let us do it - together.



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NOTES

- i. Muhammad Yunus, *Banker to the Poor*, pg. 69.
- ii. As of March, 2007, Grameen has 7.06 million borrowers, 97 percent of whom are women. With 2399 branches, GB provides services in 76,848 villages, covering more than 91 percent of the total villages in Bangladesh alone. See <http://www.grameen-info.org/bank/index.html>
- iii. See Summary Economic Freedom Ratings, page 13 in *The Annual Economic Freedom of the World Report*, published by The Fraser Institute in conjunction with members of the Economic Freedom Network. This comprehensive index, constructed under the leadership of The Fraser Institute and Nobel Laureate, Milton Friedman, is the most objective and accurate measure of economic freedom published to date by any organization.
<http://www.fraserinstitute.ca/economicfreedom/index.asp?snav=ef>
See this link for a color map representing the Fraser Economic Freedom Index
<http://www.fraserinstitute.ca/admin/books/files/Nov06ffEFW%20map.pdf>
- iv. Bradford De Long, "Cross-Country Variations in International Growth Rates,"
http://www.j-bradford-delong.net/Econ_Articles/Growth_and_Technology/Role_of_Technology_.pdf.
- v. Fraser Institute, *Economic Freedom of the World Index*, pg. 19-20.
- vi. Muhammad Yunus, *Banker to the Poor*, pg. 141.

Michael Strong is co-founder and serves as Chief Executive Officer and Chief Visionary Officer of FLOW. Michael is a pioneer in education and independent learning, the author of *The Habit of Thought: From Socratic Seminars to Socratic Practice*, and founder of innovative Socratic, Montessori, and Paideia schools and programs in Alaska, Florida, California, Texas, and New Mexico. Moreno Valley High School, the charter school for which Michael was the founding principal, was ranked the 36th best public high school in the U.S. on the Washington Post's 2006 Challenge Index.