

CARE WORK AND THE ECONOMY

Advancing policy solutions with gender-aware macroeconomic models

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MICROFINANCE AND THE CARE ECONOMY

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POLICY HIGHLIGHTS

- **Microfinance** effectively **alleviates poverty** and **promotes gender empowerment** *only* when backed by **investment in social provisioning of care**.
- There is **no substitute** for a development strategy based on public investment in job creation and social provision of care.
- **Microfinance's capacity to alleviate poverty** depends on its linkages with, and conditions in, the formal sector.
- **High interest rates undermine microfinance's capacity** to improve livelihoods for those in rural areas.

MODEL STRUCTURE

- The model defines the economy in terms of two sectors:
 - The formal capitalist sector employs male workers, reflecting stylized facts about regions targeted by microfinance.
 - In the informal sector, female workers divide their time between unpaid care and self-employment in enterprises established via microfinance.
- This two-sector model allows for analysis of the effects of demand dynamics on micro-financed self-employment.
- It also provides means for analyzing the effects of this micro-financed self-employment on care work, which in turn affects labor supply and productivity.

Care Work, Microfinance, and the Macroeconomy

Microfinance encompasses small loans provided to low-income individuals to start small enterprises and has been touted as endgame in development policy for tackling poverty while also promoting women's empowerment. Yet its effects on the care-economy and wider macroeconomy are not well understood. The two-sector model presented in this paper highlights the complexities of these relationships. The sectors reflect stylized facts about low-income households in regions targeted by microfinance, where men tend to work as formal or casual labor. Even with access to microcredit, women tend to remain tied to the home and home-based enterprises so that they remain responsible for care duties. Microfinanced informal enterprises therefore face structural constraints both on the demand side from overall macroeconomic conditions and on the supply side from the responsibility for unpaid care work borne by the female beneficiary of microfinance.

Demand for Formal and Informal Sector Output

These two sectors share a mutual feedback effect on the demand side, as shown in Figure 1. Growth (or shrinkage) in one sector can stimulate (or suppress) demand for the other's product. Informal self-employment cannot be sustained if the formal sector is stagnant.

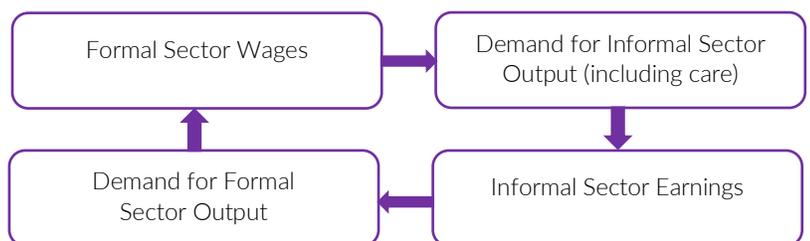


Figure 1: Demand Effects

Care Work and Labor Productivity

Opportunities for earnings through microfinance also are shown to be constrained on the supply side. As female workers increase time spent in paid employment, they have less remaining time to spend on unpaid work or leisure. Reduced time on care provision could affect labor productivity in both sectors, while reduced leisure time may adversely impact productive capacities of the female worker.

Brief prepared by: Ramaa Vasudevan, Srinivas Raghavendran, and Catherine Hensly. CWE-GAM Working Paper 19-03: [Microfinance and the Care Economy](#)