

Monica S. Fong - Heli Perrett

WOMEN AND CREDIT



Finafrica - CARIPLO

Biographies

Dr. Monica S. Fong is the Coordinator on Women in Development for the Europe, Middle East and North Africa region in the World Bank. Her long standing interest in the provision of financial services for poor rural women stems from her analysis and evaluation of development projects and programmes directed to the rural poor with the International Fund for Agricultural Development and the Food and Agriculture Organization of the United Nations.

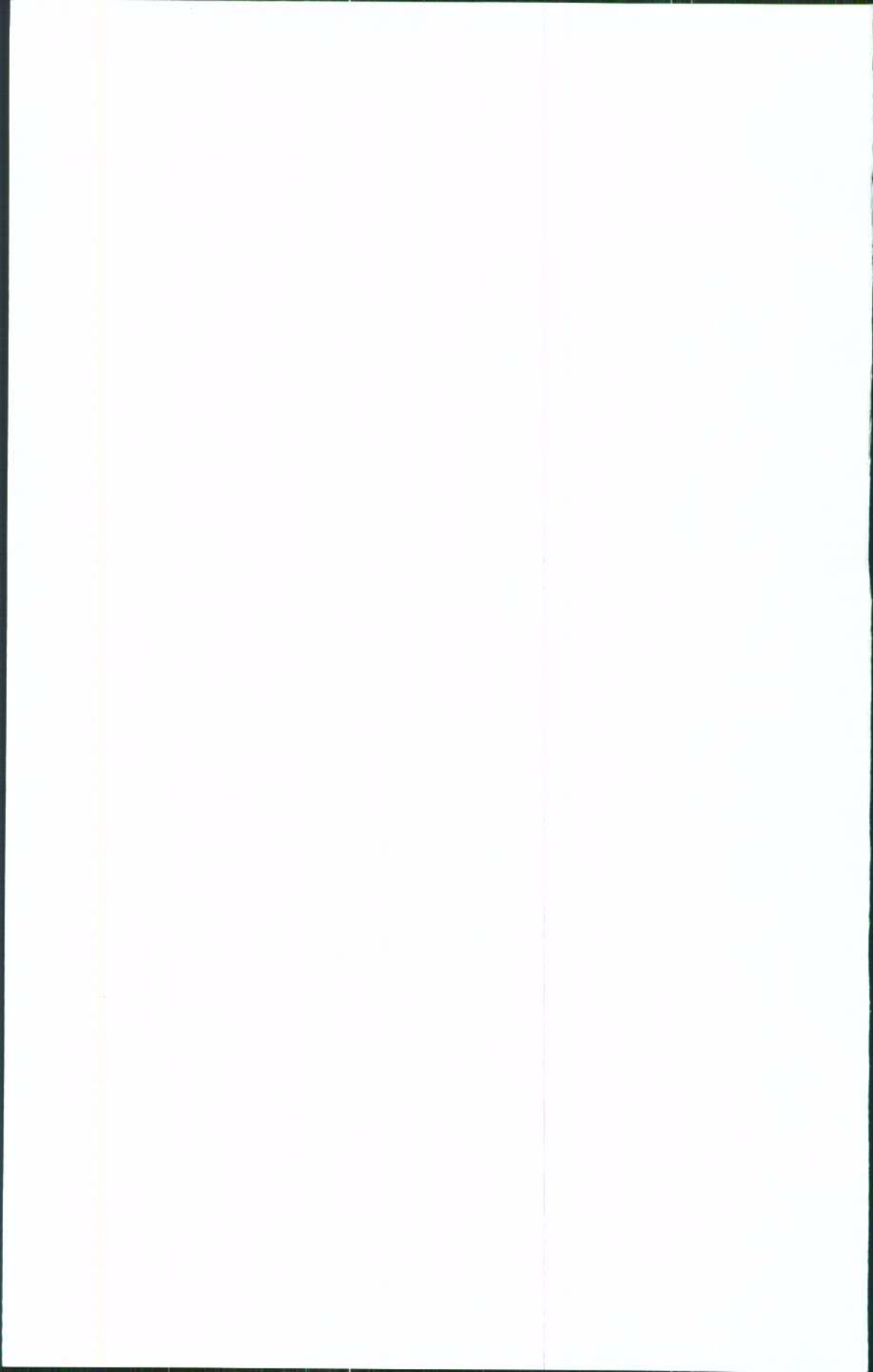
She has also written extensively on women in the agricultural labour force in the developing world.

Dr. Heli Perrett is an independent consultant, specializing in social aspects of development planning and implementation. She is the author of numerous books and reports on communication, education and behavioural considerations in rural development planning. In addition to her extensive writing, she has continued to pursue a career as educator and has taught at the Catholic University of Peru in Lima, and the American University in Washington, D.C. among others.

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MONEY AND FINANCE IN DEVELOPING ECONOMIES

Arnaldo Mauri, Editor

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money and finance in developing economies

Monica S. Fong - Heli Perrett

WOMEN AND CREDIT

The Experience of Providing Financial Services to
Rural Women in Developing Countries

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FOREWORD

The challenge to bring women actively into the mainstream of development action, posed by the UN Decade for Women from 1975 to 1985, has been welcomed by policy makers, multi- and bi-lateral agencies for international cooperation and non-governmental organizations. A large number of development projects have been designed and implemented in both urban and rural areas, especially in education, health and family planning, and in agricultural extension. Many initiatives have also been taken in the financial sector, in view of the strategic importance of credit in improving women's productivity and income. In order to review this experience and draw lessons from it, Finafrica Foundation is pleased to present this volume in its series "Money and Finance in Developing Economies".

Despite attention to the issue of women's access to credit in numerous articles appearing in our periodicals *Savings and Development* and *African Review of Money Finance and Banking*, as well as in books published in the Finafrica Foundation series, this is, in many ways, a new topic for us. Many of our past publications on savings, credit, money and capital markets, and banking systems have touched upon the financial problems faced by women in developing countries, but have usually not addressed the subject of the sex of the customer specifically. There are many factors, related to tradition, religion, language, age, education, and occupation, as well as the transaction costs for credit, the degree of monetization of the economy, the

distribution of bank branches, transport facilities and the commercialization of output, that can impede access to formal financial services by the rural population, men and women alike. Consequently, measures taken to eliminate these barriers or ease these constraints, even when not aimed specifically to women, will mainly benefit them, who are the most stricken by both barriers and constraints.

However, policies and initiatives by governments or by individual banking institutions to ease these constraints are not sufficient to ensure equal access to financial markets for women in a reasonable length of time. When women's social and economic development is hindered by institutional or legal factors, legal reform is needed, but must be complemented by specific initiatives at different levels. Financial innovation in terms of instruments and procedures, and, in some cases, also institutions, can make a substantial contribution to facilitating women's access to banking services.

Women and Credit: The Experience of Providing Financial Services to Rural Women in Developing Countries by Monica S. Fong and Heli Perrett provides an overview and assessment of the experience to date in different developing regions to facilitate women's access to formal credit and savings. By issuing this book Finafrica aims to provide policy-makers and managers with ideas and examples of the different means tried and tested to expand financial services primarily to rural but also to urban women.

Milan, October 31st, 1991

ARNALDO MAURI

I. INTRODUCTION

Rural women have been one of the most consistently neglected groups in development planning and programming, and, paradoxically, one of the groups with the greatest unrealized potential. Direct access to credit, accompanied by savings, can become a catalyst for change that brings benefits to rural women, as well as to their families and communities.

The report will address this issue as follows:

- In the introductory chapter, the reasons for direct lending to rural women in developing countries is highlighted and women's creditworthiness is reviewed.
- A review of women's informal practices of borrowing and saving, their advantages and disadvantages is given in Chapter 2.
- This is followed by an overview of women's limited use of formal financial markets for borrowing and savings, and existing constraints on the supply of credit to women in Chapter 3.

The authors would like to express their appreciation for the many helpful comments and suggestions given by IFAD staff throughout the preparation of this report. Particular thanks go to M. Alamgir, S. Asmar, H. Bechtel, N. Hahn, M. Hassani, A. Kesseba, B. Mansuri, M. Mensah, S. Saigal, P. Spitz, and T. Van der Pluijm.

- Chapter 4 discusses women's demand for credit, its assessment and promotion, with reference to both institutional credit and to savings.
- Chapter 5 provides an overview of institutional strategies for providing financial services to rural women, either separately or together with men, with extensive case illustrations; the variety of operational linkages that are being tried between credit and savings.
- The role, development and functioning of grassroots credit and savings groups, and the factors that determine its effectiveness in practice are discussed in Chapter 6.
- The concluding chapter summarizes what we have learned about the planning of appropriate financial services for women and the related policy implications.

1.1 *The Importance of Women's Labour and Earnings*

There are two major arguments for direct access to credit by women. The first is based on the economic role of women in poor households and their income generating potential. The second focuses on improving the social position of women.

It is recognized that rural women's labour and earnings are essential to family survival in most developing countries. The land can no longer support the rural poor in many developing regions and countries. With the erosion of men's earning capacity as a result of decreased size of land holdings, population pressures and economic downturns, there is increasing dependency on the economic activities of rural women. Landless rural households are particularly badly off. Women's income-earning efforts are rarely directed towards the purchase of luxuries, but to family food supplies, shel-

ter, health, clothing and pay for the schooling of children. Women's income also helps to preserve family unity and serves to restrict the work motivated migration of husbands and children to plantations and urban areas. Finally, women's role in the diversification of income sources permits innovation risks to be taken in agriculture and thereby supports the trend towards increasing productivity and modernization, as discussed below.

Women's labour and earnings are of particular importance to female-headed families. There is an increase in the number of such households in many countries, not only as a consequence of male migration, but also due to wars, refugee movements, divorce and widowhood. It is estimated that currently about 20% of all households in the world are *de facto* headed by women: 22% in Africa, 20% in the Caribbean, 18% in Asia, 16% in the Near East and 15% in Latin America. The percentage is much higher in certain regions and countries, for instance over 50% in Southern Africa, where many men are absent working in mines, commercial farms or in towns. Moreover, these female-headed households are often the poorest of the poor. Women's labour and resultant earnings, usually acquired under serious constraints and under a heavy workload, are essential to the survival of such female-headed families.

Three major sources of rural women's income, where direct access to credit can play an important role in development are from: (i) rural women's income from agricultural production; (ii) their income from small cottage industries; and (iii) income from commerce or trading.

1.1.1 *Rural Women's Income from Agricultural Production*

In most rural areas, throughout the developing world, women participate extensively in crop and livestock production. Figures from 82 developing countries show that women constitute 42% of

the agricultural labour force: 46% in Africa, 45% in Asia, 40% in the Caribbean, and 31% in the Near East¹

Some of these agricultural activities are family based, with men performing specific tasks and women and children performing others. Women may also have sole responsibility for certain crops, animals, vegetables or poultry, including the responsibility for payment of any related purchases.

While women often also help in cash crop production, women's most important role is in food production, mainly for family consumption. Therefore, supporting women's efforts in agriculture often leads to a marked increase in family food supply. For example, in *Africa*, women are major food producers. Their responsibilities are growing as a result of male migration, off-farm employment and men's growing involvement in cash cropping. Women often have farm enterprises which are separate from those of their husbands and they are accustomed to paying for needed inputs out of their own earnings. In the case of shared or family crops there is usually a strict division of labour: men perform the intermittent tasks of clearing land and ploughing, while women provide the labour for planting, weeding, harvesting and processing food crops. The harvested product and its sale may be managed by women but the earnings, except in the case of women's own private crops, is often handed over to the male head of the extended family.

In *Asia and the Pacific*, women's role in food production varies greatly with the household's socio-economic status. Among better off peasants women are withdrawing from the fields to devote more time to activities such as poultry, livestock and off-farm production. Among small farm households, women's contribution to work in the fields as unpaid family labour is increasing as a result of the intensi-

¹. IFAD, *Rural Women in Agricultural Investment Projects 1977-1984*, paper prepared for the World Conference: United Nations Decade for Women, Nairobi, Kenya 1985.

fication of production. Women in marginal farm households must often combine work on the family holdings with casual wage labour. Landless women resort to the latter, when available, or seek to make a living in various kinds of small cottage industries.

Even when the husband takes the lead role in farm management, women's contribution to food production is major. In Nepal, for instance, women perform 60% of the labour for planting, 75% of the labour for weeding and all of the labour for cleaning and storing rice. They provide 66% of the total work hours for wheat, 85% for oilseed and 94% for maize and millet. On some Pacific islands, food crop gardens are exclusively women's responsibility.

In the *Caribbean*, women in the small farm sector are heavily engaged in food production, especially among marginal farmers whose holdings are too small to support a family without cash income from outside. Men do off-farm work or migrate for seasonal work on estates or abroad. When present, men are responsible for clearing and burning, terracing land and staking yams. Women are heavily involved in planting and weeding legumes and vegetables. They often have sole responsibility for harvesting and marketing food crops.

In *Latin America*, women's role in food production and marketing may be less overall than in other regions, but among the poor (indigenous peoples, marginal smallholders and landless labourers) their contribution is significant. Management of livestock also plays a large role in many women's lives. Where husbands migrate, women in marginal smallholder areas have the heaviest responsibilities for food production. Landless women are involved in off-farm activities and sometimes in casual wage labour in agriculture. Many young women are forced to migrate to urban areas, where they work as domestic servants or street vendors, to help support themselves and their rural families when they can no longer make a living from the land.

Unless women can obtain access to modern means of production and services such as credit for needed inputs, agricultural implements, agricultural and veterinary services, storage and markets as needed, agricultural development will not only bypass them altogether, but may actually destroy their traditional food supplies and sources of income for meeting other family needs for health, clothing and education.

1.1.2 *Rural Women's Income from Cottage Industry*

Cottage and village based small enterprises offer primary or supplementary opportunities for large and increasing numbers of landless or near landless to earn an income. When opportunities for paid labour in agriculture decrease due to mechanization, as in some parts of Asia, or are closed to women for social reasons, as in many countries in Latin America, the importance of such micro enterprises in family survival increases. For the smallholder families engaged in subsistence agriculture, such off-farm activities can provide a needed source of cash for purchase of oil, salt, sugar, fuel, matches or other non-local items and for payment of medical expenses, children's schooling and other expenses. Income from women's off-farm activities can also provide small farm families with a financial buffer, allowing them to assume innovation risks in agriculture, and to survive when cash crops or markets fail. For the landless or near landless rural poor, it is often their only way to survive and at the same time have a certain amount of independence from service to large landholders.

These small cottage or village based income generating activities are often but not always women's domain, with resultant income under their control. Children and husbands may also contribute labour. For women, such enterprises near home make it easier to combine income generation with housekeeping and child care responsibilities with agriculture in distant fields. They also provide a suitable activity for women in those countries where seclusion of

women continues to be practiced. For women headed households, small off-farm enterprises can represent an alternative source of income to farming when they lack access to fertile land or lack labour for land clearing and preparation, due to local labour shortage or the high costs of hiring male workers.

The different activities that women engage in vary from country to country and even from one village to the next. Some examples are: the production and sale of baskets, mats, the making of pots, charcoal, spinning and weaving, knitting, tailoring, coir and rope making, and the processing and sale of foods such as yoghurt, cheeses, butter, oils, smoked fish, and many others. While the above represents a wide range of activities, in practice, rural women's choices are limited and restricted to those which are socially acceptable for women within a given culture; those that require only a limited initial capital outlay, need only simple local technologies using locally available raw materials, rely on existing skills, often passed down from mother to daughter, and have easily accessible markets. While rural women's time is severely limited and constitutes a major constraint to production, most rural industries are labour-intensive because of restricted start-up and operating capital.

Without the funds to invest in the bulk purchase of raw materials, in quality inputs, tools or equipments, such efforts by women may result in low productivity and in poor quality production, making it difficult for them to compete effectively in the marketplace against larger and better financed industries.

1.1.3 *Rural Women's Income from Commerce*

In some African countries, the traders responsible for buying produce at the farmgate and transporting and selling it in markets are women. In Ghana, for instance, commerce or trading is the main economic activity of women, second only to agriculture. Women or

BOX 1

HONDURAS: Women's Income From Handicrafts

In Honduras in the Santa Barbara area, 95% of those involved in production of handicrafts are women. For 90% of these women, handicrafts constitute a supplementary source of income for the household; for 10% it is the primary source.

Around 70% of handicrafts producers work on the basis of loans or advances from middlemen; 4% buy their materials with private informal loans; the rest use their own private savings for this purpose. Most use vegetable fibres for handicraft production. These micro-enterprises for rural women may often be part time or seasonal, with very low rates of return, but nevertheless important to the survival of the most disadvantaged.

The earnings of women artisans were very low; they could sell a hat to a middleman for 1.70 lempiras (US\$[0.85]) who would finish it and sell it in the market for 8 lempiras (US\$[4.00]), thus making the major profit. During the last ten years, however, this important source of income to women has declined. Handicraft production by women has decreased due to:

- lack of technical assistance for the cultivation, preservation and processing of raw materials;
- lack of organization of individual women producers for production and marketing;
- lack of equipment for the adequate finishing of products (such as hats), with the result that such items are sold on to the middle men in a semi-finished state and consequently command lower prices;
- poor access to good markets for products in part because of the producers ties to middlemen through advances and loans; and
- lack of credit, the provision of which might have allowed the producers to improve the quality of the items, sell the finished stock and expand their production.

market "mommies", make up 86% of the persons employed in the sector. Most are retail traders involved primarily in petty trading, hawking and peddling; a few women are in wholesale trading. The women retail traders of Ghana usually engage in local trade, handling and transporting one or more commodities and selling them in a local market. They sometimes collectively hire a truck for the pur-

pose. Each trader has her own customers and villages and exercises strong territorial rights².

In the Caribbean, women "higglers" or "hucksters" also operate with their own established clients and an efficient system for collection and transport. The women higgler sometimes also acts as an informal source of credit, both to her relatives and clients and sometimes to other higglers who need to pay wholesalers.

To be able to set up in trade, women need capital with which to pay farmers and sometimes wholesalers. Renting trucks where used, or other transport costs, are additional financial responsibilities. In some countries market women also have to pay someone to "protect" their produce from theft or their place in the market.

1.1.4 *The Competition between Women's Productive and Domestic Work*

In most countries, women manage household finances and assume responsibility for meeting many of the basic needs of their families. While women themselves may want to earn additional income to meet such needs, they are frequently caught between lack of start-up capital and lack of available time.

Women's domestic work is normally more time-consuming in the backward and isolated rural areas, where the poorest of the poor tend to live, than in the urban households. Women need to spend long hours on collection of water from distant sources, on the collection of firewood and on processing and cooking food for family consumption, leaving less time for productive on or off-farm activities.

² Theresa Panuccio "Rural Women in Ghana: Their Workloads, Access and Organizations", in *Assessing Participatory Development*, ed. W. P. Lineberry, Boulder: Westview/IFAD, 1989.

Even when small amounts of operating capital needed by most labour-intensive cottage industries may be available from women's own savings or informal sources of credit, lack of time can become a constraint. Therefore, in these situations, women's time constraints may need to be addressed so that production credit can be effectively used.

1.2 The Invisibility of Women's Economic Role

Women are hampered in the performance of their productive activities on several fronts. Not only do they constantly suffer the time conflict between their domestic and productive activities, but often suffer society's ambiguous attitude towards their productive work as well. Women's economic role has by tradition been largely unacknowledged and undervalued. Women tend to be viewed as supplementary income earners, even when contributing half or more of the family income. Because of this attitude, little is provided in the form of services to help them, and most women are deprived of a share of ownership of land or other assets.

A rural woman's work is neither computed in monetary terms nor is her contribution to the economy recognized and reflected in agricultural statistics. Such statistics do not report women's involvement as unpaid family workers in numerous agricultural activities in which they contribute the majority of labour requirements. A large number of rural women are also employed in unregulated traditional village and cottage industries with low capital investment. Because of their illiteracy, restricted mobility, the male domination of the marketplace, and the rise of intermediaries who are men, women have limited knowledge of the value of their productive work efforts, and the relative profitability of the home industries in which they are actively engaged.

The social devaluation of women and their economic contribu-

tion is reflected in their frequent neglect in planned rural or agricultural development. In rural areas, and especially among the rural poor, women are more often than not by-passed by agricultural extension and input services, by production-oriented training programmes, by agricultural research and by institutional credit programmes.

Political declarations or constitutional guarantees of equality for women can become effective only when women's right to economic independence is acknowledged and their role as contributors to the family and the national economy is recognized and valued by their family, their community, and their government.

In this situation, the direct provision of credit to women is one of several ways to initiate a process of social and economic change for women. Rural women using institutional credit schemes in Nepal and Bangladesh report that initially their family and village elders criticized them and even directly opposed their initiative, but later on their financial success resulted in increased respect and a greater role in decision-making. Thus, in the transition from a life of dependency and social discrimination to self-reliance and self-confidence, credit for rural women can be a catalytic input.

1.3 Benefits from Women's Access to Credit and Savings

Production credit and savings can improve the income and lives of women where the other needed inputs for production are already in place or can be made available either under the credit operation itself or through coordination with other services, whether government or private, that supply missing inputs. Savings are closely linked to credit and investment also among poor women.

Under these conditions, agricultural credit for women can provide women with access to improved agricultural inputs, hiring of

labour, rental of machinery, purchase of better hoes, cutlasses and other implements, and where groups of women combine, purchase of machinery, particularly for agricultural processing. In the case of female entrepreneurs, access to loans for start-up to fund operating costs can allow women to expand their enterprises, improve productivity or quality and experiment with new activities which give higher rates of return.

Where women suffer from time-constraints, time-saving technology and infrastructure can free up time which can be put to productive use through subsequent loans or using own small savings. Such attention to time savings is probably more important for women than for men, and is sometimes required to allow overworked rural women to make effective use of production credit.

Finally, mobilization of small savings can allow women to meet both their needs for future investment in income earning activities and for their urgent consumption and emergency needs in the future. It can provide for medical expenses, schooling costs for children, needed household utensils and food for consumption during the "hungry" or pre-harvest season. These savings can also pay for piloting of new enterprises on a small scale and contribute to larger productive investments.

1.4 Rural Women's Creditworthiness

But given rural women's needs for financial services, are they a good credit risk? Field experience with credit schemes proves that they are. The Grameen Bank of Bangladesh, which now has an 88% female membership, firmly believes that financial services for women should be given priority. In the Bank's experience, women use their earnings for their family welfare, whereas men tend to use them more for personal consumption. Women have also proven better credit risks, in part, because they appear to be more responsive

to self-discipline in repayment. Other credit schemes in all regions have come to similar conclusions on women's creditworthiness.

Rural women's creditworthiness rests on four major arguments: (i) their character and the seriousness with which they approach their financial obligation; (ii) their general capacity to handle credit; (iii) their record in repayment under institutional credit programmes; and (iv) their use of credit for its intended purpose.

1.4.1 *Character*

Character is the first criterion commonly used by bankers to assess creditworthiness of borrowers. It is clearly impossible to generalize the character of rural women across regions, countries and cultures. What evidence exists under lending programmes, however, argues that the poor rural women are conservative borrowers. In almost all situations they take their institutional borrowing obligations very seriously, particularly where group pressures are exerted to maintain a good credit repayment. Overall, even the poorer rural women appear to be a good credit risk, especially where they manage the income generated by their investment.

1.4.2 *Capacity*

Rural women in most developing countries have a number of skills for both on-farm and off-farm activities are passed on from mother to daughter. Increasingly, the development community is recognising the value of such traditional know-how. In some instances, minimal upgrading of skills and technology, together with marketing advice and assistance, may be all that is needed to ensure that production credit generates good rates of return. Overall, rural women seem to prefer investment in the traditional income-generating activities for which they already have the skills, like grain pro-

cessing, livestock, vegetable gardening, handicrafts, trading and preparation and marketing of various kinds of food items. But new activities such as bee-keeping and rabbit-raising are also catching on in many developing countries as women acquire new skills and these enterprises prove their economic potential.

1.4.3 *Repayment Record*

Informal savings and borrowing in kind or cash is prevalent among rural women in almost all developing countries, thus providing women with useful credit experience. They also establish what could be considered a "credit rating", which is well known by their neighbours and friends.

Under the relatively limited number of innovative institutional programmes which have served them, women have proven their creditworthiness: their repayment record has usually been high and invariably better than that of men in similar circumstances.

Women clearly take their loan obligations seriously. They are more afraid of defaulting than men, probably because of their comparative lack of social power and the greater importance they attach to their first participation in formal institutions. When women fail to repay, it is because repayment is a clear impossibility. Loan repayment occurs even when women have diverted part of their funds, have fairly low rates of return on their income generating activities and when they have to pay back from other sources of funds because cash income generation from the investment is delayed. Group-based credit with joint-and-several liability has been found to be a definite asset in ensuring a good repayment record.

1.4.4 *Use of Credit*

The argument is frequently made that, because of women's responsibility for domestic consumption, and their position within the family, women will divert loan funds for urgent consumption needs or for their husband's personal use. As in other credit schemes, it cannot be denied that this sometimes occurs, including under the most successful programmes, albeit, such instances of diversion of funds are usually relatively minor. Some of these diverted funds have also been found to be put to productive use in other family enterprises, rather than in consumption. Moreover, it has been found, for example in the Grameen Bank in Bangladesh, that even in cases of diversion of funds, women still tend to retain a good repayment record. Finally, innovative lending operations have now also instituted measures such as Group Funds for consumption purposes and use close supervision to control diversion.

In general, a review of experience argues that where repayment of loans has suffered among women, it is as often due to failure of the project technology, of market access or lack of sufficient time to dedicate to the project, as the diversion of funds to other purposes. Interestingly, failure to repay under such cases is sometimes caused by a belief that if the project fails, repayment is not expected. Overall, the very large majority of women borrowers tend to invest their credit funds for the activity for which it is intended³.

³. For a more comprehensive discussion of commonly recurring reasons for poor loan recovery in rural credit projects, see IFAD, *The Role of Rural Credit Project in Reaching the Poor*, Oxford: Tycooly Publishing, 1985, pp 66-69.

