

II. RURAL WOMEN'S INFORMAL BORROWING AND SAVING

Informal arrangements for borrowing and for saving often play a major role in women's economic activities. In the Caribbean region, for instance, the unorganized capital markets account for approximately four-fifths of the number of loans negotiated in rural areas. Even when formal markets open up to women, informal markets often continue in parallel use for emergency and consumption purposes. This is especially true when the institutional services provide production loans but make no provision for encouraging parallel savings among women borrowers.

These informal markets have many similarities across countries and share similar advantages and disadvantages for the borrower. What is important from the perspective of formal lending is that women's experience with these informal markets have developed certain expectations and customs: they are the yardstick by which women will measure the formal markets, not only in terms of interest rates and transaction costs, but also in lending and repayment procedures and requirements, and the general style of operation.

2.1 Informal Borrowing Practices

2.1.1 Sources of Informal Credit

Relatives and friends are an informal source of credit com-

monly used by rural women in most countries. One of the main advantages of borrowing from relatives and friends is that they readily understand the dynamics of household cashflow problems and rarely turn down requests for small loans. They are also a frequent source for larger loans. In Haiti, family members and friends are second only to personal savings as the most important sources of start-up capital for women who own small-scale enterprises.

If they charge interest at all, the rates are not exorbitant. They generally live nearby so that loans, in small amounts, can be easily and quickly arranged and easily repaid. Where women borrow from males, usually both the woman's husband and the lender's wife have to be advised and in agreement.

Moneylenders make small loans available with little or no collateral requirements and are flexible with regard to repayment. Reference to this kind of lending to poor women has been made in many Latin American countries. In Nicaragua, the moneylenders, known as "prestamistas", are considered the main source of cash for market women. "Prestamistas" typically give short-term loans (30 to 60 days) at 10% interest per month or 120% to 240% per year. In some countries, women use professional moneylenders much less than men do, preferring relatives and friends, shopkeepers or pawnbrokers.

Pawnbrokers are another important source of credit for women. They are convenient in that they allow women to put up jewelry, ornaments, gold or even pots and pans as collateral for needed cash. In instances when women do not own cattle or plots of land, or lack control over productive outputs, these personal items constitute their only form of collateral. Like moneylenders, pawnbrokers provide small loans, in a timely and flexible fashion. As with relatives and friends, loans are immediately available with little or no paper work involved.

Wholesalers, middlemen and shopkeepers also provide women with credit at times, both for household provisions and for productive activities. These sources of credit are particularly important both for assisting women in meeting basic family needs and for maintaining women's daily participation in the market place. Wholesalers and shopkeepers may extend credit to well-known, consistent buyers for food and other requirements by maintaining a record of the purchases and allowing the bill to remain unpaid for a certain period of time. Often interest is implicitly rather than explicitly charged through higher prices for goods.

Middlemen will advance women credit to buy seeds and fertilizers. Women farmers also may receive credit in kind from middlemen. Again interest is not usually charged. In return for the credit, middlemen expect to buy women's production at lower prices (see Box 1). In practice, the role of the shopkeeper or middleman and moneylender may be combined. Women in cottage industries often sell their products to local traders or shopkeepers at very unfavourable prices in repayment for loans.

Indigenous rotating savings groups are in many countries the most important source of credit for women. They provide relatively easy access to small amounts of cash at regular intervals based on accumulated group savings. Loans are usually provided on a rotational basis, by lottery or a system of bidding at each round. In the Cameroon for example, the right to the use of funds is auctioned among members. These traditional savings groups are discussed further below under informal saving practices (Sec. 2.2.4).

2.1.2 *Nature of Informal Credit*

Traditional borrowing in rural areas can occur in either cash or kind. Borrowing in kind is popular in subsistence economies. In villages in India, for example, consumption loans in the form of grains

are often taken during the planting season and repaid after the harvest as a proportion of the amount borrowed, often one and a half times the weight. In Morocco, women also borrow in the form of grains or wool usually from relatives or neighbours in the village.

Increased familiarity with money and exposure to a variety of consumer products from outside has encouraged borrowing in cash among rural villages. In the Solomon Islands, the transition from a traditional economy to a mixed traditional cash economy, for instance, has gained considerable momentum. Road infrastructure and marketing has been improved. Cash is now being sought by rural women not only for a few basic needs such as kerosene, soap and salt, but for a whole variety of consumer products that are being increasingly seen as a means of improving lifestyles and acquiring social status. In many countries, the purchase of such items is women's financial responsibility.

2.1.3 *Uses of Informal Credit*

Reports from different regions and developing countries all seem to indicate that informal credit is primarily short-term because of restricted liquidity, limited resources and the frequently high risk involved. Loans are more likely to be given for a few days, weeks or months, than for a year.

The main purpose of this type of borrowing among rural women appears to be for consumption and emergency purposes. These include payment for social occasions such as weddings, for funerals, children's schooling, medical expenses, dowries, repayment of old debts and so on.

Informal sources are sometimes also used for small production needs, and particularly for the purchase of raw materials from middlemen by women engaged in cottage industry, as in Honduras (see

Box 1), as well as in most other countries. Market women also borrow from wholesalers, when they use them, and from each other.

In the Caribbean, where women dominate the distribution of domestic food, the occupation of higgler or market woman holds considerable status. She extends credit to other members of her family, the community and even to her competitors, when they cannot pay their wholesalers and thereby allow them to maintain their reputations and credit rating.

Women borrow less often from informal sources for the purchase of agricultural inputs, livestock or poultry, although it does occur. Women members of rotating savings and loan associations have been found to use collective savings for such purposes.

2.1.4 Interest Rates on Informal Loans

Most credit from informal sources comes from friends and relatives and is usually interest free. For other informal sector loans, interest rates are usually fixed in terms of the perceived risk in the individual case. A survey of informal credit in Ethiopia by the Chila-lo Agricultural Development Unit found that the majority of farm families borrowed from relatives, close friends, and other farmers. Only 6% borrowed from moneylenders. About 64% of the loans from relatives and friends were found to carry no interest charge, compared to 10% of the number of loans from other sources. The average annual interest charged varied from 34% on the loans from relatives and friends when interest was charged, to about 110% on the loans from other sources. The most common interest rate charged was 10% per month. Loans in kind were sometimes also reported to carry high interest rates: it is not uncommon for farmers to borrow one quintal of wheat in February, and have to return three quintals during the next harvest period⁴.

⁴. Uma Lele, *The Design of Rural Development: Lessons from Africa*, Baltimore and London: The John Hopkins University Press publishing for the World Bank, 1975.

2.1.5 Repayment of Informal Loans

Repayments of agricultural loans are usually made after the harvest, in cash or kind. Cash loans are not necessarily repaid in cash. In rural India, cash borrowed may be repaid in the form of crops or from livestock products such as milk and wool; small amounts of cash lent to women may also be repaid in the form of labour for cattle grazing, water filling, cleaning and laundering. There is considerable flexibility in repayment of most informal loans, the frequent links between credit and the purchase of the product by the lender can however imply high hidden costs.

2.1.6 Collateral Requirements

In informal lending, the relationship between the lender and the borrower is the basis for determining whether loans are secured or unsecured. If the lender knows the borrower well, and feels confident of recovering the amount lent, or is able to exercise some form of control over the output of the loan, then loans are usually secured. Mutual trust replaces collateral. Loans are given only to those who are well known, and with whom close contact can be maintained.

BOX 2

PAKISTAN: Use of Informal Sources for Credit

Both men and women in Pakistan make extensive use of informal credit sources. It is believed, however, that they are more important for women and are, in effect, their main source of loans.

A World Bank Agricultural Credit Review Mission (March, 1989) estimated that about 85% of all farmers obtaining loans use informal sources. Small farmers tend to use informal sources more than do large farmers. The 1985 Government Rural Credit Survey found that about 91% of the informal borrowers were small farmers (with holdings below 12.5 acres) who accounted for 85% of all borrowings from informal sources.

The informal sources used for credit are friends, or relatives, landlords, village merchants and money lenders. In 1951 friends and relatives were the most popular, accounting for some 75% of all loans, followed by landlords, who accounted for 20%, with village merchants and money lenders accounting for only 3% and 2% of informal loans. By 1972, however, merchants and input dealers accounted for 14% of informal credit. Given the expansion of institutional credit and the crucial role of input dealers and commission agents in the delivery of institutional credit since that time it was concluded by the World Bank mission that their contribution has probably doubled.

These informal markets in Pakistan cater mostly for consumption and smaller production loans. They appeal to the borrowers because of their easy access, flexibility and the speed of delivery of the loan.

The 1985 Rural Credit Survey of the Government of Pakistan did not have sex-disaggregated data. However, other sources indicate that the pattern of rural women's borrowing in Pakistan has changed little over the years. They still tend to rely almost exclusively on the informal system, and specifically, relatives, friends, neighbours and the informal rotating savings and loan associations known as *bisi* or committees, which operate on the principle of regular contributions to a fund which becomes the property of each member in turn. Women do not usually borrow from commission agents and only occasionally from shopkeepers. Whereas women are reluctant to admit borrowing from other sources, they are proud to be members of a *bisi*.

With larger informal loans, particularly from professional lenders, some kind of collateral is usually demanded, such as gold, jewellery, copper or bronze utensils, animals or whatever else poor men or women have available.

The above mentioned survey in Ethiopia (2.1.4) found that the demand for some security for the loans depended on the relationship between the lender and borrower; 46% of relatives and friends required security compared to 95% of other lenders.

2.1.7 *Advantages and Disadvantages of Informal Credit*

To summarize, *informal sources of credit appear to have considerable appeal* to rural women because of the following characteristics:

- accessibility: women can receive loans from informal lenders near where they live with repayment occurring at the same place;
- speed of transaction: unlike the formal financial system where weeks or months may lapse between initial loan application and access to loan funds, the loans from informal lenders are effective immediately, or in a few days;
- small size of loans: informal lenders are willing to handle loans of minimal amounts, those usually needed by poorer rural women;
- the availability of loans for consumption as well as production purposes;
- minimal or flexible collateral requirements: informal lenders, particularly relatives and neighbours, also moneylenders, usually do not insist on collateral if the amount is small. With larger loans from moneylenders, women are permitted to put up whatever collateral they have;
- flexible repayment arrangements: because of the familiarity of the lender with the borrower's situation, and the lack of bu-

reaucratic regulations, the nature and timing of loan repayment can be arranged to suit the borrower's activities and circumstances; and

- privacy of information on assets and earnings: women do not have to disclose information on their assets or earnings to strangers, which may have taxation or other implications.

The commonly acknowledged *disadvantages of informal credit* markets are:

- they rarely provide larger or longer-term loans for productive purposes;
- informal markets are based on social relationships rather than price considerations and reinforce or create dependency relationships of patron-client, village leader-villager middleman-small farmer, which limit women's self-reliance, their profit margins; and
- the interest rates charged may be very high with professional lenders. Estimates often place them between 30% (with neighbours or relatives) and 200% per annum (with professional moneylenders).

2.2 *Informal Saving Practices*

2.2.1 *The Capacity and Propensity to Save*

Informal savings exist in many countries, particularly among women, and indicate the propensity to save even among very poor women, although their capacity to save is clearly limited. Frequently, their income in cash or kind barely exceeds their requirements for subsistence. Therefore, in many instances, savings can only occur at

times of periodic surpluses, like the harvest. When they do occur, the actual amount saved is normally very small although it can be surprisingly large, relative to income.

Womens' ability to save may be further constrained by tradition and practices that require them to pass on all their market or wage earnings to the male head of household. In other situations, women retain separate control of their earnings, and can save from their own marketing of surplus food crops, eggs, milk or home manufactured items.

Actual savings depend on the propensity as well as the ability to save; and that propensity shows considerable variation in different cultures. In some, saving is socially respected, in other traditional cultures, accumulated personal or family wealth is actually considered socially deviant. However, reports from different parts of the world argue that the general propensity to save among poor rural women is stronger than among their male counterparts. The greater popularity of the traditional savings groups among women supports this conclusion.

2.2.2 *Nature of Traditional Savings*

In subsistence economies, savings often occur in kind. In many countries in Asia, Africa and Latin America, women have tended to accrue savings in the form of small animals, jewelry, fabrics or other tangible assets, with the advantage that these savings are not normally eroded by inflation. In Burkina Faso, savings are traditionally held in the form of grain such as millet or sorghum.

In Indonesia, the Family Welfare Movement (PKK) has been instrumental in organizing small savings-in-kind schemes among rural women to finance community projects. Participants save spoonfuls of rice every day. This is collected every week and the proceeds

are used to fund community activities. In two West Javanese villages studied under the Agro Economic Survey, women's savings of rice amassed in this manner were used to capitalize the village paddy banks and a cooperative in one of the villages.

Monetarization of the economy has led to a greater prevalence of cash savings. Hoarding of cash in the house is quite common in the Solomon Islands. The Central Bank notes the high cost of supplying a relatively large proportion of money in circulation as coins: villagers prefer to store coins in preference to notes, as coins are less susceptible to fire, being eaten by rats or ruined by water. They are also more difficult to steal. Given the often very high rates of inflation in many developing countries, some international Non-governmental Organizations (NGOs) are now encouraging rural people in Africa to revert to savings in kind.

2.2.3 *Social Organization of Savings*

There are many ways that people traditionally save outside a formal institutional context, apart from personal savings. These include:

- *Family savings*. These occur when the extended family saves as a unit. Such savings are important in all of West Africa, but also occurs in other regions.
- “*Tontines*” and *group savings*. This type of informal savings occurs in most regions in one form or another, and is based on regular contributions of members to a group fund, which is paid to each in turn.
- *Savings clubs*. These are somewhat more formal group savings under which members collectivize their savings, often also using them in collective projects. Savings clubs usually operate on a pre-cooperative model, and under much the same rules and procedures (see chapter 3, Box 8).

2.2.4 *Traditional Forms of Group Savings among Women*

The traditional savings groups are the best known of the traditional ways of mobilizing and organizing savings among women. They have particular importance in the present context because of their associated credit role. The system has different names and operating modes in various regions and countries.

In Cameroon and some neighbouring African countries it is known as *tontine*, *susu* in Ghana, in the Arab countries as *gameya*, in India and Pakistan it is called *chit fund*, in the Philippines *paluwagan* (meaning "easy"), in Indonesia *arisan*, in the Republic of Korea *kye*, in Thailand *pia-hueys* and *chaer* (or "share"), whilst in the Caribbean it is called *partner* in Jamaica, *box* in Antigua, and *meeting turn* in Barbados. In Latin America, it is referred to as *panaderos* or *juntas* in Peru, and *sana* in the Dominican Republic.

The nature, size and degree of formality of the groups varies from small informal neighbourhood or workplace groups, whose primary interest is to set up a vehicle for savings, to larger more impersonal organizations which offer a quick means of raising urgently needed funds for emergencies, investment and consumption. All possess the advantages of accessibility, flexibility and adaptability.

The pooling of individual resources occurs on a regular basis (daily, weekly, monthly) by the women. The amount to be contributed and intervals between contributions are agreed on by members. Every member of the group has access to the common pool in turn, or according to an established rule.

The duration of a savings group may be unlimited or predetermined, and new members may or may not be admitted.

These savings groups encourage even very poor women to put aside small savings that would otherwise be spent on trivialities. Ad-

ditionally, the group form encourages a feeling of self-reliance and group solidarity among women. The weekly meetings allow an exchange of ideas and information.

Somewhat more structured than the Savings Groups are the Savings and Lending Associations (SLAs), where savings are deposited and earmarked for a clearly defined investment. In some countries (Bangladesh, India, Republic of Korea) these traditional collective savings, have formed the basis for significant, large-scale savings and credit organizations, which have become part of the formal rural financial system.

BOX 3

THE CARIBBEAN: How a Traditional Savings Group Operates

In Montserrat in the Caribbean, 10[to 15]women form a group. The group generally consists of women who trust each other and have a more or less equal level of income; they may live in the same village, belong to the same church, or participate in the same business. They meet and decide upon the amount each should contribute, whether contributions should take place weekly, fortnightly or monthly, who should receive the first "hand" or share and the rank of all members. Rules are also established for dealing with defaulters, unforeseen difficulties in repayments due to illness, and so on.

One trustworthy member of the group is selected as leader to hold the "box", for which she receives a small fee. In exceptional circumstances, she may even make a contribution on behalf of a woman in financial difficulty so as not to interrupt the "passage of the hand". The concerned member would repay the money when she receives her "hand" or earlier, if able to.

There is no formal training for these groups. Procedures and practices are passed on from group to group and from one generation to the next.

2.2.5 Advantages and Disadvantages of Informal Savings

The informal markets have both advantages and disadvantages. In the case of *informal savings*, common advantages are:

- the social status implied by the possession of animals, gold

- jewellery or other fixed assets;
- savings in kind as a hedge against inflation;
- the relative ease of access, if savings are in cash or other quickly available forms; and
- the social attractiveness of the saving activity when conducted in a homogeneous group setting.

The *disadvantages of informal savings* are:

- the lack of security: savings can be stolen, or if they are in grain can be eaten by insects, while animals can die of disease or old age;
- the possibility of erosion by inflation, if savings are hoarded in cash; and
- the cost of paying someone to guard savings, as with women traders in East and West Africa, who sometimes deposit earnings daily with a village “banker” who returns them after a fixed period (such as a month), charging them one day as payment for guarding their savings.

In sum, while the restricted supply of funds and high interest rates for loans and the lack of security for savings may be disadvantages, there is no doubt that the informal markets are adapted to rural women's needs in terms of their convenience and style of operations.