

VII. LESSONS FROM EXPERIENCE AND THEIR IMPLICATIONS FOR FUTURE ACTION

The accumulated experience with credit for women readily provides planning lessons on what has been found to work or not work in providing access to appropriate and convenient credit and savings opportunities for rural women. Further testing and local adaptation of approaches and strategy elements are needed, but although documentation is still in its early stages the existing experience provides many valuable suggestions to be taken into account during the planning of services by banks and credit unions, government ministries, women's bureaus and non-governmental and other organizations. There are also lessons for policy makers, many of which will be applicable to all regions and countries. The major elements of this learning are summarised briefly in this final section.

7.1 General Policy and Planning Considerations

Experience world-wide suggests a number of policy-level changes that can be helpful in improving rural women's access to financial resources and to overcoming the formal obstacles faced by financial institutions in serving them as customers.

7.1.1 Legal Reforms

Laws pertaining to credit, and their enforcement, can have considerable influence on women's access to credit. Where the law restricts women's access by limiting their legal status as adults and their ability to make financial transactions independently, legal

reforms become an important step in improving women's access to credit.

Other laws that limit women's right to own property in their own name, particularly land and other productive assets, are also *de facto* restrictions on women's individual access to formal credit, since they prevent women from offering the required collateral. While group collateral can overcome such restrictions, legal reform is a necessary long term objective in opening up formal sources of credit to women. Enforcement of the law, and educating women about their legal rights are essential subsidiaries to such reform.

Land reform and land distribution schemes, nationally or under regional irrigation and other land development schemes, will need to be especially sensitive to maintain women's rights and women's use of land, in order to safeguard not only their incomes from agricultural activities, but also their potential access to agricultural credit.

7.1.2 Interest Rate Policies

Financial reforms are important in overcoming the reluctance of banking, credit and savings institutions in serving women. There is no evidence to show that concessionary interest rates help to improve rural women's use of credit from formal sources. Many of the more successful programmes, such as the Grameen Bank, establish a positive real rate of interest. Many governments subsidize interest rates in an attempt to encourage greater use of special credit lines by low-income groups. While certainly playing a role in women's demand for institutional loans, interest rates may be less important overall than commonly assumed, particularly in comparison to costs of loan initiation and servicing.

This may be due in part to the nature of women's expectations,

which have been developed on the basis of their informal experience. Moreover, if the interest rate is maintained below its market level, lenders must compensate for lower returns by trying to reduce the risks of making loans to high risk customers, such as the landless and smallholders and encourage the lender to allocate credit to larger borrowers and better-off customers and thus minimize loan write-offs. This results in high transaction costs for the borrower, inflexible collateral requirements and cumbersome loan application procedures which further reduce the chances of the small borrower receiving loans. Women, in particular, are strongly affected by both formal and informal restrictions on credit resulting from low interest rates.

Moneylenders, pawnbrokers and others, whose expected returns are not regulated by governments, can afford to impose low collateral requirements and minimize transaction costs: the high interest rate they charge compensates them for the risks. When it comes to repayment, the moneylender will often be paid back first, before repayment of the bank or government loans. Programmes in both Nepal and Sri Lanka have found that borrowers considered it financially more rewarding to postpone payment on their government loans, when these employed concessionary interest rates, thus resulting in high arrears in the banks' loan portfolio.

If interest rates are not permitted to cover legitimate lending costs, the women who are denied access to institutional credit, must resort to borrowing from informal sources. In the informal market, they will ultimately pay rates of interest higher than the original market rate that the government intended to lower. Thus, deregulation of the interest rates could improve women's access to formal sources of credit by allowing the market-driven interest rate to prevail. This would eliminate the pressure from higher-income, customers perceived as lower risk and thereby lower the social and economic costs of borrowing, which are otherwise discouraging access by women.

7.1.3 *Extension Services*

In many countries, the male orientation of extension services for credit and agriculture constitutes a major barrier to women's access to information and to credit. Worldwide, including North America and Europe, only 19% of agricultural extension staff are women. The average percentage of women among extensionists is 3% in Africa; for Latin America and the Caribbean it is 14% and for Asia and Oceania the figure is 23%. Only in the Philippines are 40% of extension staff female. Of the extensionists specially designated as agriculturists, 41% do home economics rather than agriculture.

There is a clear need for development agencies to make greater efforts both to increase rapidly and substantially the number of females employed as credit officers and agricultural extension agents and to ensure that male extensionists provide information and services to women. This may sometimes be done through local-hire intermediaries, such as female credit assistants, agricultural assistants or women's group leaders. In addition, these agencies should make special efforts, not only to improve women's access to credit and financial facilities, but also to re-orient field staff toward providing technical assistance which recognizes the particular needs of women's economic activities. This means, for instance, re-orientation of home economics training away from presuming women to be merely cooks and housewives and encouraging them their roles of entrepreneur and farmer.

7.1.4 *NGOs as Mediators*

NGOs have frequently played a vital role in financial services for rural women, both as initiators and mediators of services.

Many governments and banks are unable to provide an ade-

quate number of qualified staff for organizing, training and assisting rural women in their initial contacts with financial institutions. Women organizations and other NGOs have often successfully bridged the gap. Their most common role has been in group organization and financial and technical training. Some, such as the Self Employed Women's Association, and Working Women's Forum of India, have institutionalized their own financial services. Others perform a supportive role in government programmes, or, play a temporary role, eventually graduating women into formal sector borrowing.

Donors and government planners can facilitate the useful development role of these intermediary organizations in linking women to the financial services of banks and to other supporting services and agencies. To this end, they can assist NGOs with the start-up costs of their credit programmes and involve them in larger credit schemes to assist women in organizing and developing groups, and to provide group members and leaders with needed practical training, especially on financial and managerial aspects.

7.1.5 Institutionalization of Women's Access to Credit

Support and implementation of women 'specific' programmes must be viewed as a temporary or intermediate step with full participation of women in mixed-sex programmes as the long term objective.

In mixed-sex credit programmes, women can potentially take full advantage of the resources and high priority that integrated projects receive. However, in practice, they may be excluded through choices of promotion and delivery mechanisms and eligibility criteria. Even in programmes designed to reach small and inexperienced borrowers, women have been found to be at a disadvantage compared to men when competing for credit, because of their

priate technologies and markets have been common causes of low return or failure of women's projects, and planning improvements are needed.

7.2.4 Enhanced Benefits

The benefits accruing from provision of credit to women can be enhanced when credit operations also free women's time for productive activities, encourage saving and reinvestment of savings in agriculture or off-farm activities, and provide general assistance with financial, technical and marketing aspects as part of the financial services provided.

However, we still need to learn how planning can support such conditions. Cost effective means to address women's time constraints have not been sufficiently addressed under many credit operations. While credit can clearly support savings by providing greater savings capacity from any surplus income, we need to learn more about how to mobilize bank savings and how to ensure reinvestment in income-generating activities that continue to be managed by women. The financial, technical and marketing assistance and training provided under many credit programmes has been inadequate: more learning from experience is needed on how to provide such services especially for illiterate women.

7.3 Planning Lessons on Linkages

The main lessons learned in this review are on the value of linkages: (i) the linkage of informal and formal organizational arrangements for borrowing and savings by rural women; (ii) the creation of mutually supportive linkages among women borrowers and savers themselves; and (iii) the operational linkage between credit and savings activities of rural women.

7.3.1 Linkage of Formal and Informal Organizations

The formal financial markets, as they are normally constituted, clearly lack the interest and the necessary facilities for providing credit and savings opportunities to the small borrower; not only do they usually have a very limited network of services in rural areas and few trained female staff, but they are handicapped by the high transaction cost of administering small loans. Serving women is even less attractive because women are almost always new and smaller borrowers than men, and less accustomed to bureaucratic contexts and requirements.

Extension of services to rural areas through village level branch banks may not be cost effective for small lending and borrowing. A solution being tried and proving successful, particularly in a number of Asian and African countries, is to establish linkages of credit programmes to women's credit and savings groups at the village level. These groups will extend the delivery of financial services to the lowest level, thus serving to lower transaction costs for both lender and borrower.

Such credit and savings groups perform a number of management functions for the credit scheme with members assuming part of the administrative costs. But groups also make institutional borrowing and saving easier and more attractive to rural women and approximate more closely the informal practices to which they are accustomed. It has been found that the group mechanism encourages demand for services, improves women's chances of access to institutional credit through provision of group collateral and liability in place of physical assets, facilitates loan application and appropriate use, improves repayment rates and performs a number of additional economic and social functions. Group members are not passive recipients of credit but active participants and managers of services at local level. These groups also support institutional savings, as they help to develop savings habits and discipline, through the pooling of

small amounts of cash and transferring them into a joint institutional account, which can have a steady rate of growth.

However, field experience clearly shows that such groups can vary considerably in their effectiveness, depending a great deal on their cohesiveness and development, and the tradition of social solidarity among rural women in that area. When appropriately set up, and with the right membership, the group structure has been found to be an asset in targetting financial services to the groups of women who need them most. Finally, while the group structure facilitates and makes easier access and use of financial services for members, it excludes others from such special schemes, and therefore becomes a key determinant of the distribution of benefits.

Experience under a variety of projects has also shown that the linkage between the formal and the informal organizations needs to be strong, with emphasis on constant supervision and support in the application and use of credit by the financial institution, and with well trained and motivated field staff working in close co-operation with the borrowing group. Where such bank or government staff are unavailable, NGOs have in many cases filled the gap, as noted earlier. Over the longer term, the need for mediators is ideally phased out, with group leaders and members themselves able to establish direct linkages to the formal financial institutions.

Planning of financial services should also incorporate the advantageous features of informal borrowing systems into the design of formal credit programmes serving women. Examples of such features include: frequent repayment schedules that match the cash flow, innovative collateral requirements including, where appropriate, group collateral; reduced amount of paperwork and administrative procedures; and a short time-gap between loan application and disbursement.

7.3.2 Linkages Among Women Borrowers

Working in groups with mutual support and assistance comes naturally to the poor, especially women, who often depend on extended family networks for survival. The advantages of group solidarity transcends that of credit supply, providing mutual support and assistance at times of crisis, as well as enabling the women to overcome the constraints imposed by the isolation that women everywhere suffer, from those who remain secluded within the four walls of their house, to those whose mobility is restricted by childcare and other family responsibilities.

Group-based credit and savings is of value to the women borrowers as well as to the credit scheme administration in helping to establish mutually supportive linkages between women of similar interests and background. This provides women with constant encouragement, mutual support and assistance when difficulties arise, cooperation in credit and other activities and furthers their skills in collective decision-making and leadership.

Where the financial schemes are linked to existing groups of women these will have to be carefully selected to make sure that they are cohesive and appropriate for the savings and credit activity, and that membership is made up of the type of women who need and can use the financial services.

For newly formed groups, cohesiveness will have to be ensured through the membership selection procedures used, small group size, usually around five to fifteen members with similar background and interests, through economic activities, and through ensuring frequent contacts at group meetings as often as once a week.

The actual development of a cohesive new group, with mutual support and solidarity of members, takes time. Most of the credit programmes reviewed have allowed one to three months, and some-

times as long as six, for this to occur. The intervening period prior to access to credit was devoted to the election of group leaders, setting up of rules, accumulation of savings, training for group leaders and members or even to group projects in which members learn the value of working together. Prior experience in the management of funds has sometimes been provided through encouraging the setting up of a Group Fund based on small personal savings. This relates to the link between savings and credit which is summarized below in 7.3.3.

Networking between groups will facilitate the exchange of information, improve access to services, broaden the economic and political base and may, over time, develop more formal hierarchical structures, leading to greater self reliance. The long-term development role of these group structures can be considerable, through support, collective activities and mobilization of savings. Group solidarity and the gradual building-up of self-reliance amongst the members obviously plays a crucial role in ensuring sustainability.

7.3.3 Operational Linkage of Credit and Savings Activities

In almost all regions and countries, women have a considerable propensity for saving, whether it be in cash or kind. This interest and inclination to save can be of major importance in ensuring the financial viability of credit schemes for women and allowing the financial institution to augment the pool of loanable funds. For female borrowers who save part of their increased income, they are a step towards greater self-reliance in meeting both their consumption and productive expenditures.

Five major linkages between credit and savings activities were discussed in Chapter 5, section 5.4. When savings have preceded loan provision, mobilization of very small savings has occasionally been used as a test of motivation among borrowers. Or, savings may be required as an equity contribution to the project, to ensure bor-

rower commitment through individual or collective contributions to a village development fund, as in Mali. Thirdly, savings prior to provision of credit, as noted above, can be used to develop experience in collective management of funds, as well as group cohesiveness. Where savings are emphasised following loan provision, savings are sometimes compulsory for the setting up of an emergency or insurance fund, as in the Grameen Bank. The group fund, in particular, is a mechanism now being widely adopted within IFAD-assisted credit schemes for women.

Recognition of the above linkages in credit programme design and planning will permit women farmers and entrepreneurs to contribute more effectively to the economic development of their countries.

Because of women's responsibility for, and traditional concern for family consumption needs, it is important to ensure that they do not have to resort to high interest informal sources of credit parallel to formal borrowing. The Group Fund can supply the emergency or consumption credit normally served by the moneylender to borrowers in the formal market. Savings mobilization is therefore an organic partner of any credit activity targeting women.

7.3.4. The Next Step

The rules and lessons that emerge from the many and widely spread pilot activities in providing credit for women are thus few, simple and easy to apply to the development of new rural credit initiatives. IFAD's experience has already confirmed that the rural poor can benefit from credit schemes designed for them. This review also confirms that credit can be an effective means of reaching poor rural women if we take the steps to overcome the habit and tradition that have impeded the banking system from reaching this large group of potential borrowers.

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Summary

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 book will address this issue as follows:

- In the introductory chapter, the reasons for direct lending to rural women in developing countries are highlighted and women's credit-worthiness 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.
- 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.

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