CREDIT
FOR WOMEN

WHY IS IT SO IMPORTANT?

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UNITED NATIONS INTERNATIONAL RESEARCH
AND TRAINING INSTITUTE
FOR THE ADVANCEMENT OF WOMEN

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Credit for Women: Why Is It So Important?

INSTRAW
INTERNATIONAL RESEARCH AND TRAINING INSTITUTE
FOR THE ADVANCEMENT OF WOMEN

ICRW
INTERNATIONAL CENTER FOR RESEARCH ON WOMEN

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Prologue

Many questions arise when empirical analysis is done in search of plausible explanations dealing with the condition of poverty and extreme poverty of "an imprecise number, more than one billion people live in households too poor to obtain the food they need for work; half of these are too poor even to obtain the food they need to maintain active".*

With the understanding that wealth and poverty as economic concepts reflect perceptions applicable to people's ability to accumulate material wealth and possessions, the present level of poverty and extreme poverty of so many millions may be equated to their inadequate access to financial resources and therefore inability to find solutions to their status.

Poverty is a structural societal problem and its eradication requires the adoption of remedial and short to long term sustained solutions systematically applied by those persons affected by said situation, provided that they have the resources, know-how and the possibility to take decisions that can be implemented into practical solutions. However, the burden and perverse prolonged impact of poverty and extreme poverty tend to eliminate people's ability to find sustainable solutions. Thus, their condition becomes permanent with the threat that the subculture of survival, a condition that, so sadly, so many millions have today, also becomes permanent.

* "The impact of Technology on Human Rights", Global Case-studies, Edited by C.G. Weeramantry, The United Nations University, 1993, University Press, ISBN 92-808-0821-4.

Politicians and decision makers, both in the public and private sectors, at national and international levels, have the moral and ethical duty to help find solutions and provide some mechanisms, ways and means by which the societal structural problems leading to poverty and permiting extreme poverty can be corrected. Such action would facilitate lasting solutions to the exponential combined factors resulting from hunger and malnutrition; ignorance and illiteracy; lack of electricity or other energy sources, clean water, and sanitation; and unemployment and inability for reemployment.

The alleviation and eradication of poverty, and in particular, poverty affecting women's lives are among the objectives of the United Nations Fourth Decade for International Development, and therefore, a crucial question for INSTRAW's Research and Training Programme.

Considering that access to financial schemes and credit practices can constitute one possibility to acquire products and services, as well as tools for increasing capital and producing wealth in a given system, this publication *Credit for Women: Why is it so Important?* should be analyzed when seeking solutions which the present societal structure does not provide for the poor and poor women in particular.

Power is defined as the ability and/or the capacity to act or to perform. Empowerment is defined as the capacity to exercise control. Economic empowerment should be defined as the individual or collective capacity to solve matters pertaining to work and its cumulative value—production, distribution and consumption of commodities. Then, individual or collective empowerment is based essentially on access to, ownership of, and control over economic resources which lead to the attainment of another feature of power. This involves the decision making process that will facilitate the political, legal and administrative mechanisms oriented towards solving the economic and societal problems of any given society. Therefore, regard to their access to credit, which was initiated by the Nairobi Forward-looking Strategies for the Advancement of Women. (Nairobi, Kenya, 15-26 July 1985. Adopted by United National General Assembly Resolution 40/108, 13 December 1985).

According to the conclusions and recommendations that will emanate from the Fourth World Conference on Women (Beijing, China) this approach will have to be refocussed in order to move ahead towards more specific issues in access to credit, ownership of and control over that effectively can reach women, and an evaluation of the impact that credit has had on the women who have received it. This will open up new avenues for creative thinking, research and policy actions in the effort to achieve equality and equity between women and men.

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ACRONYMS

ACCION	ACCION International
ACTUAR	Corporación Acción por Bogota
ACP	Acción Communitaria del Perú
ADEMI	Asociación para el Desarrollo de la Microempresa, Inc.
ADOPEM	Asociación Dominicana para el Desarrollo de la Mujer
AGS	Asociación Grupos Solidarios de Colombia
BancoSol	Banco Solidario
BIP	Industrial Bank of Peru
BKK	Badan Kredit Kecamatan
BKPD	Bank Produksi Desa
BRAC	The Bangladesh Rural Advancement Committee
BRI	Bank Rakyat Indonesia
BPD	Bank Pembangunan Daerahs
CARE	Cooperative for Assistance and Relief to Everyone, Inc.
CIDR	Centre international de development et de recherche
CRS	Catholic Relief Services
FED	Ecuadòrean Development Foundation
FFH	Freedom from Hunger Foundation
FINAM	International Support to Finanzas Internacionales y Nacionales para la Mujer
FINCA	Foundation for International Community Assistance
FLACSO	Facultad Latinoamericana de Ciencias Sociales

FWWB	Friends of Women's World Banking
ICRW	International Center for Research on Women
IDB	Inter-American Development Bank
IFAD	International Fund for Agricultural Development
KUPEDES	Kredit Umum Pedesaan
KURK	Kredit Usha Rakyat Kecil
LPK	Lembanga Perkeditan Kecamata
NGO	Non Governmental Organization
PRIDE	Promotion of Rural Initiatives and Development Enterprises, Ltd.
PRODEM	Fundación para la Promocion y Desarrollo de la Microempresa
PROPESA	Corporación de Promoción para la Pequeña Empresa
PROSEM	Promoción y Servicios Empresariales
RCP	Rural Credit Program (BRAC)
RD-12	Rural Development-12 Project
ROSCAs	rotating savings and credit associations
SCF	Save the Children
SEWA	Self-Employed Women's Association
SIMPEDES	Simpanan Pedesaan
TMSS	Thangemara Malisla Sebuj Sengstha
USAID	United States Agency for International Development
VISACAs-	Village Savings and Credit Associations
WOCCU	World Council of Credit Unions
WWB	Women's World Banking
WWF	Working Council of Credit Unions

Introduction

Forty years of development have brought about dramatic changes in the economies of developing countries. Economic growth in some countries, like the export-oriented economies of East Asia, has been rapid, resulting in substantial improvements in income and standards of living. Even in countries where overall growth has been slower, there have been significant improvements in food availability, life expectancy, per capita incomes, and some other indicators.

Despite these important changes, however, poverty continues to increase. Poverty among women, who already represent a larger share of the poor, is increasing even faster. Between 1965 and 1988, the numbers of rural poor in 36 developing countries for which data were available increased, from 443 million to 648 million (Jazairy et.al., 1992, revised by International Center for Research on Women (ICRW)). Women's representation, however, increased disproportionately from 52 per cent to 54 per cent while men's share declined. Research has shown that poor women in developing countries bear a significant responsibility for supporting their households economically. The poorer the household, the greater is women's contribution. In the growing proportion of households around the world headed by women, they are sometimes the sole earners. Yet women are expected to meet these increasing responsibilities with less access to productive resources than men, fewer marketable skills, and little education or training.

Over the last decade, though, one of the great success stories in development has been the expansion in financial services for the poor. The women who represent a significant proportion of the clients have benefitted from improved access to stable and reliable sources of credit and other financial services which they did not have before. The transformation occurred by way of specialized intermediary institutions designed to serve the financial needs of the poor. The reach of the larger microfinance institutions[1] is now in the millions and that of their smaller counterparts also quite extensive, helping women all over the developing world to better meet their economic needs, and those of their households.

The shift in development policy in the 1980s to economic policy reform and structural adjustment is having a significant impact both on poor women and on the specialized microfinance institutions. On the one hand, policies have contributed to creating a stable macroeconomic environment and giving greater play to market forces. For the most part, these have benefitted microfinance institutions. On the other hand, reforms have exposed developing countries to the risks and uncertainties of global competition. Related demand reduction measures and retrenchment have slowed growth and reduced public-sector services like health, sanitation and education. Poor women have often borne the costs (Commonwealth Secretariat, 1989; Mahmud and Mahmud 1989). For instance, they have sought to compensate for declining real household incomes by increasing their participation in the labour force, mostly in self-employment in the informal sector.

The need for microfinance, therefore, is growing as increasing numbers of poor women turn to self-employment. Other self-employed women who are not poor may also need credit, and may have some of the same difficulties obtaining it, as do poor women. This paper, however, focuses exclusively on

[1]The term "microfinance" has entered the literature fairly recently, reflecting changes many credit programmes are undergoing to broaden both their services and their outreach. We use both terms, microfinance institutions and credit programmes, as appropriate.

poor women's access to microfinance mainly because they represent the vast majority of the world's women. Having an impact on them is likely to make a greater difference in reducing poverty which, we believe, should be an important goal of development policy.

Despite the considerable outreach of microfinance institutions, however, many poor women still do not have ready access to financial services at a reasonable cost. With declining donor budgets and a changing economic climate that put a greater premium on subsidy reduction and cost recovery, microfinance institutions are facing increased pressure to become self-supporting. Still, by becoming more market—and profit-oriented, the institutions themselves see significant opportunities for expansion. The microfinance institutions, then, find themselves at an important crossroad, and the decisions they make now will have a substantial impact on the women of the developing world for many years to come.

This paper takes a close look at this important topic. Section II establishes the continuing need for credit for women. Section III examines the factors that limit women's access to formal financial services, factors that remain as relevant today as they did a decade ago. Section IV reviews the record of credit programmes and the factors that contributed to their success in reaching women. Section V examines the impact of credit on women's lives. Section VI explores alternatives for expanding microfinance institutions and their services to better meet the needs of more poor women. Section VII offers some conclusions and recommendations.

II. Credit for Women: Why is it so Important?

In the past four decades, women have entered the world's labour force in unprecedented numbers. In 1950, the International Labour Office reported that 344 million women were "economically active"; in 1975, that number had risen to 576 million, and, in 1990, 828 million women were working—36 per cent of the world's labour force (UNFPA, no date; United Nations, 1991).[2]

These sharply increased levels of economic activity have occurred, to some extent, because of women's improved educational attainment and society's changing mores, and because of changing responsibilities for family welfare. More women work in the marketplace now than ever before because more women are now responsible, to various degrees, for the economic well-being of their families. The pressure on women to earn an income has only increased as more economies monetize, as urbanization has spread and—in the 1980s and 1990s, as the strain of recession and economic restructuring affected millions.

Machine-made goods and goods not produced locally have found a place even in subsistence economies. Agricultural inputs such as pesticides and fertilizer, machine-made cloth, and motorized vehicles have by now become necessities even in poor households, adding to the household's need for cash. In urban areas, women are for the most part unable to gather

[2] Does not include countries from Eastern Europe and former Soviet Union, where female economic activity is much higher at 48 per cent.

fuel, grow crops, or produce other necessities as they could in the countryside; at the same time, they face transportation costs, rent charges, and utility payments associated with urban life—all of which add to the household's cash requirements. In much of Latin America and Africa, economic recession and structural adjustment programmes have compelled women to enter the labour force to compensate for declining household incomes due to male job losses, reduced earnings, and the effects of inflation.

Nonetheless, in many developing countries, paid employment opportunities for women are limited to marginal jobs which provide low wages, few fringe benefits, poor working conditions, and little chance of advancement. Intense competition for the limited number of available jobs, combined with sex discrimination in employment, has meant that the small number of jobs available go to men more often than women. Economic recession and structural adjustment have intensified these effects in much of Africa and Latin America and in some parts of Asia. Women are, therefore, generally compelled to engage in self-generated employment in the informal sector. In urban areas, women take up occupations like street vending or personal and domestic services. In rural areas, women process and market produce or use local raw materials to fashion handicraft. In both cases, though, earnings and mobility are low. In much of the developing world, the informal sector rivals formal employment as a source of jobs for both men and women. More than half of the economically active women in Sub-Saharan Africa and southern Asia are self-employed in the informal sector, as are about a third in northern Africa and the rest of Asia (United Nations, 1991). In many countries, this is the fastest growing segment of the economy. The Inter-American Development Bank (IDB) estimated that informal sector employment in Latin America grew at about 7 per cent annually in the late 1980s while formal sector employment growth averaged 2 per cent per annum

(United States Agency for International Development (USAID), no date). Much of the expansion in the informal sector during the 1980s was due to economic recession both in Latin America and in Africa.

Moreover, women are disproportionately represented in the informal sector. In 1987 in Peru, 45 per cent of the total female labour force worked in the informal sector, compared with 38 per cent of men (FLACSO, 1993). Throughout Latin America, the ratio of women to men in the informal sector is growing (Tokman, 1989). In Bolivia, the proportion of women who are self-employed increased from 56 per cent in 1985 to 61 per cent in 1991 (Escobar de Pabon, 1993). In Lima, Peru, women's participation in the informal sector grew from 36 per cent in 1983 to 45 per cent in 1987 (Francke, 1988). By the mid 1980s, half of women employed in urban areas of Botswana worked in the informal sector, compared with 10 per cent of men (Botswana: Central Statistical Office, no date). Box 1 illustrates the gender differences in labour markets in the cities of Bolivia.

BOX 1

Gender Differences in Urban Labour Markets: An Illustration from Bolivia

Table 1
Urban Labour Market Indicators[1], Bolivia, 1980-88

Variable	1980 Men	1980 Women	1988 Men	1988 Women
Participation rate (%)	67.1	35.7	58.6	40.0
Unemployment rate (%)	6.4	6.2	11.5	11.5
Underemployment rate (%)	7.5	11.6	5.1	9.5
Percentage of salaried employees	66.1	46.7	60.2	46.4

	1980	1988
Men's earnings as percentage of women's earnings	205.0[2]	197.7
Percentage of women in sectors:		
Formal	NA	25.0
Informal	NA	49.4
Mining and hydrocarbon	4.9	18.4
Manufacturing	32.5	NA
Construction	2.0	31.5
Utilities	18.9	2.5
Commerce	66.3	65.6
Finance	28.9	21.6
Services	42.8	45.6

[1] Data are from the four cities of La Paz, Santa Cruz, Cochabamba, and Oyuro which count for almost 90 per cent of the employed population of Bolivia's nine department capitals.

[2] 1981 data.

NA = Not Available

BOX 1 (continued...)

The data on women's employment in the urban areas of Bolivia shown in Table 1 highlight the "characteristic" features of women's disadvantaged status in the world of work. They show that women participate in the economy at lower rates than men but that their participation is increasing, just as it is in most regions of the world. Part of the explanation for women's growing participation lies in the macroeconomic changes of the 1980s — adjustment, recession, and hyperinflation — that may have induced more women to enter the labour force to compensate for declining real wages or the loss of employment among other members of the household. But women's growing participation in the economy also reflects a long-term trend in Bolivia, as elsewhere.

While women's and men's unemployment rates do not differ much in the years shown, underemployment among women was almost twice that of men in 1980 and 1988. Relatively high rates of unemployment are also characteristic of women.

In Bolivian cities, as in other parts of the developing world, women are concentrated in the lower-paying and informal sectors of the society-primarily in commerce and services. In La Paz, for example, 40 per cent of women work by themselves, three-fourths of them in commerce which yields a precarious livelihood. A survey done in 1987 in El Alto, the poorest suburb of La Paz, showed that more than a third of working women earned less than 6 per cent of the weekly minimum wage. They supplemented their incomes by additional household work growing food and keeping chickens and rabbits.

Less than half of the women in Bolivian cities engage in wage work and they earn about half as much as men. It is difficult for women, moreover, to break into salaried and better-paid jobs in the formal sector: data show that women need more education than men to do so.

Source: Adapted from Horton, et. al., (1994).

Although rates vary by region, studies show that, women own or operate about one-third of all businesses in the informal sector of developing countries (Berger, 1989). Lack of capital is the major problem for these microentrepreneurs. Without sufficient working capital, microentrepreneurs cannot stock up on raw materials, buy when prices are favourable, or take advantage of quantity discounts on raw materials. Because microentrepreneurs do not have enough cash to meet their daily living expenses, they are also forced to sell their output immediately, even at unfavourable prices.

In the rural areas of developing countries, most self-employed women are farmers. While official statistics from the developing world show that women are only a significant proportion of the labour force in Sub-Saharan Africa (46 per cent), research done over the past thirty years effectively demonstrates that the actual participation of women is much higher (Buvinic and Mehra, 1990; Mehra, 1995a; Seager and Olson, 1986). For example, 50 per cent of women in Nepal work in agriculture; and in India and Sri Lanka they carry out 75 to 85 per cent of manual weeding and almost all the work involved in transplanting rice (Ahmed, 1987; Islam and Dixon-Mueller, 1991). As men migrate to urban areas in search of employment, women are increasingly becoming heads of households in all developing regions. A third of households are headed by women in Sub-Saharan Africa; in Central America the rate is almost 20 per cent; in the English-speaking Caribbean, the rate can be as high as 50 per cent (Due and Gladwin, 1991; Yudelman, 1994). In such households women are the main decision makers and often solely responsible for farming. Credit is critically important for them, too. They need loans to purchase inputs like fertilizers, seeds, tools and labour, and to allow them to adopt new technologies that can improve their productivity in the long term. They also need credit to ensure consumption needs are met between planting, when expenditures occur, and harvest, when returns begin to accrue.

One of the keys to improving the standard of living for the large proportion of women in developing countries who are self-employed in the informal sector or are farmers is access to credit. Surveys consistently show that the majority of men and women in the informal sector recognize the vital importance of credit and almost always feel that government and international development programmes should focus on providing capital to micro—and small— scale businesses (Farbman, 1981). Yet in spite of their clear need for credit, women are severely limited in the extent to which they can obtain it.

III. Women's Limited Access to Credit

Studies done in the 1970s and 1980s demonstrated, with the little data then available, that women represented a very small proportion of borrowers in formal financial institutions. There is little direct evidence of women's limited access to credit, mostly due to the lack of data broken down by gender. This lack of data, however, reflects the relatively minor degree to which women participate in, or are afforded the services of, formal financial institutions. Several studies report that bankers do not maintain records of financial transactions according to gender because women are such an insignificant proportion of borrowers and depositors. Bankers also tend to lack a gender perspective and are often unaware of the need to keep gender-disaggregated records. The data that are available, mostly in the form of small-survey results, show that women generally comprise a very small proportion of banks' clientele.

A study of thirty-eight branches of major banks in India, for example, found that in the course of a year only 11 per cent of borrowers at these banks were women (Sundar, no date). Of the 325 borrowers who were women, 45 received loans due to the intervention of a social worker who guaranteed the loans and supervised repayment and 19 received loans through a special programme for low-income women run by an intermediary group using a guarantee procedure. In one branch, the proportion of loans given to women was higher than the average for all branches because it was the women's branch of a nationalized bank—and, even in this case, for every three loans that went to women, five went to men.

Moreover, the amount of credit disbursed to women was disproportionately small. Overall, women—who constituted 11 per cent of all borrowers—received only 8 per cent of total disbursements. This might be due, in part, to the nature of women's economic activities, which tend to be small-scale and require less capital than those of men. It is more likely, however, that banks intentionally limit the size of loans to women in order to meet targets for numbers of loans to be disbursed to women.

In the same study, data on rejected applications revealed that only about 20 per cent of credit applications by women were rejected, indicating, at first glance, that the banks were responsive to women's needs and that the low number of women borrowers was due to a lack of demand by women for credit. However, discussions with bankers showed that a screening process was employed before potential borrowers even received application forms. Those considered "unsuitable" —many of them women— were denied applications and were therefore not reflected in the bank's statistics.

In rural Africa, Staudt documented a striking disparity in access to agricultural credit. A study of farm households in the Kakamega district of Western Province, Kenya —where approximately 40 per cent of farms were managed by women whose husbands were working elsewhere or were absent entirely— revealed that 49 per cent of female-managed farms were never visited by agricultural extension agents, versus only 28 per cent of those farms that were jointly managed by husband and wife (Staudt, 1975/76). Of 84 female-managed farm households interviewed about their knowledge of loan availability, 99 per cent knew nothing about the extension service's credit programme. Only one female manager knew the application procedure (significantly, she was wealthy and linked to the local power structure), and no female manager had actually obtained a loan. These figures represent a sample of farmers that, nominally, had access to the extension service's loans for a three-year period.

When the data was broken down according to economic status, it appears that, while wealthier households had greater access overall to extension services, the same bias against female-managed farms operated even at higher economic levels.

Similarly, when the data were broken down by size of land holdings and a measure of innovativeness of farm managers— two factors that might influence agricultural instructors in the distribution of their services—it appears that even women farm managers with large land holdings suitable for adoption of new technology, or those who were quite willing to be innovative, were discriminated against in access to services. In short, no factor explained disparity in visits to farms and access to loan information better than did gender. Female managers of farms had unequal access to credit and other agricultural extension services across the spectrum.

Additionally, it appears that women's participation in mixed-gender cooperative organizations is limited (UNFAO, 1977; Safilios-Rothschild, 1982). In some cases, women are constrained from joining cooperatives because of legal requirements that their husbands' permission be obtained. More often, women are officially allowed to join cooperatives but have little or no voice in management and do not actively participate in cooperative programmes. Since cooperatives are major channels of credit or information about credit, this limited participation seems to limit access to credit. A study of three provinces in the western region of Honduras, for instance, found no women who were members of cooperatives. Instead, women belonged to "housewives clubs" where credit was not an issue (Buvinic, 1982).

There is good evidence that women desire, and are willing to pay for, credit. There is also mounting evidence that women's repayment records are as good as or better than those of men (Berger, 1989; WWB, 1994a). Since banks attempt to maximize the returns to their shareholders, women should represent a large pool of potential customers from whose business the banks would stand to profit. Why then do banks and other formal-sector financial institutions have so few female clients?

In some instances the answer is discrimination. The cultural ideal of the woman who is supported by her husband and who bears responsibility only for maintaining the home environment may be so pervasive that bankers refuse to face the reality of women's economic roles and do not see them as being involved in productive activities, nor as responsible individuals in regard to financial obligations. It is difficult to imagine, however, that such strong biases would continue to exist in the face of potentially profitable business with a group that constitutes in most countries, over half the population.

Two sets of economic factors — supply factors and demand factors — seem to provide better explanations of women's limited participation in credit programmes. Supply factors involve banks' willingness to lend to women who are small and/or inexperienced borrowers. They are closely linked to financial institutions' perceptions of the small borrower in general. Demand factors, on the other hand, relate to women's willingness and ability to apply for and accept credit from formal financial institutions. They are more strongly associated with the characteristics of women borrowers.[3]

Supply Factors

Because of their position in the economy, most women in developing countries require and can handle only small amounts of credit. Thus, women are faced with the reluctance of financial institutions to lend in small amounts.

[3] The next two sections dealing with these concepts are based on Lycette (1984).

Unit costs of lending

The unit costs of making small loans are greater than the unit costs of making large loans. Financial institutions, then, seek to minimize costs by avoiding small loans as much as possible.

Repayment rates

Financial institutions usually have little or no control over technological developments, market prices, and timeliness of input supply, all of which are key factors in ensuring the success of small enterprises and, thus, high repayment rates of small loans. Small borrowers are thus generally perceived to be more risky than large commercial enterprises. Lower payment rates increase the unit costs of loan recovery. Formal financial institutions are therefore still reluctant to lend to small borrowers.

Regulating policies

Finally, the governments of most developing countries have kept nominal interest rates fixed for long period of time while in real terms these rates have often been negative, erratic, and unpredictable. These interest rate policies have actually contributed to, rather than reduced, the restrictions on access to credit that small borrowers like women face because they bring about lower interest rates by forcing financial institutions to bear the opportunity costs of providing cheap credit. This "cheap credit paradox" has developed in many countries where well-intended or politically motivated regulations have been imposed to hold interest below their free-market level. At below-market rates of interest, demand for credit exceeds the amount of financing that lenders are willing, and find profitable, to supply. Lenders must therefore ration the amount of credit they are willing to supply among borrowers who wish to borrow much more than the amount available. When this non-price rationing takes place, it is almost inevitably the smaller borrower, the borrower lacking influence, and the female borrower, who is unable to gain access to credit. Loans are made, instead, to the lenders' wealthier and more influential clients.

It is important to note here that the financial regulation typically imposed in developing countries differs from a policy of credit subsidy. When credit is subsidized, lower interest rates are made available to borrowers while financial institutions are reimbursed by the government for the costs of lending at the lower rates. Financial institutions thus have less incentive to restrict the amount of credit supplied and there is no excess demand for funds.

Most governments, however, cannot afford to provide the total amount of subsidy required to provide all the credit that is demanded at the subsidized rate. Here, again, demand for credit exceeds supply and rationing, with all its ensuing inequities.

Research has shown that most cheap credit, whether regulated or subsidized, is usually concentrated in a relatively few large loans (von Pischke and Adams, 1980; Gonzalez-Vega, 1981). In fact, the lower the real rate of interest, the more heavily concentrated will be the loans. Formal lenders may make a number of small loans to the poor and multiple large loans to the wealthy, resulting in a modest average size of loan and a large number of loans. But this average obscures the fact that few people receive most of the benefits to cheap credit, and that, ironically, those who receive cheap credit are typically those who least need it. But lenders who ration credit in this manner are merely behaving rationally in a situation of excess demand for below-market-rate loans that encourages them to allocate their funds to their most profitable and powerful customers.

Low interest rates also have a very regressive effect on income and asset ownership. Low interest rates on loans force financial institutions to pay even lower rates, usually negative in real terms, on saving deposits. These low rates hurt small savers who cannot assemble enough savings to buy non-financial assets, such as land and cattle, or financial assets that require substantial initial investments in order to obtain better rates of return. The small saver is forced to accept a "tax" on financial savings. In imperfect capital markets, wealth and access to credit are not independent. For bankers, wealth is an important determinant in non-price rationing. Thus, low-interest loans not only fail to reach small, low-income borrowers but actually make it less likely that the small borrowers will ever amass enough wealth to have access to credit.

Demand Factors

A number of factors inhibit women's demand for credit from formal financial institutions. They include transactions costs, collateral requirements, cumbersome application procedures, and cultural constraints.

Transactions costs

Interest payments make up only a part of the costs of credit. Additional costs include payment for paperwork, travel costs to visit the lender, and the opportunity costs of the time taken to negotiate and repay loans. For women, who are often new and small borrowers, these transactions costs may be several times as great as the amount of interest charged. To the extent that the lender, due to low interest rates and the resulting low interest receipts, is less willing and able to provide high quality, dependable, flexible financial services, these transactions costs will be increased, making the total cost of borrowing from formal financial institutions substantially higher than indicated by the interest rate charged—and, perhaps, out of reach of the borrower.

In addition, the hours of operations of credit institutions may be inappropriate for most women borrowers who are responsible for cooking, cleaning, and child care in addition to their work outside the home. Time-allocation studies of low-income women have shown that even when women participate in the labour market, the time they devote to household chores does not diminish; rather, it is their leisure time that declines (King and Evenson, 1983). Thus, the opportunity cost of time spent making applications for loans may be higher for poor women than for men discouraging women from seeking credit.

Collateral requirement

Women are less likely than men to be able to meet collateral requirements of borrowing because these often necessitate land or other property ownership. Unfortunately, in many countries women are still denied the right to hold property in their own names, making independent access to credit impossible (Mehra, 1995b). When businesses are accepted as collateral, women may not be considered good credit risks because they are engaged predominantly in small-scale informal enterprises and do not have the documentation of formally registered businesses. Where regular salaries are required as collateral, women again fare badly because they predominate in precisely those sectors of the economy where regular salaries are the exception.

Application procedures

Banks often require elaborate application procedures. Sometimes, these procedures act as rationing mechanisms for banks to decide how to distribute their low-cost credit in the face of excess demand. In other cases, banks are simply not sensitive to the fact that elaborate application procedures may pose an insurmountable barrier for poor and uneducated clients. Because of women's higher illiteracy rates and overall lower educational attainment relative to men, most poor women are incapable of completing application forms that require more than rudimentary reading and writing skills.

Social and cultural constraints

Women often face social and cultural constraints that further restrict their demand for credit. For example, it may be considered inappropriate for a woman to travel alone the long distances between her home in a rural area and the banks in town, or to offer a bribe to a male official in charge of credit applications.

More important, women are often excluded from local male-oriented organizations such as agricultural cooperatives or social clubs, through which information regarding sources of credit and application procedures can be obtained. Women are excluded from these organizations because their roles as farm managers and producers do not conform to the social ideal and thus go unrecognized. Without access to these channels for distribution of information about credit, women cannot take advantage of many sources of loans.

They have instead relied heavily on the informal sector, as have poor men. Women borrow regularly, on an informal basis, from relatives, friends, moneylenders, pawnbrokers, middlemen, and a variety of indigenous savings associations. A study in Kenya, for example, showed that about 60 per cent of agricultural produce traders interviewed had obtained their start-up capital from relatives (Okeyo, 1979). Family members and friends were second only to personal savings as the most important source of start-up capital for women who owned small-scale enterprises in 36 different Haitian localities. Friends and relatives were also found to be a crucial source of funds as the business developed (Haggblade, Defay, and Pitman, 1979).

Relatives are a good source of loans because they only rarely turn down requests. They know well each other's needs for financial assistance or capacity to lend, they do not require repayment until the borrower is in a position to return the loan, and they do not often explicitly charge interest. Relatives, moreover, are usually nearby so that loans can easily be arranged and, perhaps most important, immediately made available.

Borrowing from moneylenders and pawnbrokers is also widely prevalent among women in many developing countries (Gillespie, 1977). Like relatives and neighbours, moneylenders are familiar to the borrower since they are usually local traders, merchants, or landowners. They make loans available with little or no collateral requirements and are flexible with regard to payment. Unfortunately, they often charge very high interest rates—either because the cost of providing small-scale, flexible financing are high or because they are in the position of being able to extract monopoly profits. However, the immediate and flexible financial services they provide are apparently highly valued, since small borrowers are not deterred from turning to the moneylender for financing. Pawnbrokers are also attractive in that they allow women to put up jewelry, ornaments, or gold as collateral.

Shopkeepers, wholesalers, and middlemen are particularly important sources of credit both for assisting women in meeting basic family needs and for maintaining women's daily participation in the market place. Shopkeepers may extend credit to well-known, consistent buyers for food and other household requirements by maintaining a record of the purchases and allowing the bill to remain unpaid for some time. Interest is usually not explicitly charged; rather, it is implicitly charged through higher prices for goods. Wholesalers, too, allow clients to leave bills unpaid until the purchased goods are sold at retail. Middlemen will advance women credit to buy raw materials and expect, in return, to buy women's products below-market prices.

The characteristics of these informal sources of finance that make them so appealing and accessible to women include immediacy of loan disbursement, willingness to extend small loans, flexible repayment requirements, and minimal and flexible collateral requirements.

Unfortunately, there are several drawbacks to informal finance. Perhaps most important is the limited amount of credit available–relatives and neighbours can lend only as much as their personal savings permit. The capital available from moneylenders and shopkeepers is also limited. Availability can also be inconsistent. Additionally, borrowing through informal systems often means doing business with a lender who maintains a virtual monopoly on credit resources. In this case, borrowers may be exploited and caught in a vicious cycle of indebtedness.

By inhibiting the long-term planning and investment decisions that are necessary to achieve significant improvements in productivity, the limitations and uncertainties of informal systems undermine their value to borrowers. Nevertheless, studying informal financial systems permitted valuable insights into women's demand for credit. It showed that poor women throughout the developing countries both needed and used credit quite extensively. It also suggested ways to make formal financial services more accessible to women and poor borrowers.

Based on the insights and the policy recommendations that followed, a number of experimental programmes were initiated in the late 1970s and 1980s that broke new ground in improving access to financial services, particularly credit, for women and the poor.

By the 1990s, some of these programmes had become both well-known and well-established. Although offering a significant alternative to informal financial services, most were not, strictly speaking, formal financial institutions themselves.[4] Rather, they incorporated characteristics of both the formal and informal sectors and became specialized in serving the financial needs of the poor. Their record in meeting women's demand for finance, and the factors that contributed to their success, are reviewed in the next section.

[4] Noteworthy exceptions are Grameen Bank and Bank Rakyat Indonesia (BRI).

IV. Giving Credit to Women: The Record

Microfinance institutions evolved and developed during the late 1970s and 1980s in all regions of the developing world, mainly out of a variety of donor –and government–financed credit programmes that attempted to address both the financial and development needs of their clients. A key characteristic of these institutions was their ability to combine features of both formal and informal-sector financial institutions. They adopted principles from the formal sector to build internally strong, efficient, and viable organizations. In service delivery, they developed the flexibility and responsiveness characteristic of informal financial services. A few institutions were devoted almost exclusively to improving financial services but most, in varying degrees, combined financial with other types of services like training and technical assistance. In their objectives, they virtually all reflected a concern for the economic and social improvement of their clients.

This section examines the main institutional models developed over the past twenty years to meet the specialized financial needs of women and the poor. It provides brief examples of the leading institutions in each model category. It then discusses, on the one hand, the major strategies employed by them to reach women borrowers and, on the other, the steps they took to guarantee their institutional viability.

Institutional Models

These specialized credit institutions represent a wide variety of organizational structures, objective and philosophies, and degrees of success in reaching women. What they have in common, however, is their role as intermediaries linking women and the poor to more stable sources of finance than are available in informal financial markets. Most also have other characteristics in common that have contributed to their success in attracting and serving poor women, as will be shown below. The percentage of women clients they attract depends on factors such as whether or not they have an exclusive focus on women, loan size (women demand smaller loans), size of business targeted, and others. A number of different types or models of specialized financial institutions can be identified by broad functional categories intermediary institutions, parallel programmes, multisectoral non-governmental organizations (NGOs) and poverty-oriented banks.[5] They are described below. Also active in disbursing credit on a smaller scale are a wide variety of NGOs who usually integrate credit into multisectoral projects. Their experiences are also reviewed briefly in this section.

Intermediary institutions

Intermediary institutions have been successful in enhancing financial services for women by performing the vital function of building links between the poor and commercial banks. They "retail" credit from banks to small borrowers. On the one hand, they assist borrowers to reduce transactions costs by providing referrals, training, and technical assistance, and helping with loan applications. On the other, they offer guarantees to lenders to lower the costs and risks of lending to the poor (Berger, 1989).

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[5] Some organizations fall in more than one category either because they have diverse activities and approaches or because they have evolved, altering their original structures and objectives to better meet client needs. This is clarified in the discussion.

Intermediary institutions can be both governmental and non-governmental organizations, and are generally financed in a combination of ways including government subsidies, donor funds, and internally-generated funds such as service fees. Examples of two such organizations in the NGO sector that have a good record of serving women clients are Women's World Banking (WWB) and its affiliates in developing countries, and ACCION International and its affiliates in Latin America and the United States.

Women's World Banking (WWB). Established in 1979 in the Netherlands, WWB is a notable example of an intermediary institution providing services almost exclusively for women (97 per cent of borrowers are women). Its network extends to 51 affiliates in 40 countries (WWB, 1994b). With a capital fund of U.S. $10 million,[6] WWB offers two types of financing mechanisms to its affiliates: loan guarantees and capitalization. In the typical guarantee, WWB offers a partial guarantee for a credit line from a commercial bank. The affiliate is the active banker, the bank lends to the affiliate, and the latter, onlends to the client. WWB also helps affiliates obtain unrestricted grant capital for a variety of purposes including to build the loan portfolio, to cover operating funds, and to generate income (WWB, 1994a). Each affiliate is a legal entity with its own capital base and full control over its own decisions and finances.

WWB's affiliates include Friends of Women's World Banking (FWWB) in India. Founded in 1982, FWWB is an umbrella organization of more than 100 NGOs that provide financial services to rural poor women. It plays the role of an intermediary by linking grass-roots women's savings groups

[6] All dollar amounts quoted are in U.S. dollars. All foreign currencies quoted have been converted into U.S. dollars at the average prevailing exchange rate in the appropriate year, unless otherwise indicated.

with the banking system. MYRADA, one FWWB affiliate, has organized 1,700 savings and credit groups, provided management training, and linked these groups to commercial banks. Another FWWB affiliate, *Samakya*, has formed 96 thrift and credit cooperatives (WWB, 1994a).

ACCION International (ACCION). ACCION is an example of an intermediary network of 20 regional branches (with 40 affiliates) in 14 countries, in Latin America and the Caribbean and 5 states in the United States. Through a guarantee fund, ACCION enables its affiliates to borrow from local commercial banks. It also offers technical assistance, disseminates information, coordinates affiliate activities, and tries to mobilize additional resources. Through its affiliates, ACCION disburses U.S. $2.5 million to U.S. $3 million a month to 65,000 borrowers. Overall, women represented more than half of ACCION's 204,00 borrowers in 1993 —although women's participation rates were much higher among certain affiliates (Berenbach and Guzman, 1994; WWB, 1994a).

When ACCION started in the mid-1970s as an institution designed to experiment with a variety of ways to lend to the poor, it was mainly supported by donor funds. Over the years, as its affiliates have increasingly demonstrated the viability of lending to the poor, it has evolved towards becoming a more specialized financial institution, as have many of its affiliates. In fact, its affiliate, Fundación para la Promoción y Desarrollo de la Microempresa (PRODEM) in Bolivia, has spun off the commercial bank Banco Solidario (BancoSol). In Colombia, ACCION's international affiliate, the Asociación Grupos Solidarios de Colombia (AGS), a consortium of twenty-one local NGOs, provides technical assistance, staff training and programme promotion with both the private and public sector, to its members. It also serves as a financial intermediary by providing financial resources, such as soft-term credit, and assistance in negotiating lines of credit with formal financial institutions. Yet another affiliate, the Corporación Acción por

Bogota (ACTUAR/Bogota), which operates much like PRODEM, has also evolved towards the formal commercial sector by creating it a formal bank, CORDOSOL (Otero, 1994). In 1991, more than one-fourth of ACCION Internationals' network portfolio of $26 million was financed through bank loans. It is gradually moving towards raising its funds entirely in commercial markets.

Parallel programmes

Parallel programmes function much like commercial banks, but they work outside the formal system, offering financial services directly to the poor at the grassroots level through nonbank institutions. They have been particularly successful in reaching women because of their advantage in being knowledgeable about, and having experience in, working with the poor. Parallel lending programmes are generally set up as NGOs specifically to lend to the poor (Berger, 1989). Noteworthy examples of successful parallel programmes include the ACCION affiliate, PRODEM, in Bolivia, ADEMI in the Dominican Republic, and the Working Women's Forum in India.

Fundación para la Promoción y Desarrollo de la Microempresa (PRODEM). PRODEM was created in 1986 as a joint venture of ACCION and a group of influential community leaders in Bolivia. Seed capital and leadership were provided by the Bolivian leaders, and technology and the methodology for the programme, by ACCION. PRODEM hoped through credit to widen employment opportunities, encourage investment in microenterprises, and raise income levels. To meet these objectives, PRODEM offered a credit programme as well as training in skills such as credit management, marketing, administration, and accounting. By the end of 1991, PRODEM's loan portfolio had climbed to over $4 million; it was disbursing an average of $1.5 million per month to an average of 1,091 new borrowers and 4,100 second-time borrowers (Glosser, 1994 and Otero, 1994). Seventy-seven per cent of its clients were women, mostly market vendors. Now that PRODEM's spin-off commercial bank for the poor is in operation, PRODEM graduates clients to it.

The Asociación para el Desarrollo de la Microempresa, Inc. (ADEMI). ADEMI, ACCION's affiliate in the Dominican Republic, is another example of a parallel programme. Established in 1983, ADEMI has reached more than 26,000 microentrepreneurs, charging real rates of interest on their loans that cover the institution's costs (Wall Street Journal, June 22, 1994). Successful borrowers can gradually increase the loan amount, permitting them to expand their scope of production. ADEMI does not mobilize savings; it finances its loan portfolio entirely from own retained earnings, lines of credit from Dominican commercial banks, investments from clients and private investors and from a line of credit with Fondo Micro, a USAID funded second tier organization.

The Working Women's Forum (WWF) (Otero, 1994). This grassroots organization started in 1978 as a movement to mobilize working women in Madras, India, to defend their rights and improve their living standards. Acting at first as an intermediary guarantor between its members and the banking system, WWF established its own banking system in 1981. It lends through groups of from 20-30 women who belong to the same trade or live in the same neighbourhood. Loans are provided at subsidized interest rates and repayment rates average 90 per cent. In 1989, WWF was working in 3 states of South India and its membership numbered 36,000 women. WWF attempts to promote among its members an ethos that is pro-women, anti-caste, and anti-dowry (Arunachalam, 1988).

Poverty-oriented banks

Poverty-oriented banks, that are officially registered as banks but focus on providing financial services to the poor, are perhaps the most successful in delivering credit to large numbers of poor women. Leading examples are the Grameen Bank in Bangladesh, and Bank Rakyat Indonesia (BRI).[7] Grameen Bank evolved out of a parallel programme whereas BRI is a state-owned bank that adopted a focus on the poor.

Grameen Bank. Although officially created in 1983, Grameen Bank's origins go back to 1976 when it started as an experimental development project to extend credit to landless rural women in Jobra village in South-East Bangladesh. This experimental project was replicated on a larger basis, aimed at the rural poor at large. The success of this larger project led the government to expand it into an independent bank, reaching both rural men and women. The Bank was founded with support from the Bangladesh Bank (the central bank of Bangladesh) and the International Fund for Agricultural Development (IFAD). Grameen employs group lending techniques and provides training to build group solidarity. Training is based on the "Sixteen Decisions" which are designed to build discipline, to instruct group members in the basic principles of credit, to inform them of bank rules, and to communicate certain social goals such as the importance of cleanliness, small families, and good education. Groups meet once a week and only one member of a household can belong to a group. Loans are given to individuals and groups but, in either case, the responsibility to repay lies in the group as a collective. Loans must be used for investment. That women are more disciplined and more careful than men prompted Grameen Bank to shift its target group to focus primarily on women. Female membership increased from 39 per cent in 1980 to 93 per cent in 1994 (Olofsson, 1993; World Bank, 1990; WWB, 1994a).

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[7]As mentioned above SEWA Bank also belongs in this category.

Other innovative features of Grameen Bank's lending that are particularly relevant to its poverty-alleviation focus include compulsory savings and special housing loans. Compulsory savings within each group form a "Group Fund," which ultimately converts into shares in the bank and enables group members to become shareholding Bank members. Ninety per cent of bank shares are owned by its member-clients. In 1993, Grameen Bank made 3.3 million loans to women, and had a repayment rate of 87 per cent (WWB, 1994a).

Bank Rakyat Indonesia (BRI). The BRI, a government-owned bank in Indonesia, was originally designed to deliver subsidized credit to farmers through its *unit desa* comprising a vast network of village banks that covered the whole country. This programme of subsidized credit, which lasted for more than a decade, failed due to its high losses and its inability to mobilize deposits.

The major financial reforms of the early 1980s prompted the Indonesian government to launch a rural credit programme (the Kredit Umum Pedesaan or KUPEDES) at non-subsidized interest rates. BRI loans now are made to individuals, mainly for productive enterprises, and although they may be used for consumption, this is not encouraged. Loan approval is based on credit worthiness and character but Indonesia law requires collateral backing—most borrowers use land (Boomgard and Angell, 1994). In 1993, BRI borrowers numbered 1.8 million, 24 per cent of them women (Rhyne and Holt, 1994).

In 1985, BRI launched a savings mobilization programme known as Simpanan Pedesaan (SIMPEDES). It, too, was offered through the *unit desa* system and the spread between loan and savings rates was set to make each village bank profitable (the "profit centre" concept). The BRI *unit desa* system is fully self sustaining, without any external subsidy. KUPEDES is somewhat unique in combining commercial banking functions with the social objective of lending to the poor.

Multisectoral NGOs

NGOs engaged in broad-based economic and social development have also set up credit components, operating much like parallel programmes. Examples include the Bangladesh Rural Advancement Committee (BRAC) and the Self-Employed Women's Association (SEWA) in India. Actually, both now have banks that perform financial services, complementing their other activities. SEWA Bank is a profit-making institution while BRAC is working towards self-sufficiency. SEWA Bank actually better fits the category of "poverty-oriented banks" in this typology, but it is discussed here because SEWA's other components offer many services that are integral to its unified vision and approach in working towards the improvement of the lives of self-employed and poor women.

The Bangladesh Rural Advancement Committee (BRAC). Founded in 1972 as a small relief agency, BRAC now provides integrated community development services that include health, non-formal education, rural development, and credit to the very poor (Lovell, 1992). BRAC's experimentation with credit started in the early 1970s and resulted, in 1989, in the creation of the Rural Credit Programme (RCP). In the intervening period, BRAC developed and refined its lending strategies, guided by its philosophy of empowering the poor and developing sustainable institutions.

BRAC lends through a graduated system whereby credit is first provided to solidarity groups of from five to seven members at the village level. Compulsory savings are an important element of group lending. After a minimum of four years in the village level programme, borrowers can "graduate" to the credit programme per se if the village group has reached the required level of social development and its savings and loan activities are self-sustaining (Lovell, 1992). To educate clients in the basic principles of finance and financial management, BRAC provides training and technical assistance. Through its programmes, it extends credit to more than 550,000 people, of whom more than half (380,000) are women. In 1990, BRAC lent a total of $12 million.

Self-Employed Women's Association (SEWA). SEWA started as a trade union of self-employed women in 1972. Inspired by the teachings of Mahatma Gandhi, SEWA launched a double mission of building unions to struggle for the rights of poor self-employed women, and cooperatives, to promote economic development among them. It began by organizing women in the informal sector to demand higher wages and protection from police harassment and extortion. Its clients include microproducers, vendors, labourers, and dairy farmers. Its activities have grown over the years so that, in addition to its ongoing advocacy and training and provision of services, it now has a research and training institute as well as a video production unit. A key component of its programme is the SEWA Cooperative Bank, which was founded in 1974.

The Bank developed out of the need of self-employed women for working capital. At first, SEWA functioned as an intermediary institution linking its members to formal sector banks. Difficulties in working with the banking system to make the very small loans SEWA clients demand, prompted the creation of SEWA Bank expressly for its clientele. It is now a profitable bank that provides both savings and credit facilities for its members who are poor illiterate women. SEWA obtains loan capital from a combination of savings deposits, share capital, and ploughed-back profits. Borrowers are required to buy 5 per cent of the loan amount in bank shares when receiving a loan, and to open a savings account. SEWA was initially registered as an urban cooperative bank in Ahmedabad, but in 1988, it was authorized to extend its activities to the neighbouring rural district around the city. A particularly innovative feature of SEWA Bank is the employment of previously self-employed women as Bank staff.

In 1992 SEWA Bank had 50,000 members (Spodek, 1994). In 1993, the Bank gave about 17,000 loans (WWB, 1994a).

In addition to the larger better-known multisectoral NGOs described above there is a multitude of other NGOs throughout the developing world that offer small-scale financial services to poor women. Rates of success achieved by these small-scale projects are highly variable and few systematic or comprehensive evaluation studies are available on their work. However, because they often work with groups of women that are not reached by other programmes, and because their cumulative impact may be large, we take a brief look at them below.

Small-scale NGO projects

Many small-scale NGO projects can be found through the developing world. They are highly decentralized and sometimes located in remote areas where financial services are very limited, if they exist at all. They generally involve small numbers of women but, there are numerous agencies, offering services at several sites in many different countries. The exact number of women reached by these programmes is hard to estimate because the data are difficult to gather, and some NGOs do not maintain adequate statistics or have them readily available. Some idea can be obtained, however, of the impact of one such programme. Catholic Relief Services (CRS), through its credit projects in 15 countries, currently reaches 27,000 women (personal communication).

In the past, women were often left out of such projects but this is now changing as evidence on the creditworthiness of women borrowers grows and NGOs become more conscious of the importance of integrating gender concerns into their programmes (Hilhorst and Oppenoorth 1992). As a result, some NGOs have started involving women while others, like Catholic Relief Services, offer credit almost exclusively to women.

The projects, themselves, represent a wide variety of types. Some offer financial services exclusively, others are add-ons to sectoral or multisectoral projects in health, agriculture, or income-generation. The add-on credit components are often motivated by the realization that lack of finance prevents beneficiaries (from adopting) recommendations like new technologies, procedures, or products (e.g., Neumann, 1990). Examples of such projects include those of the Cooperative for Assistance and Relief to Everywhere, Inc. (CARE), Save the Children (SCF), and the Freedom from Hunger Foundation (FFH).

NGOs employ a wide range of strategies and approaches to implement financial services projects, including revolving loan funds, village banks, and others. Many rely heavily on community participation and group solidarity.

The village banking methodologies. Among the more popular models used is the village banking methodology. Because women are often specifically targeted, they represent a high proportion of member-clients of programmes applying this methodology. Women comprised virtually all the members of 5 of the 7 institutions sponsoring village banks studied by Holt (1994). In only one programme, Foundation for International Community Assistance (FINCA), in Costa Rica, did women represent 37 per cent of all members, and this particular programme was not at all representative of other FINCA affiliates, in which women constitute from 80 to 100 per cent of members (FINCA, 1994).

The idea behind village banking is to provide poor people the tools to overcome poverty loans for income-generation, incentives to save, and group support. The social objectives are to reduce poverty, especially among women; to build self-confidence in women through group support; and to improve women's status and decision-making powers through meaningful participation in bank management.

To start a village bank, the sponsoring NGO provides seed capital for on-lending to members (the external account). Key characteristics of the methodology are community participation in running the bank, commercial interest rates, loan repayment to the sponsoring agency, and eventual self-sufficiency. A village bank consists of from 30 to 50 members who offer a collective guarantee for repaying the loan from the sponsor. Initial loans are for $50 and are expected to be repaid on a weekly basis over a four-month period. Members are required to save 20 per cent of the loan amount to build the internal capital account of the village bank from which additional loans are made. Prompt repayment of first loans qualifies members for additional larger loans, according to a prescribed formula based on the size of the last loan and the amount of savings held, until the ceiling of $300 is reached and the member graduates from the programme.

Promoters from the sponsoring agency, generally over a period of a month, organize the village bank by training members and the elected governing committee, by establishing by-laws, and by starting the savings process. After the initial training period, members are expected to run the bank themselves with the committee responsible for tasks such as loan approvals, maintenance of records, and savings receipts.

This methodology has been adopted in many countries, with some modifications, by a number of different organizations such as CRS, CARE, FINCA, FFH, and SCF. FINCA is perhaps the best-known of the village banking programmes.

Table 2
Contrasting Characteristics of Small-Scale NGO Projects

Strengths	Weaknesses
• Targeted to the poor and, sometimes, very poor • Targeted to women • Offer integrated and comprehensive services, including financial and management training • Community-based and participatory • Decentralized—reach remote areas • Close relationships and familiarity with client needs • Sound financial policies	• Very poor may not be viable clients • In mixed groups, men may dominate • High costs of integrated services • Communities may lack skills • Institutional support from sponsoring agency may be inadequate because of difficulty in reaching remote areas • Lack of experience in financial service provision • Welfare-oriented approach

NGO performance. The limited evidence available on NGOs' performance indicates mixed results. Table 2 compares the strengths and weaknesses of small-scale NGO credit projects. A common problem among poorly performing projects is the lack of adherence to sound financial practices. In some cases, this is the result of institutional inexperience in financial matters; in others, it is the neglect of sound financial policies in favour of social welfare objectives. NGOs may, for example, subsidize interest rates or not strictly enforce repayment, with the result that loan funds get decapitalized (Hilhorst and Oppenoorth, 1992). In a sample of 7 village banks studied by Holt (1994), SCF/El Salvador, the bank being charged the lowest and most subsidized interest rate on loan funds (3 per cent a year) had the worst repayment rates—52 per cent, as compared with around 90 per cent in the others. She hypothesized that the subsidy undermined incentives for repayment by giving members the impression that the loan was a gift or welfare transfer.

There are also examples of NGO projects that have been quite effective in reaching poor and women clients with financial and other services. A small multisectoral development project originally supported by Redd Barna (Save the Children of Norway) in Lamphun Province, Thailand, illustrates the potential for success. The objective of the project was to "empower" village women by providing technical assistance for business development, business and vocational training and literacy. The project also provided start up funds for a revolving fund in each village to make loans available to women either to start new businesses or to develop the ones they already had. Visits to project sites in 1994, three years after Redd Barna's financial and technical support had ended, showed that the revolving funds were still operating successfully. They were managed by committees composed of both women and men from the villages. Funds were generated locally through member contributions of 10 Baht (US $0.40) per month; members could obtain small loans (on average 3,000 Baht or US $120) at an interest rate of two per cent per month; repayment rates were high and the capital base had expanded as more members joined and made larger deposits.[8] Women had used their loans to establish or develop a variety of businesses such as animal husbandry, tailoring, nurseries, and trading.

Much of the success and failure of NGO credit projects, of course, depends on the soundness of the financial and institutional strategies they employ. This is illustrated by comparisons made in Box 2.

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[8] At the exchange rate current at the time.

Box 2

The Importance of Sound Financial Strategies

A study of financial intermediation by two international NGOs, Action Aid of the Gambia and the Centre International de Development et de Recherche (CIDR), in the villages of The Gambia illustrates the diversity among NGOs both in their approaches and the results obtained.

Action Aid set up a nationwide system of subsidized credit projects that operated through indigenous village-level self-help groups called *kafos*, which themselves provided a variety of financial and non-financial services. Action Aid supplied funding for loans, set policy, limited loan-use to production activities, and targeted the credit to women. Action Aid essentially used the *kafos* as conduits for the loan projects.

The CIDR had quite a different approach. It set up savings and credit associations (VISACAs) to function parallel to the *kafos*, invited local membership and participation including that of the *kafos*, and provided technical assistance. Local management committees ran the VISACAs, recruited members, mobilized savings, and made loans. Loan purposes were not specified nor was any special client group targeted. Interest rates were determined at village-wide meetings and generally set to yield high real positive rates (from 40 to 60 percent annually). Various forms of collateral including jewelry were accepted.

Evaluations of the two types of projects showed that the Action Aid-supported projects performed badly. Loan repayment rates averaged just 45 percent and repayment was not strictly enforced. Poor financial practices, moreover, undermined the sound financial strategies that the *kafos* had pursued prior to Action Aid's involvement. Because of the project's poor performance, even though women were targeted, they were not well-served. By contrast, loan repayment in the VISACAs averaged 94 percent. Women made up 52 percent of the membership, obtained about half the loans, and participated actively in the management committees. The sound financial practices and participatory management techniques adopted by the VISACAs resulted in better financial performance and greater benefits to both women and men in local communities.

Source: Nagarajan, Meyer and Graham (1994), Ouattara, Cuevas, and Graham (1994).

Poverty and Gender-Sensitive Lending Strategies

The more successful among the microfinance institutions and the credit programmes described above succeeded in extending credit to poor women because they systematically sought to address the main difficulties women faced in obtaining credit, namely, lack of collateral and high transactions costs. They developed and adopted a number of strategies that were both flexible and responsive to borrower needs. They included, in lieu of collateral, group guarantees, and graduated lending programmes. Such programmes also adopted innovative credit promotion and delivery mechanisms and simpler procedures.

Flexible collateral

As noted above, one of the most serious impediments to formal credit for women is their inability to provide traditional collateral like land or other tangible assets, mostly because few women own them. Almost every credit programme that has succeeded in attracting women borrowers has opened itself to a variety of nontraditional guarantees which, nevertheless, offer sufficient security that the loans will be repaid. Some programmes accept alternative forms of collateral such as jewellery or business assets that women are likely to own while others substitute group guarantees and graduated lending.

Group lending. One of the most popular and successful strategies used to guarantee loans for women is group lending. It is the cornerstone of a number of relatively large and highly successful credit programmes including the Grameen Bank, the Working Women's Forum in India, and the affiliates of ACCION, which were among the earliest institutions to experiment with this method in the 1970s. Since then, other programmes such as FINCA and many smaller NGOs have adopted variants of group lending strategies. Although FINCA's village banks actually give individual loans, all members of the village bank are collectively responsible for repayment (WWB, 1994a).

In group lending, the group collectively takes loans and guarantees repayment. Variously termed peer groups or solidarity groups, groups may be created specifically for the purpose of obtaining loans (as Grameen Bank does) or groups previously existing for other purposes can agree to participate in a loan programme. Self-selection of groups by social class, gender or activity can be very important in ensuring group cohesion, and is often encouraged by programme staff. Self-selection may result in the creation of sex-segregated groups which may be advantageous for women in providing greater opportunities for participation in decision-making, administration, and management. On the other hand, there is a danger that the very poor might be left out of self-selected groups (Hilhorst and Oppenoorth, 1992).

Typically, groups are fairly small, ranging in size from 3-10 women, although some can have as many as 20 or 25 members. The group decides how much capital each borrower needs, and the sum of each loan is given to the group as a whole. Groups appraise each others' loan applications, determine the viability of each proposal and the capacity of each member to repay. Because group members know each other well, they are usually in a good position to evaluate each other. Programmes sometimes require, as in the case of Grameen Bank, that members participate in training designed to bolster women's skills and confidence, and to better understand group responsibilities.

All members of the group are responsible for repayment by each individual and, as access to subsequent loans depends on successful repayment by all group members, it is expected that group members will pressure each other to ensure repayment. Apart from providing incentives and sanctions to facilitate timely repayment, groups can provide services such as helping to fill out forms or providing information about credit. By shifting some of the administrative and collection responsibilities onto the group, this type of lending can reduce lender costs and risks. That is important because, at least initially, this type of programme can be quite costly.

Although the larger group lending programmes first gained popularity in Asia and Latin America, African institutions had adopted similar practices by the 1990s, patterned after traditional local savings groups. Examples include the Stokvel Programme of the Get Ahead Foundation in South Africa and PRIDE (Promotion of Rural Initiatives and Development Enterprises, Ltd.) in Kenya. Additional experiments are currently underway in Sierra Leone, Togo and Burkina Faso. The programmes are fairly new, so they tend to be relatively small compared with their counterparts in Asia and Latin America, but they are already starting to make a contribution in lending to women. Ninety-two per cent of the Stokvel Programme's 12,000 clients, for instance, are women market vendors (Berenbach and Guzman, 1994).

Graduated lending. Group lending is often combined with graduated lending, another strategy used by credit programmes to build mutual trust between lenders and borrowers. Graduated lending is also used for individual loans, and is particularly useful for borrowers who, like most low-income women, lack credit histories and are not, therefore, eligible for loans from the formal sector.

Graduated lending also often substitutes for collateral. Half of the 13 leading credit institutions surveyed for a recent WWB study, for example, regarded graduated lending as a viable substitute for traditional collateral (WWB, 1994a).

Graduated lending programmes start new borrowers out on very small, short-term loans and are gradually increased as the group builds a credit history. Small loans are not generally a problem for women borrowers because their businesses tend to be small and they require, and tend to borrow, smaller amounts than men. The strategy permits borrowers to demonstrate their willingness and capacity to repay loans and enables them to establish a record on the basis of which they are given increasing amounts ,of credit. In some cases, borrowers may progress to such large amounts that they have to "graduate" from the initial credit programme because it has a ceiling on loan size.

Graduated lending creates an incentive to receive a larger loan during the next cycle. This incentive, in turn, ensures high repayment rates.

Other collateral substitutes. Other successful experiments in expanding women's access to credit accept nontraditional forms of collateral—assets that women are more likely to have than land or houses. The most innovative of these is the SEWA Bank's secured loan programme which accepts a variety of collateral substitutes such as jewelry, fixed deposits, or mortgages. Its exclusively women clients, however, most commonly use jewelry which is one of the few assets owned by women of all classes in India. The Bank retains a goldsmith who comes in once a week to weigh and value applicants' jewelry. Clients can obtain loans up to 60 per cent of the value of the jewelry offered for security. The Bank keeps the jewelry in a safe deposit box until the loan is repaid (Rose, 1992).

Other substitutes include assets such as tools or equipment that women microentrepreneurs engaged in manufacturing may have. For instance, the Asociación Dominicana para el Desarrollo de la Mujer (ADOPEM), an affiliate of WWB in the Dominican Republic, accepts personal guarantees secured by business equipment as collateral for individual loans. In situations where group lending is not feasible, and women prefer to take individual loans, flexible collateral options can be important in attracting women borrowers.

"Home" delivery: effective promotion and decentralized services

Other strategies used to attract low-income women borrowers include more effective promotion and decentralized services located close to women clients. Better targeted and decentralized promotion strategies are needed because low-income women with little education and limited exposure to the outside world are unlikely to learn about financial services through the channels generally used by formal institutions. Women are also constrained by cultural factors that limit their physical mobility, their lack of experience in interacting with people outside their immediate communities, and lack of time due to their multiple household and economic responsibilities. Credit programmes that have been successful in attracting women clients have taken these factors into account by adapting both promotion and service delivery to suit women's needs.

Effective promotion. Advertising and promotion techniques that have worked best in attracting low-income women clients are those that emphasize direct verbal communication with potential clients rather than written information contained in pamphlets, brochures, or newspapers. Also, it is more effective to contact women at their homes or places of work than to expect them to travel to branch offices. SEWA, for example, has 150 organizers, including trade union and Bank members who reach out to women in local communities to inform them of its banking services and to organize savings groups. Grameen Bank staff likewise advertises its services through door-to-door canvassing (WWB, 1994a).

Decentralized service locations. Locating credit offices near women's homes or places of work is a particularly effective strategy in raising credit demand because it addresses two major impediments at once—namely, the high transactions costs (both direct and indirect) associated with travelling and the cultural barriers involved in going outside their communities and interacting with unfamiliar people. For credit programme or bank staff, the advantages of working within client communities include the opportunity to know their clients and market conditions well so that they can anticipate their needs and problems and better plan for them.

In a comparative study of the relative success of Indonesia's Bank Pembangunan Daerahs (BPD) and the BRI's *unit desa* system in attracting women clients, one researcher concluded that a key reason the BPD had a larger proportion of women borrowers (55-72 per cent) than the BRI (24-30 per cent) was that its outreach programme extended right into the villages where its clients live and work whereas the BRI's branches were located farther away in sub-district towns (Holt, 1991).[9] Data from 1988 showed that Grameen Bank, similarly, deployed 85 per cent of its staff in regional branch offices where they could interact directly with clients. Only 15 per cent of its staff was based in Dhaka, the capital (Rhyne and Rotblatt, 1994). An important contributor to the effectiveness of the solidarity group programmes studied by Berenbach and Guzman (1994) in attracting women borrowers was that staff worked at borrower work sites such as shops and in marketplaces.

Programmes have adopted a variety of methods to decentralize their operations and bring their services virtually to their clients' doorsteps. SEWA Bank staff make weekly trips to their clients' homes or workplaces to collect savings payments. By knowing the work and pay schedules of women employed in various trades all over the city, the Bank's main

[9] BPD is a system of provincial banks in Indonesia.

savings mobilizer can visit them at appropriate and convenient times. Thus, she visits *bidi*[10] workers in the morning when they get paid to collect the day's supply of raw materials and food vendors in the evenings at the end of their marketing day (Rose, 1992).

Branch offices and mobile credit promotion and delivery are equally important to reach women in urban slums and low-income neighbourhoods. Although transportation is more accessible and the distances may not be as great as in rural areas, the costs of travelling to other parts of the city may be high enough to discourage women. The inability of International Support to Finanzas Internacionales y Nacionales para la Mujer (FINAM), a WWB affiliate in Santiago, Chile, to attract low-income women clients was in part due to the fact that its office was located in the business district of the city quite far from the low-income neighborhood of La Florida (ICRW, 1992). By contrast, Bolivia's BancoSol, which has a large female clientele, maintains branches strategically located in or near the market districts in which its clients work. Bank credit officers, moreover, travel all over the city to visit their clients (Glosser, 1994).

In addition, the WWB (1994a) found that the institutions it examined maintained a friendly and informal atmosphere that was less threatening to their poor women clients than the more formal atmosphere in most commercial banks. Members of SEWA Bank describe the atmosphere there as being "like our mother's place" where, while transacting business, they can also socialize and provide each other friendship and support (Rose, 1992). Grameen Bank also emphasizes good personal relationships between field workers and clients (Rhyne and Rotblatt, 1994).

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[10] A type of cigarette. *Bidi* production is often done through the "putting-out" system whereby individual producers are contracted to make the *bidis* at home and supply them to the contractor.

Size of loan

In group lending programmes, in urban Latin America, loans range from U.S. $20 to U.S. $250 and are given for one to six months. In rural southern Asia, they range from $20 to $120 and may be given for longer periods of up to a year, reflecting the lower productivity of investments in these areas and the longer time needed to accumulate enough assets to repay the debt in a predominantly agricultural economy (Berenbach and Guzman, 1994). Table 3 shows loan sizes for selected microfinance institutions.

Table 3
Average Loan Size per Client, Selected Microfinance Institutions in 1993
(in US $)

Institution	Average Loans	Range	GNP/Capita[f] 1992
Bangladesh			$ 220
BRAC[a]		35 - 156	
Grameen Bank	157		
India			$ 310
SEWA	203		
Indonesia			$ 670
BRI	720		
BPD[b]	40		
FINCA		50 - 300[e]	
ACCION	409[e]		
South Africa			$2670
Get Ahead Foundation[c]	694		
Catholic Relief Services[d]		75 - 100[e]	

[a] Data for 1990
[b] Data for 1989
[c] No date
[d] Data for 1994
[e] Comparative GNP data not provided because these organizations operate in a number of different countries.
[f] Source: World Development Report 1994. World Bank. Washington, DC.
Sources: Lovell (1992), Holt (1991), WWB (1994a), Holt and Rhyne (1994).

Simplified procedures

In order to lower women clients' time and monetary costs many institutions simplify loan application and processing procedures. They have simple, short application forms that can be read out to clients, if necessary. Documentation is kept to a minimum and questions asked on loan application forms are clear and understandable to a semi-literate clientele. If needed, credit programme staff fill out the application form for clients according to their instructions. SEWA Bank, for instance, has a clear, one-page form. For clients who cannot write, SEWA requires only a thumbprint and two photos in place of a signature on Bank papers (Rose, 1992).

In processing applications and making loan decisions, microfinance institutions do not usually undertake a formal project analysis but seek only to confirm that the enterprise is well-established and that the borrower has demonstrated her ability to run it by being in business for a while. Other programmes rely on character guarantees either supported by a group or personal knowledge of individual clients. For example, SEWA's rural banking programme makes loans to clients who the staff knows well, having established a relationship with them through repeated visits (Rose, 1992).

Simplification of loan procedures enables microfinance institutions to greatly reduce the time interval between when an application is received and a loan made. In the group lending programmes examined by Berenbach and Guzman (1994), loan turn-around time was about a week for first-time borrowers and one day for repeat loans.

At SEWA, a woman can secure a loan immediately if she can provide security. (Otherwise, it takes a week.)

Targeting

Much of the success microfinance institutions have had in reaching women, some observers believe, is because they target the poor (Hillhorst and Oppenhoorst, 1992). The issue of targeting women, however, remains controversial. In the past, governments and donors employed targeted credit programmes to reach special groups, such as farmers, or to encourage the development of special sectors or crops. Such programmes may or may not have been subsidized, and were often channeled through cooperatives or special programmes.

Targeted programmes often failed for reasons that included political interference, or monopolization of benefits by more powerful or better-informed groups, or because of subsidization. In any case, women seldom benefitted. A key reason was that they were not generally considered potential beneficiaries of such programmes because they were not viewed as economic producers by policymakers, programme staff, or the traditionally male leadership and members of cooperatives.

But the more recent experience with credit programmes such as those described above shows that targeting can be quite successful. In fact, SEWA Bank and the WWF developed specifically as a response to the credit needs of poor women. Grameen Bank and BRAC, on the other hand, favored women and targeted the poor. BRAC, for example, encouraged women's participation by requiring that a men's organization could be formed in a village only after a women's organization had been established (Lovell, 1992).

There are instances in which targeting of subsectors such as commerce has been both necessary and successful in reaching women (Box 3).

Box 3
To Target or Not?

When the government-owned Industrial Bank of Peru (BIP), in the mid-1970s, established a development fund for medium and small rural industries, small enterprise lending grew in seven years from only 3.4 percent of its portfolio to 50 percent. But only 14 percent of those loans had gone to women. In June 1982, faced with a worsening economic and financial crisis but encouraged by the success of its rural programme, the BIP established a parallel mechanism for small urban enterprises. As did its rural counterpart, the fund successfully reached small entrepreneurs. By the end of 1983, 18 months after start up, 603 loans had been disbursed but, once again, few women were reached. They represented only 16 per cent of the loan portfolio. An evaluation concluded that so few women benefited because the fund did not target, and therefore provided only a limited number of loans, to microentrepreneurs in commerce and services, sectors where women figured prominently.

The experience of the Ecuadorean Development Foundation (FED), a non-profit development agency, with a project (PRODEM) to extend credit to microenterprises in Quito, Ecuador, shows that targeting can play a role, along with other measures, in increasing poor women's access to credit. Launched in 1984 to reach very small producers and vendors in the city of Quito, PRODEM offered small, short-term loans for working capital (between US$50 and US$200 per loan). Larger loans were offered sequentially as borrowers established good credit records, disbursement was rapid, no real collateral was required, and at or close to market rates of interest were charged. PRODEM, moreover, targeted individual producers as well as solidarity groups of vendors and, in particular, women clients.

It set up a special earmarked fund of $50,000 to be disbursed to women the first two years of operations and obtained outside technical assistance on women's issues. It disaggregated information by sex of borrowers from the start and project staff and management embraced the objective of reaching women as well as men clients. The strategy paid off. Two years into the project, women accounted for 35 percent of individual borrowers and a full 65 percent of group borrowers. When an agreement made in 1988 with the Inter-American Development Bank, reoriented the fund to emphasize very small manufacturers, even more women were reached. By August 1989, women accounted for 58 percent of the 1,200 new loans made.

Box 3 (continued...)

Thus, while the BIP and PRODEM both reached small borrowers, PRODEM reached many more women. Explicitly targeting women as part of a client population of both men and women was a key factor in PRODEM's greater success in attracting women clients. This was accompanied by greater institutional awareness and the commitment of management and loan officers to reach women, as well as the crucial ability to report on loan portfolio performance by sex of borrower. Women's access was also greatly enhanced when the range of activities covered expanded to include very small operations in commerce as well as in services and manufacturing, where women predominate.

Source: Buvinic (1990)

Targeting worked in these cases because of the particular advantage of microfinance institutions in understanding the specialized needs of their poor or women clients and in developing services and products designed to serve these needs. Formal-sector institutions have so far regarded the costs of adapting their services to such specialized needs as too high. Yet, as will be shown in the next section, microfinance institutions also have been able to cover their costs.

Ensuring Institutional Viability

Because it is expensive to make the smaller loans typically demanded by women, lending costs for microfinance institutions tend to be quite high. Although strategies such as group lending shift some risks and costs to the borrowers themselves, overall the specialized efforts required to attract and keep women and poor borrowers are costly. The more successful institutions, however, have managed to achieve and maintain financial viability, on the other hand, by generating income through properly set interest rate charges and other fees and, on the other, by reducing costs through streamlining

Covering costs: Interest charges and repayment rates

The first step in financial viability is to generate sufficient revenues at least to cover operating costs and keep loan funds capitalized. Costs generally include inflation, operations, infrastructure, and employee salaries. The main sources of institutional revenues are the interest rates charged on loans, service fees, and the implicit costs of compulsory savings. Typically, rates charged by microfinance institutions tend to be somewhat higher than those charged by commercial banks: i.e., market rates of interest. They tend to be lower, however, than interest rates charged by moneylenders and others in the informal sector (Berenbach and Guzman, 1994).

ADOPEM (an affiliate of WWB in the Dominican Republic), for example, charged an annual rate of 30 per cent on microenterprise loans plus a service charge of 10 per cent (of which 4 per cent represented a management fee, and 2 per cent each a guarantee fee, a technical assistance fee, and a training fee). ADOPEM made group loans at a flat rate of 36 per cent annually. These charges covered its operating and financing costs (WWB, 1994a). In 1989, KUPEDES charged its borrowers a flat interest rate of 2 per cent per month (24 per cent annually) for both working and investment capital loans —a rate well below the 10 per cent monthly rate charged by informal lenders and lower than those charged by some commercial banks lending to large rural enterprises (rates varied between 20 and 25 per cent). These rates covered funding and operating costs and even permitted a reasonable profit (Boomgard and Angell, 1994). Some BPD branches charge interest rates ranging from 32 per cent to 84 per cent. Women's high participation rates in these programmes demonstrates that they are willing to pay high rates of interest for convenience and accessibility (Table 4).

Table 4
Interest Rate Charged, Per cent Female Borrowers and Repayment Rate for Selected Microfinance Institutions

Country	Institution	Year	Women Borrowers %	Annual Interest %	Repayment Rate %
Bangladesh	BRAC	1993	70	NA	95
	Grameen Bank		94	NA	98
Bolivia	PRODEM[b]	1991	71	48	99.8
	BancoSol	1992	70	55	99.06
Colombia[b]	AGS[g]	1992	49	NA	96
Dominican Republic	FINCA-affiliate[d]	1994	100	NA	98.5
Guatemala	GENESIS & PROSEM[g]	1991	35	NA	92
	FINCA-affiliate[d]	1994	99	NA	95.6
India[b]	SEWA	1993	100	NA	97.0
	WWF	1993	100	18.3[h]	90-95
Indonesia[b]	BKPD	1989	41	35	NA
	BKK	1989	55	84	96.2[e]
	KURK	1989	72	84	NA
	BRI	1989	24	24	94.9[f]

[a] Holt (1991)
[b] Berenbach and Guzman (1994)
[c] Glosser (1994)
[d] FINCA
[e] Old past loans excluded
[f] Boomgard and Angell (1994)
[g] ACCION affiliates
[h] Noponen (1992)
NA = Not available

Sources: Jiggins (1994), WWB (1994a), Holt and Ribe (1990).

Another important factor in maintaining financial viability is to have high repayment rates. Many microfinance institutions, in fact show relatively low rates of arrearage and default (Table 4). The default rate on PRODEM's loans, for example, has been close to zero. Of the more that $27.5 million, loaned by PRODEM, only $1,650 has not been recovered since 1987 (Glosser, 1994). Some studies show that women have as good or better repayment rates than men (Berger, 1989). The observation that their women clients had better repayment records prompted some programmes (i.e., Grameen Bank, the Get Ahead Foundation in South Africa, and FINCA) to focus on women (Rhyne and Holt, 1994).

Most institutions have rigorous procedures to ensure repayment. Many of the affiliates of ACCION in Latin America have installed up-to-date management information systems to help keep track of loans and payment schedules. PRODEM, for example, has a custom-designed information system that tracks loans and payment dates and helps credit officers learn within one day which groups are delinquent. Staff then contact them immediately to seek repayment.

ADEMI, too, has an excellent managerial information system. Other institutions offer incentives for timely repayment. KUPEDES, for example, charges a 0.50 per cent monthly incentive payment calculated on the original amount of the loan which is refunded to those who pay on time (Boomgard and Angell, 1994). It also has procedures for staff to follow-up with tardy repayers. Group lending programmes often link the possibility of obtaining subsequent loans to timely repayment of current loans.

Strategies that have been particularly successful in facilitating repayment by women borrowers are frequent repayment schedules that allow them to repay loans on a weekly or monthly basis or an even shorter time frame, tied to their earning schedule.

Productivity, zeal, and inspiration

In addition to cost recovery, microfinance institutions attempt to maintain financial viability by keeping costs down. Non-financial costs of five leading microfinance institutions are shown in Table 5. They are continuously involved in improving their efficiency.[11] A related benefit of reduced costs is that interest rate charges can be kept in check and this reduces the financial burden on clients. Most successful microfinance institutions are able to deliver and maintain high levels of productivity. On one important indicator of productivity, namely the number of active clients per staff member, Rhyne and Rotblatt (1994) found similar numbers in each of the four leading institutions they examined (Corporación Accion (ACTUAR), BRI, BancoSol and Grameen Bank). They estimated that well-performing retail units can handle from 115 to 270 active clients per staff member. There are regional differences, however, with somewhat lower levels prevailing for some of the African credit unions. Differences between organizations arise from factors such as size of loans, ease of travel, and population density in the local area.

In order to maintain these high levels of productivity, institutions must recruit highly motivated staff, give them good training, and try to sustain motivation levels continuously. For field staff, they generally recruit young people from the local area with the intention of imbuing them with the organization's mission, corporate culture, and job procedures. Education levels of field staff recruits vary somewhat. The Grameen Bank, for example, requires a secondary education, and BancoSol employees must have some university-level education.

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[11] Costs also could be reduced by increasing loan size but this may not be desirable given their mission: providing services to the poor.

Table 5
Non-Financial Costs as Per Cent of Average Annual Portfolio and Staff Productivity of Selected Microfinance Institutions
1993

	Grameen Bank	BRI Units	BancoSol	BKK[c]	ADEMI
Salary costs %	4.4	3.1	15.2	7.0	9.0
Other administrative costs %	2.5	1.7	10.4	7.3	11.4
Total[a] %	6.8	7.0	27.2	14.3	20.5
Salaries as percentage of non-financial costs	64	44	56	NA	44
Number of loans per field staff member[b]	180	115	269	NA	NA
Active portfolio per field staff member	$15,000	$51,000	$120,000	NA	NA

[a] Totals may not add as in some cases a line item on reserves has been omitted.
[b] Data are for same quarter.
[c] BKK is part of the BPD system in Indonesia.
NA = Not available.
Source: Rhyne and Rotblatt, 1994.

An important consideration in staff selection for institutions serving rural clients is the willingness to live in poor rural areas. Most institutions prefer to provide on-the-job training in the institution's specific methods and procedures. An important part of the training involves instilling the organization's philosophy in trainees. Grameen Bank, for example, emphasizes the internalization of values and attitudes related to poverty alleviation.

An important contributor to staff motivation is the "strong sense of mission and commitment to social goals" (Rhyne and Rotblatt, 1994, p. 64). The sense of contributing to a worthy cause motivates them to work long hours and in difficult circumstances. But this is not necessarily true for all organizations. BRI staff, for example, derive their inspiration from belonging to a large and prestigious bank. Attractive salaries, good career prospects, and incentive schemes also play a part in enabling institutions to attract and retain competent and dedicated staff. ADEMI's success, for example, is partly attributed to its lucrative salaries and incentive schemes. An incentive programme for loan officers is based on the number of clients, volume and quality of their loan portfolio. In brief, the particular achievement of microfinance institutions has been the ability to address both the demand and supply side constraints that prevent women and poor borrowers from obtaining access to credit.

The best of these institutions have delivered financial services, moreover, both cost effectively and efficiently, and this has enabled them to become financially stable organizations. Now the question is whether credit availability has made a difference to poor women. This issue is addressed in the next section.

V. Does Credit Make a Difference to Women?

Advocates of credit as a key component of development are concerned primarily with its economic impact. They are interested in the role credit plays in raising borrower incomes, in promoting enterprise growth and development, in generating employment, and in alleviating poverty. These issues are of great economic importance for both women and men in developing countries. In a gender-differentiated context, however, the non-economic impacts of credit are also of interest.[12] This is because factors such as lack of status and power (both at home and in the wider society) directly affect women's ability to change their economic situation. In this section, we will therefore examine the impact of credit both on women's economic situation as well as their social status.

Although the success of credit programmes in reaching poor and small borrowers has attracted considerable attention from researchers, governments and donors, surprisingly little information is available on the impact of credit, especially on women. The quality and rigor of the available studies is also highly variable. A variety of factors account for these deficiencies. They include differences in programme goals that thwart comparisons; lack of effective measurement tools; lack of baseline socioeconomic data on clients and on control groups; and design and methodological problems (Berger, 1989; Holt, 1991; Rhyne, 1994).

[12] These differences are sometimes characterized as the difference between women's practical and strategic needs (Kabeer, 1994).

Few studies are gender differentiated and, those that are, contain only small samples of women. Also, because poor illiterate and semi-literate women seldom keep any records, researchers often have to rely on interviews based on women's recall —a notoriously unreliable tool, especially about matters such as accounts, incomes and expenditures. Another problem for gender-differentiated studies is that women do not generally distinguish between household and business expenditures, making it difficult to isolate the impact of credit on women's business development. Nevertheless, despite these shortcomings, enough information is available for some preliminary insights.

Economic Impact

The economic rationale for credit is that it removes a critical constraint on microenterprises. Capital it is theorized, will enable microentrepreneurs to expand their businesses and make them more profitable. As microbusinesses grow, they will generate additional employment and raise the incomes of growing numbers of people. Multiplier effects on the rest of the economy will follow. And, as incomes and employment rise, poverty will decline and living standards will improve.

Studies on the economic impacts of credit generally show the expected results. Most studies show that credit raises incomes and employment and, by enabling borrowers to have better access to food and medical services, improves the quality of their lives as well (Ashe, 1987; Boomgard and Angell, 1994; Goetz and Gupta, 1994; Guzman and Castro, 1989; Holt, 1991; Hossain, 1988; Noponen, 1992; Otero, 1989; Rubio, 1991). For example, Kahnert (1985), found income increases of from 20-200 per cent (depending on the enterprise) among borrowers from the World Bank-funded Small-Scale Enterprise Credit Programme in Calcutta. Impact evaluations of ACCION-affiliated programmes conducted in the 1980s showed that loans enabled microentrepreneurs in several countries to increase business profits and their own incomes (Otero, 1989). A study in Indonesia found that poverty declined 10 percentage points between 1986 and 1989 among three-year clients of the BRI's *unit desa* system in Java (cited in Holt, 1991).[13] Borrower incomes, business employment levels and standards of living increased.

More detailed evidence is provided by Hossain (1988) who found that average household income for Grameen Bank borrowers was about 43 per cent higher than nonborrowers in control villages and 28 per cent higher than nonborrowers in villages served by Grameen Bank (project villages). Participation in the credit programme enabled a significant proportion of borrowers to lift themselves out of poverty —62 per cent were moderately poor in project villages as compared with 76 per cent in control villages. The incidence of absolute poverty was also much lower in project villages. Ninety-one per cent of borrowers felt that credit had a positive influence on their standard of living. Indeed, the study found that per capita expenditures on food in borrower households was 8 per cent higher than nonborrowers in project villages and 35 per cent higher than nonborrowers in control villages.

Studies on the impact of credit on women, however, show mixed results. Women borrowers, like men, seem to make gains in income, employment and standards of living, but not uniformly so. Moreover, in most cases but not always, men outperform women in expanding their businesses and generating employment. For example, a sample of women borrowers from Banco Mundial de la Mujer in Cali, Colombia, increased their net income more than a comparison group of

[13]It should be noted, however, that it is difficult to determine the exact impact of credit because the study did not compare BRI clients to nonborrower groups and, with rapid economic expansion, the incidence of poverty in Java as a whole declined.

men in the same programme and most participants said their living standards had improved since they entered the Bank's programme. But men's enterprises showed greater increases in sales and employment than women's (Guzman and Castro, 1989). Studies in Indonesia show that credit had strong positive effects on income, profit, enterprise, employment levels and standards of living of the predominantly male clients of the BRI. It had a more moderate positive impact on incomes and business employment levels of the majority female clients of other programmes such as those of the provincial banking system, the BPD. The improvements were not significantly different from those made by the surrounding population (Holt, 1991).

By contrast, among Grameen Bank borrowers Hossain (1988) found that, in a two-year period, women increased their working capital five-fold as compared with male borrowers whose capital increased less than four times. Credit availability generated greater employment for women than men. It increased time spent in self-employment equally —about 12 days a month— for both men and women. Women, however, were employed about 7 days less than men because they had been working fewer hours than men before they started getting loans.

A number of studies document the less positive profitability, income and employment effects of credit on women's businesses as compared with men. A large gender-differentiated survey of small- and micro-enterprises in the formal and informal sectors in four countries of Southern Africa (Lesotho, Swaziland, South Africa, and Zimbabwe) found that among the few women and men who had access to credit and training, women entrepreneurs were less successful than men in expanding their businesses (Downing and Daniels, 1992). A survey of loan users in Bangladesh showed that rates of return on women's enterprises averaged 145 per cent compared with men's averages of 211 per cent (Goetz and Gupta, 1994). The gap was even greater among a group of microvendors participating in an ACCION-affiliated programme –men increased their incomes 205 per cent and women just 43 per cent (cited in Mknelly, 1992). On the other hand, Rubio (1991) found no significant differences in average growth rates of male- and female-owned enterprises in food processing and vending among borrowers from ADEMI in the Dominican Republic. In textiles, however, men increased capitalization faster than women in small, medium and large enterprises while women outperformed men in employment in medium concerns.

Part of the explanation for the differences in growth between women's and men's enterprises lies in the nature of women's enterprises—they tend to be concentrated in low-growth and traditional subsectors such as retail and services and to be home-based. This was true of women's enterprises in the four Southern African countries as well as in Bangladesh where women were employed in more traditional activities such as paddy husking, petty trade, and livestock rearing (cited in Goetz and Gupta, 1994). Traditional activities such as these generally tend to face more intense competition and yield lower profits.

Gender differences in enterprise growth in the Dominican Republic appeared to be the result of women's preferred strategy of hiring more labour as their enterprises grew rather than investing in machinery and equipment, whereas men did both. Women appeared to be reinvesting only part of their profits into their businesses and, perhaps, the rest in household consumption (Rubio, 1991). In fact, other studies have noted gender differences in economic and business objectives, strategies, and constraints. Thus, for example, in order to ensure basic household consumption women sometimes choose activities that generate a steady stream of earnings, even if they are not most profitable, to compensate for more seasonal male employment (Grown and Sebstad, 1989).

Also, women tend to invest more of their earnings in their children's education or even to increase household consumption than to reinvest in their businesses. A small sample comparison of male and female borrowers in Gujarat, India, found that with equal amounts of credit, women in a dairy development project were able to generate higher values of production than men but their incremental incomes were lower. Well-being increased in both men's and women's households. Improvements in well-being in women's households derived from greater consumption of milk and dairy products relative to men borrowers. Women who controlled income from their loans, it appeared, chose to retain their output for household use rather than to sell it (Cloud and Elavia, 1990).

Given both household and economic responsibilities and the ensuing time constraints, women seem to value the savings in time that can be obtained from increased productivity. Thus, a comparison of male and female microentrepreneurs who had borrowed from PRODEM in Ecuador found that women borrowers, but not men, had reduced the number of hours worked monthly by 14-17 per cent compared with a decrease of only 4-7 per cent among nonborrowers. Both men's and women's real monthly income had also increased, as had that of a comparison group of nonborrowers. Buvinic, et. al., (1989) explain women's preference in using credit to increase their efficiency in terms of their need to substitute home time for work time.

Finally, some research shows that, if basic consumption needs are met, poor women prefer to expand their businesses only to the extent of their own labour and management capabilities (McKee, 1989). They may also prefer to increase the number rather than the size of enterprises in order to reduce risk. An evaluation of a CRS village banking programme in Senegal found that both men and women clients in the poor rural communities surveyed invested their loans in more than one enterprise at a time in order to diversify their risks (Hahn and Cluster, 1993).

Women's Status

As women's participation in credit programmes has grown, some researchers have also sought to examine the non-economic impacts. Investigations focus on changes in women's status both within and outside the household. In some cases, the focus is on women's "empowerment" —a somewhat ill-defined concept because it is so encompassing. However, it can be broadly defined to include elements that, on the one hand, enhance women's own control over their lives (i.e., self-confidence, autonomy, decision-making capabilities, etc.) and, on the other, result in a change of society's perception of women so that they are able to exercise more control over their lives. In one view, credit is believed to empower women directly, by improving their economic position, and indirectly, because participation in credit programmes widens women's experiences, skills, and exposure to the world outside their homes (Schuler and Hashemi, 1994).

Some credit programmes do, in fact, provide direct opportunities for women to participate and build their skills and experience. Grameen Bank, for example, fosters a sense of ownership among its clients by offering them membership and shares in the bank. The majority of the bank's shares are owned by landless women. Kabeer (1994) suggests that by increasing women's control over new economic resources (bank shares), Grameen Bank empowers women. Nine of twelve voting members of Grameen Bank's board are also women borrowers. Some of the staff at SEWA Bank are former self-employed women—its clientele.

Partly because of the difficulties involved in measuring empowerment, most studies have reported improvements in women's empowerment based on women's own perceptions of changes in particular aspects of their ~~lives~~ for example, greater participation in household decision-making. Women participants in FINCA's CAM/El Salvador programme were reported to be empowered because a survey found that 60 per cent of them felt that they received greater respect at home since participating in the programme and contributed more significantly to household income and decision-making. Sixty per cent of participants in a Freedom from Hunger programme in Mali, similarly, reported that they had greater input into family expenditure decisions as compared with only 19 per cent of non-participants (cited in WWB, 1994a).

A few studies that have attempted to measure empowerment and the impact of credit on women's status, in greater detail, however, show that the link between credit and improvements in women status is not straightforward. Because such improvements are difficult to define and quantify, they are also difficult to evaluate properly. Women's status may improve as a result of credit only if certain conditions prevail, not the least of which is that women retain control over loan use and the returns from using credit, which is not always the case.

A recent study by Schuler and Hashemi (1994) in Bangladesh compares a sample of Grameen Bank and BRAC members and nonmembers to determine whether participation in credit programmes "empowers" women and lowers fertility. "Empowerment" was defined as a function of economic security and other factors such as physical mobility, control over decision-making, political and legal awareness and freedom from domination within the household. Controlling for factors such as age, schooling, relative wealth among the poor, and access to family planning services, and for the fact that more empowered women may have been attracted to these programmes in the first place, they found that membership in credit programmes did have a positive effect on women's status. These improvements were due to both economic and non-economic factors such as increased self-confidence.

Empowerment did not, however, translate directly into higher contraceptive use.[14] Grameen Bank members practiced contraception more than BRAC members. Differences in contraceptive use rates were found to be, in part, the result of Grameen Bank's greater emphasis on strengthening women's economic roles: a higher percentage of its members get loans, have independent incomes, and contribute substantially to family support. They were also due to Grameen Bank's more regimented approach (involving chanting, saluting, and other rituals) to building women's solidarity and identity than BRAC's more subtle one.

By contrast, Goetz and Gupta (1994), who also examined the impact of credit on women's status in Bangladesh found that because men often gained control over women's loans, women's economic development and empowerment were undermined. In a detailed qualitative study of loan histories of 253 women borrowers from four organizations —BRAC, Grameen Bank, Thangemara Mahila Sebuj Sengstha (TMSS) (a women's NGO), and Rural Development-12 Project (RD-12) (a government-run credit programme for the landless)—the researchers found that women's status actually declined in some households where men assumed control over loans. Women were basically powerless to prevent men from appropriating their loans. In many cases, as women were still responsible for repaying the loans, they were in the uncomfortable position of having to ask their husbands for loan repayment money. This created a new dependency among women. In the extreme, it could result in domestic violence against women.

[14] This result is not particularly surprising. It is not immediately obvious why empowerment should be linked to lower fertility. And the researchers do not offer an explanation. While it is easy to see that increased empowerment should result in women having greater control over their own fertility, it is not clear that thev would necessarily choose to contracept.

Obviously, if the problem of loan diversion is widespread and leads to similar results among other groups of women borrowers, women's status is not improved. Limited evidence from other sources shows that loan diversion also occurs in other places. A study in Guatemala, for example, showed that the male relatives of women borrowers from a rural credit programme sold the chickens and small animals that formed the women's credit-supported enterprise. The women were left to repay the debt without the profit from their enterprise and with their own labour (Berger, 1989). Given the few studies currently available on this issue, however, it is difficult to know exactly how serious the problem of loan diversion is. It may, in fact, be relatively small in other places where women have greater control over their own financial assets, as in some African countries.

In Bangladesh, Goetz and Gupta (1994) found that 37 per cent of their sample of women borrowers retained full or significant control over loan use while 63 per cent had partial or no control. But, interestingly, even when men take control over loans, women are better off than without credit. Even female borrowers who had transferred their entire loan to a male relative had better nutrition, and higher expenditures on clothes and medical needs than the wives of male borrowers. Thus, among Grameen Bank borrowers, Rahman (1986) found that 10 per cent less was spent on women's medical expenses when loans were transferred to men as compared with expenditures by women who retained control over their loans (cited in Goetz and Gupta). But male borrowers spent three-fourths less on their wives' health than women borrowers themselves did.

Implications

The available evidence on the impact of credit on women, though limited and still inconclusive, suggests that access to credit can change women's lives in important ways. First, credit *does* have a positive impact on borrowers' financial status and well-being. This is true regardless of whether or not loans are used directly to expand business enterprises. Nevertheless, access to credit provides women flexibility to manage their resources better with the result that they are able to improve their own well-being and that of their families. Therefore, it does not much matter the use to which loans are put. Borrowers themselves are best placed to decide exactly how they will use loan funds. Poor women appear to maximize their resources and minimize their risks with respect to their own particular constraints. In doing so, they seem to prefer to invest more in household consumption and human capital development (i.e., in children's education and health care) than in expanding their enterprises. They also have a preference for reducing their time constraints and lowering their risks. These economic decisions, moreover, appear to differ from those of men and from what is expected by lenders and development policymakers.[15] It is important to stress that women's decisions are rational, they provide important social benefits, and may also yield higher social returns on investments in credit programmes as compared to similar investments in men. Although lenders are concerned with enterprise development mostly because they want to ensure repayment, data shows that they need not be only concerned with how women use their loans, because they generally have good repayment records and low default rates.

Second, women who would like to expand their enterprises or enter newer more dynamic fields, it should be noted, face many constraints in addition to a lack of finance. Factors include lack of access to markets, other resources, and

[15] It is highly likely that women's investment decisions are determined by their economic status so that very poor women may be more inclined to invest in food consumption while those who are somewhat better off may make different decisions.

new technologies. Women microentrepreneurs, too, lack education or are illiterate or semi-literate, and lack training in business and related skills. Credit is, therefore, a necessary but not sufficient, condition for women to enhance business performance. Additional support such as training and technical assistance are needed to enhance women's enterprises and productivity.

Third, the emerging data on women's loss of control over loans suggest that, if women are to benefit from credit, they must be able to retain control over the use of loan funds and over the returns from them. Lending agencies especially if they engage in multisectoral work, may be able to help women keep control over loans through mechanisms such as follow-up visits and discussions. Other financial institutions which do not offer such services may be able to include NGOs to provide them. The more effective long-term solution, however, is to strengthen women's decision-making roles and power within their households and in society (Goetz and Gupta, 1994; Kabeer, 1994). This, in turn, requires social and institutional changes to support and reinforce economic change.

Fourth, this discussion is not meant to imply that credit programmes and other financial institutions themselves should be responsible for providing non-financial services. In fact, as noted above, some credit programmes are linked to other services, either technical assistance and training, or even broader social development programmes such as those of BRAC.[16] There is an ongoing debate, however, about the

[16] In a 1979 proposal to donors, BRAC described its credit programme philosophy as follows: "If lending is made to the groups who have reached an institutionally developed stage, under close supervision ensuring their personal stake in the scheme, and if such lending is followed by borrowers' training, technical assistance and the provision of marketing facilitities, the neglected poor can be transformed into effective tools of development." (BRAC, 1979, p. 77).

relative merits of "minimalist" or "credit plus." As the label suggests, minimalist credit programmes focus solely on providing financial services and keep other support services to a minimum. Even minimalist credit programmes, however, generally provide some training in banking principles and procedures and in the roles and responsibilities of lenders and borrowers. "Credit plus" programmes, on the other hand, may provide additional training in business, accounting, or marketing, and even technical assistance and services.

The arguments against credit plus are that it raises the costs of programmes, dilutes the focus on credit, and puts an additional burden on staff. Also, the benefits of training and business development for microentrepreneurs have not been fully proven. A USAID evaluation of microenterprise programmes concluded that most training and technical assistance for business development had failed (Boomgard, 1989, cited in Holt and Ribe, 1991). After a review of several NGOs who offered financial and other technical services to poor women, Tendler (1989) found those providing only credit were more effective. Further, McKean's (1989) review of several microenterprise programmes in Latin America showed that minimalist programmes that provided little or no technical assistance had as strong an impact on borrower incomes as credit-plus programmes.

There are, actually, examples of notable successes with both types of programmes. SEWA, for example, has combined a diverse set of activities to address the broader needs of women including training, literacy, cooperative development, political mobilization and advocacy, financial services (both credit and savings) and, more recently, health care. The SEWA Bank and the other services have been effective both in assisting women clients and in having a broader national impact on legislation and through a demonstration effect.

More interestingly, recent studies show that even a minimalist credit programme like that of Grameen Bank, by offering the fairly limited and simple training programme contained in the "Sixteen Decisions," has been quite effective in changing women's self-perceptions and, to some degree, in empowering them (Shuler and Hashemi, 1994). Kabeer (1994) suggests another way in which Grameen Bank, simply by offering housing loans—a conventional financial service—may have a significant social impact. By requiring that the land on which the house is built be registered in women borrowers' names, Grameen Bank has introduced an innovation that, theoretically, could be a powerful influence in changing gender and social relations. Kabeer argues that property ownership is important to women for several reasons. First, because by undermining men's automatic claim to all assets accumulated during marriage, women's ownership raises the costs of male desertions, that have been found to increase with growing impoverishment in Bangladesh. It also ensures that women can retain property if their husbands die. Finally, it replaces the common perception of women as "assetless dependents" with a different view of them as "bearers of valued entitlements" (Kabeer, 1994, p. 240).[17]

It is difficult, at this point, to make definite conclusions about the "best" way to combine credit with other services that women need or, even, whether these functions should be combined. On the other hand, if they are not combined, it is still an open question as to what are the best means to ensure that women obtain the combination of financial and non-financial services they seem to need.

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[17] Interestingly, SEWA Bank encourages its rural borrowers, many of whom have lost land to moneylenders as debt repayment, to use their loans to recover it. If they do, SEWA insists that women get title to the land in their own names (Rose, 1992).

The question is particularly relevant in the context of the recent evolution of microfinance institutions which, as they work towards greater self-sufficiency and self-sustainability, are carving out a more minimalist and commercially-oriented role for themselves. How will these changes affect women? We take up these issues in greater detail in Section VI.

VI. The Challenges Ahead: The Prospects for Women

During the past fifteen years, women's access to financial services in developing countries has improved tremendously. Table 6 shows the number of women receiving credit in a variety of countries through diverse institutions. In Bangladesh alone, credit programmes reached more than 2 million women in the period 1989-1992. This was more than twice the number reached in the mid-1980s (Goetz and Gupta, 1994). WWB has served more than half a million clients, most of whom are women. Initially, in Latin America, urban women benefitted; in Asia, mostly rural women. But, now, both urban and rural women are being served. Women represent a significant proportion of the clients of many microfinance institutions, even though most institutions and programmes did not specifically target women but, rather, the poor. But even at BRI, whose clientele is just 24 per cent women, the number is significant—446,400.

However, as the data in Table 6 shows, apart from a few programmes in Bangladesh and Indonesia, the scale of operations of most credit programmes is relatively small. A few programmes have from 10,000 to 50,000 borrowers, but most operate at well below the 10,000-borrower level. The numbers of women reached are even fewer since they represent only a proportion of borrowers. A study in the Dominican Republic revealed that almost 80 per cent of the existing 330,020 microentrepreneurs have never had access to credit. Recent studies in Costa Rica, for example, show that only between 13 and 19 per cent of microentrepreneurs have access to credit (Weisleder, 1994).

The need for financial services among poor women continues, and may be increasing. Based on current poverty data, Christen, Rhyne and Vogel (1994) estimate that the number of potential clients for microfinance institutions around the world may be in the range of one to two hundred million. At least half are likely to be women. The challenge for the future is to meet this demand.

Table 6
Number of Borrowers and Per cent Women In Selected Microfinance Institutions, early 1990s

Country/Region	Number of Borrowers	Number of Women	Per cent of Women
Asia			
Bangladesh			
Grameen Bank	1,860,000	1,748,400	94
BRAC	649,274	480,463	74
Indonesia			
BRI Unit Banking	1,860,000	446,400	24
BKK, Central Java	510,000	280,500	55
BPKD and LPK	123,000	49,200	40
KURK, East Java	114,000	82,000	72
BPD Bali	39,000	NA	NA
India			
SEWA	11,826	11,826	100
Malaysia			
Project Ikhtiar	18,000	NA	NA
Philippines			
Project Dungganon	6,300	NA	NA
Regional Subtotal	5,128,100[a]	3,098,869[a]	60
Africa			
South Africa			
Get Ahead Foundation	12,658	11,519	91
Niger			
CARE, Maradi	12,600	NA	NA
Kenya			
Kenya REP	9,783	5,381	50-60
Sahel Action	7,000	NA	NA
Regional Subtotal	22,441[b]	16,900[b]	75

(continued)

Table 6
Number of Borrowers and Per cent Women In Selected Microfinance Institutions, early 1990s
(...continued)

Country/Region	Number of Borrowers	Number of Women	Per cent of Women
Latin America			
Colombia			
AGS (with ACTUAR)	55,587	26,126	46
Bolivia			
BancoSol/PRODEM	46,428	33,428	72
Latin America Region			
FINCA (11 affiliates)	52,356	47,120	90
Guatemala			
GENESIS & PROSEM	14,553	5,385	37
Dominican Republic			
ADEMI	13,621	5,176	38
ADOPEM	9,050	9,050	100
Ecuador			
ASOMICRO	10,266	5,133	50
Nicaragua			
FAMA	3,143	2,514	80
Peru			
ACP	2,893	1,678	58
Chile			
PROPESA	3,565	1,640	46
Regional Subtotal	211,462	137,250	65
Global			
Catholic Relief Services[c]	30,000	27,000	90
Total	**5,392,003**	**3,280,019**	**61**

[a] These subtotals are illustrated only; they are not intended to be comprehensive as we did not survey all microfinance institutions.
[b] These totals do not include Bali, Malaysia and Philippines
[c] These totals do not include Niger and Burkina Faso
[d] Catholic Relief Services data
NA = not available

Source: Rhyne and Holt (1994).

Only a few options are available for expanding financial services for women. One is for commercial banks to expand their services to poor clients. Some observers believe that commercial banks are the only financial institutions capable of expanding sufficiently to meet the huge unmet demand for finance among women and the poor. However, as will be shown below, commercial banks do not as yet seem ready to take on the challenge. Another alternative that seems more realistic in the immediate future is to multiply and expand intermediary programmes. Some replication has already taken place based on existing models, and additional replication is still possible. Yet another possibility is for the existing microfinance institutions to expand. A key limitation is access to loanable funds. A number of institutions have been experimenting with ways that have either been successful or appear promising to mobilize additional funds either through client savings or from commercial markets. These emerging alternatives to greatly expand the scale of financial services for women and the poor are examined below.

Tapping Commercial Banks

Credit programmes were originally designed with the idea that the need for financial intermediation was just temporary and that, with their help, deserving clients would build sufficient credibility, capacity and knowledge to "graduate" in time, to the formal financial sector (Berger, 1989). Village banks, for instance, limit loan sizes to $300 with the idea that women requiring larger loans can be served by commercial banks (Holt, 1994).

The potential feasibility of this option for expanding women's access to financial services depends, however, on two factors: demand among women for such services, and the willingness of commercial banks to provide them. On the demand side, there should be a sizeable number of poor women being "graduated" from microfinance institutions who need larger loans because their incomes have risen and their enterprises have grown. Their experience with microfinance should also have equipped them adequately with the knowledge, skills, and self-confidence required to deal with commercial banks, as these are factors that make formal institutions unapproachable from a poor, uneducated woman's perspective.

Very little data are currently available to show graduation from intermediary financial institutions. Khandker et. al. (1994) hint at the possibility that some of the attrition from Grameen Bank represents better access to commercial banks, but no specific data are provided. In any case, attrition from Grameen Bank due to any cause is very low–about 14 per cent in 1991. Similarly low rates were observed among village bank members studied by Holt (1994). For instance, just eight women (2 per cent of members) graduated over two years from CARE's project in Guatemala. Of course, among village banks, there is also the possibility of graduating as a bank to commercial banks by transferring all operations gradually. Holt (1994) found that FFH village banks in Thailand had started on that path but not yet completed the change, and there were no examples of any other village banks that had done so. In some cases, too, microfinance institutions may be reluctant to part with their best customers (Berger, 1989).

On the supply side, apart from a few notable exceptions like BRI and Banco del Pacifico in Guayaquil, Ecuador, there is little evidence that commercial banks are much more willing to expand their services to poor women than they were a decade ago. Although a recent study of commercial banks in 6 Latin American countries showed that a few commercial banks were beginning to take an interest in financing microenterprises with their own funds, this represented just one to two per cent of their total portfolios (Almeyda, 1994). Given the size of operations of such banks, this small percentage could mean that a sizeable number of loans are being made to microentrepreneurs. The study concluded that only women with more developed and stable microenterprises were likely to benefit from these loans.

Other studies show even less interest among commercial banks in serving poor and women clients. Even when commercial banks are given guarantees or low-interest funds to on-lend to the poor they are generally reluctant to do so. Rhyne and Holt (1994), for example, reported that commercial banks in Latin America were not very responsive to lines of credit available to them from the IDB for direct lending to the poor. Morris and Adams (1994) found that women did not use formal financial services in Egypt, Ghana, and Uganda because these institutions did not offer the kinds of financial services they wanted. Berger (1989) observed that banks mostly tend to view microenterprise lending as "social" programmes rather than a fundamental part of their operations.

For the time-being, therefore, commercial banks do not appear to offer a realistic alternative for expanding micro-finance services to women. Other more promising opportunities for expanding such services lie in replicating them through institutions similar to microfinance intermediaries or, within the microfinance institutions themselves, by devising ways to enlarge their scale of operations.

Replication

Much of the growth within the larger microfinance institutions thus far has come from internal replication of retail units at the field level. Standardization, efficiency, staff flexibility, small size, and decentralization have been the key features of horizontal growth. BRI, for example, developed the profit center concept for the *unit desa*. Each unit operates as a mini-financial institution that raises its own funds and invests them, and is responsible to meet its own costs and show a profit (Rhyne and Rottblatt, 1994). Growth occurred through unit replication on a large scale. Other institutions, including

Grameen Bank, have also applied this concept. Table 7 shows the rapid rates of growth experienced by some leading institutions. Grameen Bank branches now provide nationwide coverage.

Another approach taken by some of the network organizations was to develop a basic model of microfinance development and offer access to loan capital and technical assistance to replicate the model in many countries. This was the approach used by ACCION and by Women's World Banking.

The lessons learned from their successes offer additional opportunities to replicate programmes and institutions, assuming the legal and financial policy frameworks within the country of operation permit. In assessing the replicability of the BRI system, Boomgard and Angell (1994) identify key features of its success: a nonrestrictive interest rate policy, institutional

Table 7
Growth Rates[a], Selected Microfinance Institutions
1985 - 1993

	Grameen Bank	BRI[b]	PRODEM/ BancoSol
1985	26	61	NA
1986	37	19	NA
1987	57	7	NA
1988	44	5	227
1989	37	19	93
1990	31	15	112
1991	22	-3	44
1992	33	0	24
1993	NA	1	56

[a] Per cent change in number of clients at year end over preceding year.
[b] BRI figures are based on the number of KUPEDES loans at year end .
NA - Not available

Source: Khandker, et. al., (1994).

viability, incentives to staff and clients, and a broad range of financial services, including especially, savings mechanisms. Dynamic and inspired leadership, strategic donor support in the form of risk capital and technical assistance are also important.

Savings Mobilization

Another alternative is for existing intermediary institutions to generate internal growth to finance expansion. One of the most powerful ways to do this is to mobilize savings. Savings can increase institutions' capital base and generate revenues (through interest on loans), and savings deposits can be held as collateral against loans. Until recently, it was commonly believed that women, and poor people in general, were unable or unwilling to save. Practical experience shows, however, that this is not the case. Savings already constitute an important source of loan capital for institutions like BRI and SEWA Bank. More commonly, however, although many microfinance institutions have instituted savings components, they have not realized the full potential of savings to generate capital internally. Also, in some countries, financial regulations prevent NGOs from undertaking savings.

The BRI's *unit desa* system which has been fully financed from savings since 1989, provides an excellent example of the effectiveness of institutional mobilization of savings. As mentioned above, the savings programme is known as SIMPEDES. It relies primarily on voluntary savings; savers are paid varying interest rates, depending on amount held, and are permitted unlimited withdrawals. Initially growth in the number of savers in the *unit desa* system greatly outpaced the number of borrowers, and by 1989, there were almost four times as many savers as borrowers (Boomgard and Angell, 1994). By 1994, there were 10.6 million savers in the system, holding $1.8 billion in deposits (Rhyne and Holt, 1994). In December 1993, the savings balance to loans outstanding ratio was 2.2 to 1 (WWB, 1994a).

Member savings, along with share capital and profits, also represent an important source of loan capital for SEWA Bank. In SEWA's case, however, saving is not voluntary. Rather, borrowers are required to open savings' accounts and to become Bank shareholders by buying 5 per cent of the loan amount in bank shares when receiving a loan. Costs are financed with the difference between interest received from loans and interest paid on deposits, and from the interest earned on invested savings (62 per cent of savings in 1992/93) (WWB, 1994a). In 1993, SEWA Bank's ratio of savings balance to loans outstanding was a very favourable 2.8 to 1 (WWB, 1994a).

Savings are a feature of many other microfinance institutions as well, and some ask for compulsory savings as a condition for obtaining loans. Grameen Bank, for example, requires each member to save Taka 1 (U.S.$ 0.03 at current exchange rates) every week. Savings at Grameen Bank increased dramatically from Taka 115 million in 1985 to Taka 3,478 million in 1992. These savings were four times more than the combined savings of five major commercial banks in Bangladesh.

Credit unions that combine savings and loan functions have been particularly effective in mobilizing savings in many countries around the developing world. These organizations, which began operating in developing countries in the 1950s, function as cooperatives. They offer savings and credit services to individual members who, as shareholders, own the institution. Leadership is drawn from among the membership and each member has one vote in the organization. Membership is generally restricted to a clearly defined group of people such as employees of a particular organization, teachers and members of a church. Credit unions often have significant geographic coverage and are usually located in both rural and urban areas. Individual credit unions can affiliate with national leagues which exist in many developing countries, providing services such as training and technical assistance, as well as serving as a central deposit and interlending facility and a conduit for donor funds.[18] The World Council of Credit Unions (WOCCU) is the apex membership organization of the worldwide affiliated credit union movement.

At the end of 1989, according to statistics maintained by WOCCU, there were over 17,000 credit unions, with approximately 8.7 million members, in sixty-seven developing countries. They held $1.8 billion in member-owned savings and had outstanding loans of nearly $1.4 billion (Magill, 1994).[19] In 1993, women represented about 42 per cent of the membership of credit unions in 24 developing countries for which data were available (WOCCU) (Table 8). Members tend to be from low and lower middle-income groups.

[18] Historically, credit unions in developing countries received support from donor agencies such as the U.S. Agency for International Development and, in Latin America, the IDB.

[19] Interestingly, the membership of credit unions in developing countries represents only15 per cent of the total membership worldwide, 3 per cent of the loans, and less than 0.5 per cent of member-owned savings. The rest is accounted for by developed country credit unions.

Table 8
Total Number of Clients and Women Clients in Credit Unions in 24 Developing Countries Per Region[a] in 1993

Region	Total Number of Clients	Number of Female Clients
Asia	1,162,847	583,806
S.S. Africa	653,502	232,209
Latin America and the Caribbean	1,279,359	470,850
Total	3,095,708	1,286,685

[a] Includes credit unions affiliated with the World Council of Credit Unions only.

Source: World Council of Credit Unions, Inc.

Savings and relatively short-term installment credit are the two main services provided by credit unions. Loans are made only after the member has held savings for a while and are generally limited to a multiple of the savings, so that at least part of the loan is guaranteed by the savings balance. The majority of credit union loans are for consumption, with an estimated 10 to 20 per cent being used for small-enterprise activities. While credit unions have been effective in mobilizing savings, the services provided are rather limited. For instance, members receive dividends, rather than interest, on their savings. The only incentive for savers appears to be members' desire to obtain a low-cost loan and, because demand greatly exceeds supply, loans are rationed. Credit unions have also been criticized for using savings to subsidize loans (Magill, 1994).

Credit unions currently represent an important source of a limited number of financial services in many countries. Their competitive advantages include presence, wide geographic coverage, the fact that their capital is self-generated, and that they are generally self-sustaining. To remain competitive and grow, however, Magill (1994) believes that they need to modernize policies, procedures, and services, making them responsive to diversified consumer demand including a broader range of loan and savings services. They are already beginning to modernize and offer a greater number of financial products in some countries such as Costa Rica and Colombia.

Not only is savings mobilization a significant way for microfinance institutions to generate liquidity for growth but the opportunity to save also represent a valuable service for clients. A savings service offers safety, a source of liquidity to invest or to meet emergencies, a source of income from interest, and security for future loans. So far, poor women have had little option but to put their savings in informal savings associations. Most commonly used are rotating savings and credit associations (ROSCAs) that are found throughout the developing countries, especially in Africa and Asia. Each member provides a fixed amount of capital, and the funds are rotated among the members by some rule such as by turn or lottery. They are generally organized and administered by their members. While they fill a critical need, these associations are less than an ideal way for women to save. Deposits are not accessible on demand but only when the fund revolves around to the member, which may or may not be when she needs it. Typically, they do not pay interest. They are also vulnerable to group disbandment and fraud. The alternative of saving at microfinance institutions is, therefore, much more attractive, reliable, and secure and women are likely to benefit greatly from the expansion of savings services.

Transformation to Commercial Banking

In an effort to expand both the financial base of their operations and to offer more products and services to their clients, some microfinance institutions have also sought to develop their linkages with formal financial institutions or to become full-fledged profit-making banks themselves. Many institutions are somewhat hampered in these efforts because they are not themselves fully self-sustaining and, therefore, less able to convince potential financiers (from whom they would obtain the needed capital) to invest in them.

Programme sustainability depends in the short-term on the ability to cover, through interest charges and fees, all non-financial or operational expenses such as salaries, administrative costs, and the costs of defaults. Most successful programmes, as we noted above, are able to do this within a few years of starting operations. A field unit at Grameen Bank, for example, takes about five years to become self-supporting (Khandker et. al., 1993). Full-fledged sustainability, however, requires the ability to cover financial and non-financial costs, and keep pace with inflation. Few microfinance institutions are in this position. A recent review of 11 better-performing credit programmes (including a FINCA affiliate and Grameen Bank) showed that less than half had achieved full self-sufficiency (Christen et. al., 1994).

Many microfinance institutions were set up with the assistance of donor or government funds, and they continue to depend on concessional or donor and government grants for their loan capital and expansion. Grameen Bank, for example, originally obtained its funds from the International Fund for Agricultural Development (IFAD) and from Bangladesh Bank, the country's central bank, at the concessional interest rate of 3 per cent per annum. Since then, it has also received funds from the Dutch, Norwegian, and Swedish aid agencies and from the Ford Foundation. In 1993, about three-fourths of Grameen

Bank's financing was obtained from external agencies, 43 per cent of it in the form of grants (Khandker et. al., 1994). Thus, even though Grameen Bank has made profits every year except 1991 and 1992, these were earned on subsidized loan and development funds. It has, however, been reducing its dependence on subsidies over the years, although Khandker et. al. (1993) estimate that to completely eliminate its subsidy dependency it will have to either double its loan volume or its lending rate. SEWA Bank, on the other hand, receives some subsidies but would make a profit without them (Box 4).

Box 4
Hidden Subsidies

Because of the poverty alleviation and service orientation out of which microfinance institutions emerged, even fully self-supporting institutions continue to receive explicit and implicit subsidies. For instance, subsidies to SEWA Bank, which is a profit-making institution, include the volunteer services of field workers from the SEWA trade union, lower than market rent for the SEWA Bank building, and an interest-free loan of Rs. 26,000,000 (a little over U.S.$ 100,000) from the Friends of Women's World Banking (FWWB) made in 1991 (WWB, 1994a). SEWA would be profit-making, however, even without subsidies.

Source: WWB (1994a).

As there is considerable untapped potential to raise additional funds in local and international capital markets, microfinance institutions are increasingly seeking innovative ways to tap these resources. ACCION, for example, uses a bridge fund capitalized with financing obtained from USAID and private donors, to enable its affiliates to leverage additional funds from commercial banks in their own countries. Other institutions have found it necessary to transform themselves completely into profit-making banks.

A leading example is BancoSol that was created in Bolivia from PRODEM, an NGO. After a transition period that lasted a couple of years, BancoSol formally became a bank in February 1992. It now raises its own capital through client savings and from institutional investors. (PRODEM owns 44 per cent of BancoSol's stock.) A key reason for the creation of BancoSol was the legal inability of PRODEM, as an NGO, to tap into savings to generate the funds needed to meet a huge estimated demand for credit (potentially 700,000 clients) (Glosser, 1994). In June 1994, BancoSol was serving 55,000 borrowers, 80 per cent of whom were women, double the percentage served by other Bolivian banks.

But the transformation of BancoSol raises significant questions about potential conflicts related to its mission. As a commercial bank, its primary obligation is to generate returns for its investors but, in keeping with its origins, it is committed to lending mainly to micro- and small-entrepreneurs. These conflicts have institutional and operational ramifications as well as implications for clients. Many of these issues are similar to those that must be confronted by any microfinance institution as it expands. They include, for example, the risk that portfolio quality may decline as more clients are added. Or that costs may escalate as more qualified and experienced staff must be paid higher salaries. Or that staff of profit-making institutions may not bring to their work the kind of dedication and commitment that have contributed to the early success of these institutions. In attempting to lower costs, loan size may increase, thereby reducing access for women and the poor.

The key question, of course, is whether and how the changes needed to accommodate expansion, self-sustainability, and profit-making can be reconciled with commitment to the poor. Goetz and Gupta (1994) believe that some of Grameen's Bank's motivation for increased lending to women, known to have better repayment records, stems from the need to improve its performance. (If repayment is good, loan recovery costs are lower.) Whether or not one agrees with Goetz and Gupta's example, the questions are still open: Can the social objectives that underlie microfinance lending be reconciled with the increasingly commercial orientation required to expand? Will women's access to financial services continue to improve? These questions pose critical challenges for the future.

VII. Conclusions and Policy Recommendations

Microfinance institutions are one of the few true success stories in development. They have succeeded in filling an important niche between the formal and informal sectors in meeting the financial needs of poor women for credit and now, increasingly, for savings as well. They are broadly distributed throughout the developing countries and in both urban and rural areas. Large numbers of women have benefitted both from the financial services and from the training, broader exposure, and other services and opportunities associated with microfinance. By playing a rather unique role and doing it effectively and efficiently, the institutions have as well created a place for themselves in the development field. Some of the lessons learned from their experience are summarized in Box 5.

These lessons are notably replicable which is important because there are large numbers of poor women in many developing countries who still do not have access to financial services. This is true in Africa where there are fewer microfinance institutions with smaller programmes relative to other regions, and where lack of finance at all levels is a serious impediment to growth and development. It is also true of countries within Asia and Latin America which are currently being relatively better-served than Africa.

Based on these general conclusions the following policy recommendations are designed to enable more women to have better access to a broad range of financial services and to obtain the complementary non-financial services they need to make the best use of credit.

Box 5
Financing Poor Women:
Lesson Learned from Two Decades of Experience

- *Women have a high demand for a broad range of financial services, including both savings and credit.* They have demonstrated their willingness and ability to save and to make and repay loans in many countries throughout the developing regions.
- *Charging market rates of interest is not a disincentive to women borrowers.* The small, short-term loans that women demand tend to be more "expensive" than larger loans. But experience has shown that women are willing to pay market rates of interest, and in some cases, above-market rates for such loans.
- *Loan repayment rates among women are generally good and defaults low.* Rates of arrearage and default in credit programmes tend to be relatively low, as shown in Table 5.
- *Loans with relatively few restrictions on use are more attractive to women.* Because poor women need cash for a variety of both enterprise-related and household uses, it does not matter much whether loan funds are used directly for the enterprise or for consumption, as long as the enterprise generates an adequate flow of cash for debt service. Impact studies show that household well-being increases whatever the direct use to which women put loans.
- *Targeting the poor increases the likelihood that women will be reached.* Specialized microfinance institutions or programmes targeted to the poor have been effective in reaching large numbersof poor women. In cases where women are not being reached, targeting particular subsectros in which women are concentrated can be effective.
- *Solidarity groups, training, and other activities related to credit programmes can have unintended positive impacts on women.* They do so by giving women opportunities to better define and articulate their economic, financial and other interests and build the skills needed to interact in the larger community outside their households. Members of SEWA, for example, have been successful in lobbying and winning rights to protection against harassment and in extening applications of labour laws and benefits to women in the informal sector.
- *Microfinance institutions that specialize in providing financial services to the poor can be efficient and self-sustaining and the features contributing to their success are replicable.*

Reform of financial markets

A key need identified in early work related to improving women's access to credit was the reform of financial markets, in particular, the deregulation of interest rates to allow them to rise to market levels or higher (Lycette, 1984; Berger, 1989). The recent history of intermediary microfinance institutions demonstrates quite convincingly the direct link between institutional ability, primarily through appropriately set interest rates, to minimize risk and cover the higher transactions costs of servicing the needs of women. Historically, donors and development agencies hesitated to impose market rates of interest because they mistakenly believed that the "high" cost would deter potential borrowers, and that they had to "induce" greater use of formal services through targeted interest rate subsidies. In fact, this has proven not to be true. Women have demonstrated their willingness to borrow at the higher rates generally charged by microfinance institutions. In other words, the marginal cost of these financial services equals the marginal returns women derive from them. Further, the empirical data show that many women value these services at least at commercial rates of interest.

Despite widespread financial deregulation, including the removal of interest rate ceilings, due to the adoption of economic liberalization programmes in many countries, there is a continuing need for financial sector reform. Financial policy reform needs differ in various countries they may still involve, in a few countries, deregulation of interest rates. In most, however, the focus is likely to be liberalization of banking regulations. In many countries, prudential regulations designed to maintain banking standards, prevent non-bank institutions from performing banking functions such as those related to promoting savings. This is a serious limitation for financial intermediaries seeking to expand their capital base and the products they offer. Appropriate liberalization of banking regulations are needed, therefore, to permit micro-finance institutions to mobilize savings.

Continuing support for microfinance institutions

As there is little indication right now that commercial banks are inclined to expand financial services to women and poor clients on the scale demanded, the best prospect for extending financial services to large numbers of poor women in the medium-term continues to lie in the microfinance institutions similar to those described in this paper. Subsidies may be needed, in some cases, to continue to ensure the financial viability of microfinance institutions, and governments and donors may be willing to provide them to continue or expand services that have been shown to yield important social benefits. The new directions in which some microfinance institutions are heading–reducing donor subsidies and moving towards self-sustainability–may mean that the kinds of support needed will be less in financial areas and, perhaps, more in policy guidance, to reconcile potential conflicts between expansion needs and social mission, viz., how best to maintain a focus on the poor while attempting to become increasingly commercial and profit-oriented. There may be a continuing need as well for governments and donors to provide support for training and technical services as adjustments to finance. To the extent that microfinance institutions are successful in expanding their outreach and the scope of their services, and the products they offer, more women would derive additional benefits.

Replication of microfinance institutions

Another way to continue to improve women's access to financial services is by replication based on the methodological and institutional lessons provided by the path-breaking institutions. Replication can be particularly useful in extending services to women in underserved areas such as many parts of Sub-Saharan Africa and rural Asia.

The methodologies for providing financial services are, by now, well-known enough to be almost formulaic—flexible collateral, decentralized distribution channels, simplified procedures, personal knowledge of clients, and savings. The choice of institutional model is somewhat more complex, as a wide variety of options are available. Nevertheless, the range of choices allows for a better selection of an institutional model particularly suited to local needs, preferences, and conditions. Extensive documentation also exists on the best practices relating to institutional design—the need to start small, to focus initially exclusively on finance (the minimalist approach), to adopt and follow sound financial principles, to build on what is known, and to expand gradually the size and scope of the programme or services.

Because so much information is now available, donors and governments interested in replicating institutions can make better decisions about potential investments in microfinance programmes —costs, number and type of staff, and even how soon to expect programme self-sufficiency. They can also be more discerning about the policies and practices adopted by such institutions. This could help prevent costly experimentation and the mistakes made by less discerning institutions.

Support for complementary non-financial services

As we have seen, better access to finance can improve women's lives by providing greater flexibility in making investment and consumption decisions. We have also noted that improvements in well-being can result whether or not women choose to use loans for direct investment. The factors that limit the impact of credit on women's lives are their low economic, social, and political status, and the fact that they are generally trapped in the least productive and slow-growth economic subsectors. Women may be unable to obtain full benefits from credit, in the first case, because lack of power within the household may keep them from retaining complete control over loans. In the second case, they may have little incentive to invest more in enterprises that are unlikely to yield better returns. In both cases, women need additional supportive services.

On the business side, they may need better access to new markets, information about new and more dynamic enterprises, skills training and technical assistance to take advantage of emerging market opportunities, and so on. The support services needed to bolster women's social status might include political activism and lobbying to change discriminatory laws and practices, similar to the efforts undertaken by SEWA. It is much more difficult to know what type of support might be needed to change power relations within the household, as this has not traditionally been included in the realm of development interventions. It is likely, however, that publicly recognized improvements in women's economic situation and status will exert pressure for change within the household.

The issue of how such services should be structured and to what extent they should be linked to financial services is an open question as illustrated by the continuing debate over minimalist or "credit plus" that was discussed above. It certainly seems logical that the minimalist approach would be advisable for a new and emerging financial institution because this costs less and focusing on doing one thing well is necessary, initially. On the other hand, institutions like SEWA and BRAC effectively combine financial and extensive non-financial services for women. Admittedly, they do so by keeping the banking activities quite separate from the rest, and by maintaining a strictly commercial approach to the financial services. Some of the affiliates of WWB offer training on a fee-for-service basis and this, too, is a workable option. Costs may be fully recoverable through fees and charges. These examples suggest that a number of options exist for complementing financial with non-financial services for women that do not necessarily increase costs or whose costs are recoverable, and these models can be replicated. Also, governments and donors may want to invest in such services because they represent a social good.

Complementary research

Finally, it is vitally important that the implementation of these recommendations be guided by high-quality research. Very little gender-based research on microfinance institutions and their broader impacts is currently available. Much of what is available focuses on a narrow set of issues including those related to credit impacts on business development, targeting, and discrimination. More policy-oriented research is needed on a much broader set of issues: How can women break into new enterprises and more dynamic economic sectors? What kinds of information do they need to make them more competitive? What types of training and skills do women need to enhance their productivity? What roles do credit and savings play in influencing women's investment decisions? How serious is the problem of loan diversion? What are the broader impacts of better financial services? What are the social benefits of access to finance on women's economic and social status?

Better evaluation studies are also needed, as are investigations of the impact of financial services on family well-being and on intergenerational reduction of poverty within households.

In conclusion, we are aware that in an era of shrinking financial resources for international development programmes, some of the recommendations made above may be regarded skeptically because they involve additional expenditures. However, we have tried to show that because of its demonstrated effectiveness and continuing dynamism and growth, microfinance represents an important mechanism for promoting growth and development, and alleviating poverty. If choices must be made between development interventions, that of investing in microfinance and related programmes is a wise one that is likely to have significant economic and social returns, both for women and development.

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