Gender issues in financial liberalisation and financial sector reform

Topic paper prepared for Directorate General for Development (DGVIII) of the European Commission

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June 1996
(revised August 1996)

The authors gratefully acknowledge support for the preparation of this report from the Directorate General for Development (DGVIII) of the European Commission. However, the views expressed and any errors or omissions are those of the authors and not of DGVIII.
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EXECUTIVE SUMMARY

Introduction and objectives

This topic paper examines gender issues in relation to financial liberalisation (FL) and financial sector reform (FSR). It aims to demonstrate that processes of FL and FSR are not gender-neutral and that, therefore, gender analysis has a place in the design and implementation of financial sector restructuring. Failure to take gender issues into account in the design and implementation of financial sector reform may lead to inefficient and inequitable outcomes in terms of women’s access to financial markets as both users and providers of financial services (credit and savings principally). The weak supply response of small scale economic operators, particularly women, to new price incentives under adjustment may be explained by the failure of economic reform programmes to tackle institutional constraints in key markets, particularly financial markets.

The analysis presented here is intended to inform policy dialogue within bilateral agencies, principally between gender/women in development desks and sections responsible for economic reform and programme aid. Beyond this, the paper is a background resource to feed into the design of gender-aware adjustment programmes.

Background to financial liberalisation and financial sector reform

Financial liberalisation means the removal of government ceilings on interest rates and of other controls on financial intermediaries. It is concerned with macro-economic aggregates (interest rates, savings and investment) and conditions in formal financial markets. Financial sector reform policies complement FL and includes a broad range of measures aimed at improving the regulatory and supervisory environment in the financial sector and at the restructuring and development of financial sector institutions. FL and FSR policies have been implemented in a wide range of developing countries since the 1970s, spanning Latin America and Asia and more recently, as part of broader structural adjustment programmes (SAPs), in Sub-Saharan Africa.
Gender analysis of financial liberalisation and financial sector reform

While some studies of financial liberalisation examine its impact on the sectoral distribution of credit, including the small and medium enterprise sector, and some look at the reform of banking institutions, few, if any, trace the impact of FL policies to household or enterprise level, much less their gender-differentiated impact. A key consideration is that, whilst FL acts directly on formal sector financial markets, the majority of small-scale borrowers, savers and lenders in LDCs are engaged in informal sector transactions. **Thus, it is important to look at the indirect effects of FL and FSR on the informal sector, in order to see how gender-differentiated patterns of demand for, and supply of financial services might be affected under liberalisation.**

Where gender issues are given attention in discussions of the financial sector, these focus mainly on the reasons for women’s limited engagement in credit markets and on interventions to improve women’s access to credit for small-scale enterprise. **Here, a different approach has been suggested, looking at gender issues at macro-, meso- and micro- levels in relation to financial liberalisation.** It has been suggested that FL and FSR policies are likely to have a gender-differentiated impact and that underlying variables related to gender in turn may have a feedback effect on the outcomes of financial sector policies.

At the **macro-level**, there are three key areas:

- the impact of changing interest rates on overall availability and distribution of financial services across sectors (particularly formal versus informal) and the implications of this for gender biases in the distribution of financial services;

- the macro-policy environment (e.g. changes in banking laws and the regulatory system) which have an actual or potential gender impact;

- the influence of gender-related variables and trends on patterns of aggregate savings and investment.

At the **meso-level**, key issues are:

- Changes in the structures and practices of existing banking institutions;
• Diversification of the financial sector, to include a wider range of non-bank institutions;

• Changing relationships between formal and informal financial institutions.

At the micro-level, key issues are:

• changes in patterns of savings/borrowing/lending in response to wider processes of adjustment (which feeds back to the macro-level patterns of savings and investment);

• changes in creditworthiness of women’s (and men’s) enterprises as a result of shifts in aggregate demand;

• changes in the availability of credit through informal networks of family, friends, including husbands;

• the degree to which control over credit/savings is contested within the household, especially where there is a reduction in credit availability.

Gender issues in financial liberalisation and financial sector reform

Given the limited evidence, it is difficult to make an empirically grounded assessment of the gendered impact of financial liberalisation. This would require more detailed, gender-disaggregated data on patterns of borrowing, savings and investment and their trends over time, than is currently available. Here, inferences are drawn about the possible gendered impact of financial liberalisation, requiring further investigation. Overall, the gendered effects of financial liberalisation are likely to be complex, with women both gaining and losing relative to men.

Evidence suggests, contrary to key assumptions underlying FL policies, that institutional barriers between fragments of the financial market and informal sector intermediation persist even when markets are liberalised. In SSA, particularly, the lack of integration of the financial sector and slow recovery and restructuring of formal sector banking institutions have been brakes on the desired impact of FL. In terms of any direct benefit to small-scale borrowers and savers, and specifically
women, direct positive effects of financial liberalisation are difficult to discern, with
one or two exceptions.

One notable positive benefit of liberalisation in the financial sector has been the
diversification of financial institutions, although this has been more limited than
perhaps anticipated. A few institutions (e.g. Citi Savings and Loan in Ghana) are
successfully responding to needs for financial services of women traders. There
are lessons to learned here about the range of services provided, packaging and
flexibility in delivery. A further positive impact may be in the increased ease of
access to foreign exchange markets for women in receipt of remittances from partners
or relatives overseas.

The uneven impact of FL policies has led to considerable rethinking in this area and
much greater emphasis is now placed on links to other macro-economic policy
reforms and on regulatory and institutional issues in the financial sector. This
increases the scope for the analysis of gender issues in relation to FSR and, possibly,
the introduction of measures to redress gender bias.

Future research agenda

There is a need for more systematic collection and analysis of data comparing
borrowing, savings and investment behaviour of men and women in different sectors.
However, bringing a gender analysis into financial liberalisation involves more than a
‘gender disaggregation’ approach. It also requires analysis of the macro-economic
relationships to incorporate gender-related variables, where these can be shown to
have an influence on broader economic outcomes. Further work is needed to
investigate the gender variables underlying macro-economic trends in savings
and investment.

There is a need to re-examine the concepts of transactions costs and imperfect
information from a gender perspective, particularly looking at issues of trust and
market interlinkage, to see whether these can be modelled to incorporate gender-
specific dimensions, which, as empirical evidence suggests, appear to operate in
financial markets. Empirically, in-depth studies of the operation of particular
financial institutions or of specific financial markets and the social relationships
between different agents, including their gender dimensions, could inform
understanding of this area. It would also be important to locate such studies within
the context of adjustment, given that changes in the wider economic and institutional setting are likely to impact on transactions costs.

Some evidence reviewed here suggests that women and men have different relationships with the informal sector. A gender-disaggregated analysis of informal sector financial institutions is needed to assess the extent of segmentation here, to inform policies to support the development of existing institutions favouring women and look at how sector-wide reform (and indeed broader changes in the economy) might impact on different segments of the informal financial market.

There is also a need for much greater attention to savings and investment behaviour. Study of the different savings patterns of men and women (i.e. different marginal propensity to save; preferred type of savings etc., constraints on savings) would provide insights into how financial liberalisation policies (as well as broader adjustment policies) might affect the value and form of savings by gender and how complementary policies could be designed to increase women’s choices in terms of access to savings instruments.

To date many interventions relating to women in the financial sector have focused on the provision of micro-credit, with limited attention to the broader financial environment. Current emphasis on micro-credit programmes for the poor generally and women specifically should now be complemented by inventorying and assessing the impact of other types of financial sector intervention designed to increase women’s access to financial services.

Policy measures

There is a growing consensus that financial institutional reform, rather than interest rate policy, is now the priority in financial sector development in LDCs. Current focus on the meso-level provides the scope for addressing gendered institutional biases in the banking sector, through, e.g. reform of banking laws and procedures, introduction of new management and incentive systems, improved staff training etc. At the same time, the danger is that as commercial objectives and sustainability become paramount, any concerns with increased outreach or innovative lending practices are sacrificed. Past attempts to promote gender-sensitive banking practices in formal sector institutions were short-lived. There is a role for donor agencies here in supporting institutional change favouring women borrowers,
through staff training programmes and changes in management structures and practices. In this respect, it would be important to draw on previous experiences of attempting to introduce reforms into formal sector banks.

Where NGO and other credit programmes are being extended, there is a danger that the push for formalised property rights as collateral will led to pressure on women’s less defined rights in this area. Measures are needed to ensure that women are not being deprived of property rights. These could include legal reform but also require localised measures to ensure legal rights have force. Where, for example, women are working as unpaid family labour in household-based enterprises, efforts should be made to get loans and collateral agreed in joint names. Land titles on ‘family farms’ could be issued jointly as a condition for receiving loans to agricultural enterprises. There is a need for continuous close monitoring and evaluation of credit programmes, as they are scaled up, to assess the relative participation of men and women, their repayment rates and, beyond this, to assess loan use and control. High repayment rates cannot be assumed to translate into economic or social benefits for women.

There is also a need for a broadening of emphasis beyond the extension of micro-credit provision, to focus on measures to integrate existing informal financial intermediaries serving women with formal institutions and/or to ensure regulation and supervision of new forms of intermediary emerging as the financial sector develops. For example, there is a need to review bank policies on lending to informal intermediaries (for on-lending), how this specifically affects women as financial intermediaries and their clients; and also to improve deposit facilities offered to informal intermediaries.

There is also a particular need to place greater emphasis on savings in financial sector policy. Savings are important for women as a means of accumulating capital which they own and which cannot be encroached upon by other family members and also to maximise the contribution of partners to household expenditure. They are also an important source of collateral for loans. Mobilising women’s savings - at present often held outside financial institutions - could provide important new source of investment funds. There are few saving facilities open to women which both protect their value (i.e. are interest bearing) and also flexible, in order to cater to fluctuations in income flows and regular need to draw on savings. Means of increasing women’s capacity to save, to secure and retain control over savings should be given much greater priority in financial sector interventions. In parallel to this, insurance
schemes targeted at women are another policy option requiring further investigation.
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>BRAC</td>
<td>Bangladesh Rural Action Committee</td>
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<td>CSL</td>
<td>Citi Savings and Loan (Ghana)</td>
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<td>DFI</td>
<td>Development finance institution</td>
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<td>DGVIII</td>
<td>Directorate General VIII (Directorate General for Development) - European Commission</td>
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<td>EC</td>
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<td>FINCA</td>
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<td>FINSAP</td>
<td>Financial Sector Adjustment Programme</td>
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<td>FL</td>
<td>Financial liberalisation</td>
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<td>FSR</td>
<td>Financial sector reform</td>
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<td>GAD</td>
<td>Gender and development</td>
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<tr>
<td>GDP</td>
<td>Gross domestic product</td>
</tr>
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<td>ICRW</td>
<td>International Center for Research on Women, Washington</td>
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<td>LDC</td>
<td>Less developed country</td>
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<td>NBFI</td>
<td>Non-bank financial institution</td>
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<tr>
<td>NGO</td>
<td>Non-government organisation</td>
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<tr>
<td>OECD-DAC</td>
<td>Organisation of Economic Co-operation and Development, Development Assistance Committee</td>
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<td>PRODEM</td>
<td>Foundation for the Promotion and Development of Microenterprises (Bolivia)</td>
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<td>ROSCA</td>
<td>Rotating Savings and Credit Association</td>
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<tr>
<td>SEWA</td>
<td>Self-Employed Women’s Association (India)</td>
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<td>SME</td>
<td>Small and medium enterprises</td>
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<td>SSA</td>
<td>Sub-Saharan Africa</td>
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<td>WID</td>
<td>Women in Development</td>
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<td>WWF</td>
<td>Working Women’s Forum (India)</td>
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<td>Glossary Term</td>
<td>Definition</td>
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<tr>
<td>adverse selection</td>
<td>problem of imperfect information in financial markets whereby use of interest rates to allocate credit is likely to lead to attract clients who are bad risks</td>
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<tr>
<td>broad money or M2</td>
<td>supply of money defined broadly to include deposit accounts as well as currency, current accounts (defined as narrow money or M1)</td>
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<tr>
<td>dualism</td>
<td>extreme fragmentation of financial markets between formal and informal sectors</td>
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<tr>
<td>effective interest rates</td>
<td>interest rates adjusted for other price factors implicit in the transaction (e.g. administrative charges, non-market valuation of goods or collateral)</td>
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<td>financial repression</td>
<td>hypothesis developed by McKinnon and Shaw which explains low savings and investment ratios in terms of controls on interest rates (see Appendix I)</td>
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<td>fragmentation</td>
<td>lack of integration of different segments of financial markets arising from imperfect information and high transactions costs</td>
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<td>gender and development</td>
<td>successor to ‘women in development’ approach (see below) which sets problems faced by women in developing countries in the context of analysis of both men and women and the relations between them</td>
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<td>imperfect information</td>
<td>feature of non-competitive markets, or markets which are not fully integrated, due to lack of flow of information between buyers and sellers and between different segments of the market</td>
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<td>Term</td>
<td>Definition</td>
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<tr>
<td>micro-level</td>
<td>relating to the firm, household or individuals within the economy</td>
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<td>moral hazard</td>
<td>problem of imperfect information in financial markets whereby lenders lack the means to monitor activities or compliance on borrowers</td>
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<td>enforce</td>
<td>custom in Bangladesh whereby women remove a handful of uncooked rice from the daily household allocation for sale and retain the cash as savings</td>
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<td>nominal interest rates</td>
<td>unadjusted interest rates</td>
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<tr>
<td>real interest rates</td>
<td>interest rates adjusted for inflation</td>
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<tr>
<td>rotating savings and credit association</td>
<td>term used to describe a range of local level financial institutions which collect contributions from members and pay out accumulated lump sum in turn</td>
</tr>
<tr>
<td>segmentation</td>
<td>feature of financial markets arising from specialisation, whereby different segments of the market cater to different demands</td>
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<tr>
<td>susu or osusu</td>
<td>rotating savings and credit club found in West Africa (e.g. Ghana, Gambia)</td>
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<tr>
<td>tontine</td>
<td>rotating savings and credit club found in West Africa (e.g. Cameroon)</td>
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<tr>
<td>trust</td>
<td>used in transactions cost (institutional) economics, to suggest that social relations between individuals, as well as broader social structures, generate ‘trust’ which lowers the transactions costs of exchange</td>
</tr>
<tr>
<td>women in development</td>
<td>approach to analysing problems of women in developing countries which gained influence in the early-mid-1970s, arguing for greater integration of women in development policy and planning</td>
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1. INTRODUCTION

1.1 Introduction and objectives

This topic paper aims to demonstrate that processes of financial liberalisation and reform are not gender-neutral and that, therefore, gender analysis has a place in the design and implementation of financial sector restructuring. Failure to take gender issues into account in the design and implementation of financial sector reform may lead to inefficient and inequitable outcomes in terms of women’s access to financial markets as both users and providers of financial services (credit and savings principally). The weaker than expected supply response of small scale operators, particularly women, to adjustment induced incentives in many African economies particularly can be partly attributed to the failure of economic reform programmes to tackle institutional constraints in financial and other markets (Duggleby, 1995).

The gender analysis of processes of financial restructuring and reform presented here is intended to inform policy dialogue within bilateral agencies, principally between gender/women in development desks and sections responsible for economic reform and programme aid. Beyond this, the paper is a background resource to feed into the design of more gender-aware adjustment programmes.

1.2 Gender issues in financial liberalisation: rationale for the paper

How do gender issues relate to financial liberalisation? At first sight, there is no clear connection. Financial liberalisation means the removal of government ceilings on interest rates and of other controls on financial intermediaries. It is concerned with macro-economic aggregates (interest rates, savings and investment) and conditions in formal financial markets. Some studies of financial liberalisation examine its impact on the sectoral distribution of credit, including to small and medium enterprises, and

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This topic paper was commissioned by the Gender and Development Desk, Human Resources Department of the Directorate General for Development (DGVIII) of the European Commission, on behalf of the Task Force on Programme Aid and Other Forms of Assistance Related to Economic Reform of the WID Expert Group of the OECD-DAC. The paper was drafted by Sally Baden, BRIDGE Manager. Comments on an earlier draft were gratefully received from Sarah Cook, Charles Harvey and Susan Joekes (IDS Fellows), as well as Shahin Yaqub (Research Associate, Poverty Research Unit, University of Sussex) and Martin Brownbridge (formerly IDS Research Officer; currently working with UNCTAD Division for LDCs). Mayada Baydas (Senior Research Associate, Department of Agricultural Economics, Ohio State University) also reviewed the paper and further revisions have been made on this basis. Remaining errors and omissions are the responsibility of the author.
some look at institutional change (Kariuki, 1996; Oyejide Ademola, 1993; Aryeetey, 1993; Nissanke and Aryeetey, 1996; Gibson and Tsakalotos, 1994). However, few, if any, analyses trace the impact of financial liberalisation policies to household or enterprise level, much less their gender-differentiated impact.2

Recent work on gender and macro-economics suggests new approaches to modelling processes of adjustment and other macro-economic change (Çagatay et al, 1995). Here, the stress is on both the gender-disaggregated impact of macro-economic policies and the importance of gender in responses to, and therefore outcomes of, macro-economic policies. From this viewpoint, particular patterns of aggregate savings and investment, for instance, might be associated with underlying gender-related variables, such as the feminization of the labour force (Erturk and Çagatay, 1995).

At the meso-level, there is a growing understanding of markets as social institutions, encompassing relationships which embody social values and, often, imbalances of power. In financial transactions particularly, the importance of trust and therefore personal relationships has been recognised (Yotopolous and Floro, 1992). Gender, among other forms of social differentiation, is one factor shaping such relationships (Elson, 1993; Evans, 1993).

At the micro-level, a considerable body of empirical evidence shows that access to financial services, whether through the market or institutional programmes, is differentiated by gender (Holt and Ribe, 1990; Hilhorst and Oppenooruth, 1992; Morris and Meyer, 1993). The emphasis of these accounts varies in terms of whether the structures and functioning of markets and other social institutions account for these differentials (e.g. Blackden and Morris Hughes, 1993) or whether ‘non-economic’ or behavioural factors associated with the gender ‘variable’ are responsible (Baydas et al, 1994).

Women’s relative lack of access to credit, in particular, has been a major preoccupation of women in development (WID) advocates and this continues to motivate a great deal of non-government organisation (NGO) development activity.3

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2 Current research by Mayada Baydas (see footnote 1 and Appendix III) will provide insights on the relative position of men and women in financial markets in countries which have undergone liberalisation (Mayada Baydas, personal communication).

3 The Micro-Credit Summit, to be staged in February 1997, has as its purpose ‘to launch a global movement to reach 100 million of the world’s poorest families, especially the women of those families, with credit for self-employment by the year 2005’ (Microcredit Summit, 1996: i).
A number of large micro-credit programmes have for some years been targeting women as principal beneficiaries (see section 3.4). However, much of the analysis on women and credit is not well integrated in the general literature on financial systems and tends to be rooted in sociological and anthropological rather than economic analysis (Morris and Meyer, 1993). Existing analysis also tends to treat women as an undifferentiated category and assume that all women need credit without necessarily considering the risks attached to borrowing, particularly for the poor. While drawing on the broader women in development/gender and development (WID/GAD) literature, the emphasis here will be on economic analysis and on savings, as well as credit, linking processes of macro-economic change to meso- and micro- levels.

1.3 Structure of the paper

The second section of this paper defines financial liberalisation and briefly surveys the literature on the financial sector in developing countries, focusing on questions of segmentation and dualism. It explains the perceived problems in LDC financial sectors and the rationale for financial liberalisation, including, briefly, its predicted and actual outcomes. The third section focuses on gender biases in financial markets and institutions, reviewing the empirical evidence4 and looks at explanations for these biases and measures which have been adopted to address them. The fourth section examines how financial liberalisation policies have impacted specifically on women and whether and how gender has a bearing on the outcome of financial liberalisation policies. A final section proposes some policy options and suggests an agenda for further research.

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4 There is a lack of data on financial institutions and financial behaviour which is disaggregated by gender. Much of the discussion here, then, is necessarily preliminary and speculative. Illustrative data and case study material is included where available.
2. BACKGROUND TO FINANCIAL LIBERALISATION

2.1 What is financial liberalisation?

The typical programme of financial liberalisation (FL) contains two main components:
- the removal of ceilings on interest rates to allow these to be market determined;
- a reduction of quantitative controls to allow financial intermediaries greater control over the use of their liabilities.

(Gibson and Tsakalotos, 1994)

Other aspects of financial sector reform (FSR) are concerned with restructuring the banking sector. These include:

- addressing the causes of bank insolvency, restructuring or closing insolvent firms;
- improved management systems in banks;
- increased competition in the banking sector and the development of a more diverse range of financial institutions such as development finance institutions (DFIs), insurance and pension companies;
- removal of entry barriers to private sector financial institutions;
- improved legal controls and powers favouring lenders;
- improved supervision by government;
- the reduction of taxation on the financial system, either direct, or indirectly through large reserve requirements;
- the development of money and capital markets.

(World Bank, 1989).

Much has been learned about FL since it was first proposed as a policy measure in the developing country context, in the 1970s. While full liberalisation is still seen as the goal by the World Bank, recent policy documents emphasise the importance of the reform of financial institutions, as well as liberalisation per se (Caprio et al, 1991) and stress that there may be important macro-economic pre-conditions (i.e. low inflation, positive growth) for successful financial liberalisation. Controversy remains, also, on the question of whether selective control and intervention (with respect to interest rates and directing credit towards export sectors, for example) is appropriate in financial sector adjustment (Faruqi, 1993).
Duggleby (1995) points to the weak supply response from Africa’s working poor. She criticises the Bank approach to FSR for concentrating too much at macro-level and on conditionalities, rather than, early in the process, introducing policy level and institutional changes necessary to establish and strengthen financial intermediaries with the capacity to reach poor women and men unserved by formal sector institutions. She suggests the need for a policy framework to integrate micro- and small-enterprise finance with financial sector reform processes.

2.2 The financial sector in developing countries

The financial sector is important in providing a method of payments and also, in the development context, in its function of intermediation, i.e. mobilising savings and translating them into productive investment, through risk and maturity sharing. A feature of financial markets everywhere, but more markedly so in developing country contexts, is their segmented nature. This is usually categorised in terms of formal, informal and semi-formal financial sectors. In many developing countries, and particularly in Sub-Saharan Africa (SSA), the informal sector may be larger than the formal sector (Nissanke and Aryeetey, 1996) in terms of both coverage and volume of funds.

**Formal sector finance**

In developing countries, formal sector banking institutions have limited coverage and, in general, formal financial markets are quite ‘thin’. This problem has historical roots, since many financial institutions began as commercial banks servicing trading companies. Since independence, formal sector banks in LDCs, often government owned, have largely served public borrowing requirements, loaned to state-owned enterprises and the large-scale commercial sector. A small number of development banks, or specialised development finance institutions (DFIs), were created to fill the gap in lending to small farmers and entrepreneurs, often not very effectively. In general, then, formal sector institutions have not served the non-corporate sector (households and small enterprises). Box 1 gives some indicative data on the limits of formal sector lending to households and enterprises.⁵

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⁵There are serious methodological problems in collecting and interpreting such data. Here figures are included as a rough guide to the scale of the problem.
Box 1: Limited access to formal credit in LDCs.

- Only around 20 percent of households overall have access to formal credit.
- Only five percent of farms in Africa and 15 percent in Latin America have had access to formal credit.
- After more than a decade of subsidised credit in Bangladesh, in the 1970s, 15 percent of smallholders and 7 percent of the landless had access to institutional credit.

Sources: (Christen et al, cited in Robinson, 1996; : Holt and Ribe, 1990: 12)

Informal sector finance

Given the limited coverage of formal sector finance in many LDCs, the non-corporate sector has mainly been served by informal institutions. Informal financial intermediaries cover a wide range of actors, from specialised moneylenders, to farmer-lenders, trader-lenders and retailer-lenders, pawnbrokers, rotating savings and credit associations (ROSCAs) and family and friends. These are characterised by lack of regulation and supervision and, sometimes, relatively high interest rates.6

Until relatively recently, an influential view of informal sector finance was of a predatory, monopolising group of usurers, charging exorbitant interest rates and exploiting powerless peasants and labourers. Recently, there has been a shift in mainstream views on informal finance, to focus on questions of risk, uncertainty and information costs as factors explaining high informal sector interest rates (Bell, 1988). The informal sector is seen by some new institutional economists as an efficient response to problems of small-scale lending in high risk environments with little or no physical or social collateral (Adams, 1988).7 Some analysts refer to the ‘paradigm

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6 High interest rates in the informal sector are linked to high transactions costs and risk and, in some cases, to monopoly profits. However, informal sector finance occurs under a wide variety of arrangements, often linked to other market transactions and so encompassing implicit valuations of products and land, which alter the effective interest rate.

7 This is part of a wider recognition of the specific nature of financial markets in LDCs, whereby transactions are carried out with a lag (i.e. between borrowing and repaying) so that the borrowers’ capacity and intention to repay are subject to uncertainty and risk, due to imperfect information. Arising from this are problems of screening and monitoring the activities of clients, known as adverse selection and moral hazard. Furthermore, enforcement of contracts may be difficult in the absence of a strong regulatory system and well-defined property rights (Bell, 1988; Yotopoulos and Floro, 1992). According to Caprio et al (1991: 5): ‘The modern view of finance emphasises imperfections in financial markets’.
shift’ in relation to micro-finance, whereby ‘the delivery of savings and credit services to poor and informal sector clients is being increasingly understood as an extension of financial systems, rather than credit programmes delivered within a “welfare” context’ (Duggleby, 1995, citing Webster and Fidler, 1996).

Informal sector lenders are able to overcome information problems through in depth knowledge of particularly communities and clients. They are also much more flexible and accessible to clients, since they bear many of the transactions costs. However, this means that informal sector markets are usually highly fragmented, transactions on a small scale and interest rates sometimes very high compared to the formal sector. It generally offers a limited range of services, and particularly lacks savings and long-term finance facilities. Given its fragmentated nature, the informal sector is limited in its capacity to mobilise savings from one location or sector for investment in another location or sector (World Bank, 1989: 4).

**Semi-formal finance**

Semi-formal financial intermediaries are usually subject to some kind of licensing or registration and include institutional credit programmes run by NGOs, such as group lending schemes, credit unions and co-operatives, for example (Adams, 1988; World Bank, 1989; Gibson and Tsakalotos, 1994).

In the last few years, there has been a rapid expansion of innovative group lending schemes and other small-scale credit programmes delivered by non-bank financial institutions (NBFIs) (e.g. NGOs, credit unions etc.), sometimes modelled on features of informal sector lending, although their coverage remains limited and geographically uneven. This is based in the idea that ‘social intermediation’ is required in order to reduce the transaction costs of small-scale lending to the poor, i.e. investment in developing the skills and capacities of the poor themselves and in reforming financial institutions to increase outreach. Some of the larger and more successful schemes have graduated into banks (e.g. Bancosol in Bolivia), or are in the process of scaling up, which, it is thought, will greater increase their scope for delivery. On the other hand, scaling-up may lead to a tendency to reduce the proportion of poor and small scale operators among clientele with the possibility that the proportion of women loanees will decline.

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8 A key theme underlying the current ‘micro-finance revolution’ (Robinson, 1996) is the need for sustainability, i.e. credit programmes must be able to recover costs rather than relying on donor funding. It is also argued that liberalisation will support the development of successful micro-credit programmes and may be a pre-condition for NGOs to graduate into formal financial institutions. The need to reorient programmes to provide savings facilities is also receiving some attention, partly in view of the sustainability question. (Bennett and Cuevas, 1996; Cuevas, 1996; Robinson, 1996).
2.3 Problems and policies in LDC financial markets

Most economists agree that there is a need for improved financial systems in developing countries and that the efficiency of credit allocation could be improved. However, there are considerable differences of view about how this should be approached and what the emphasis of policy should be, depending on whether a financial repression, or an imperfect information view is taken.

In the 1950s and 1960s, government intervention in the financial sector was seen as a quick way to achieve development and other social objectives. (World Bank, 1989; Gibson and Tsakalotos, 1994). In the 1970s, earlier policies began to come under attack. McKinnon (1973) and Shaw (1973) developed the theory of financial repression to show how government intervention in financial markets created distortions (i.e. low or negative real interest rates) which prevented the efficient workings of financial markets, reduced savings and, in turn, both the quality and quantity of investment. This was subsequently extended to show that financial repression leads to lower growth, reduced demand for broad money and the underdevelopment of financial institutions. (World Bank, 1989; Gibson and Tsakalotos, 1994: 584-5). In the 1970s and early 1980s, government encouragement to lend to unprofitable enterprises, poor supervision of the banking sector and corruption and fraud, led to the insolvency and failure of a large number of financial institutions in developing countries (World Bank, 1989: 2-3).

Arguably, women benefited little from earlier policies of government intervention in the financial sector, since they were rarely targeted with subsidised credit, were not well served by formal sector financial institutions and, to the extent that they did have access to financial services, were probably paying higher rates relative to men, in the informal sector.

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9 States intervened and nationalised many existing banks, introduced controls and requirements on lending and created development finance institutions (DFIs) to lend to priority sectors. Some banks were also required to open new branches in rural areas to serve smallholder farmers. Interest rates were kept low to encourage investment. Governments were also able to use controls on banks in the form of direct taxation and reserve ratio requirements to finance the budget deficit.

10 Appendix I contains a brief summary of the McKinnon-Shaw hypothesis.

11 Evidence is that real interest rates have been strongly negative in developing countries since the late 1960s and certainly below the level of those in developed countries (World Bank 1989: 66, Table 4.2).

12 See Appendix I for details of the financial repression model.
Institutional approaches to financial markets focus on micro-level arguments and emphasise market failures due to imperfect information. Perfect information on the activities of borrowers cannot be obtained without cost, leading to problems of adverse selection and moral hazard. Where there is excess demand, banks will tend to use credit rationing, rather than price, to allocate funds. This will often be carried out by excluding whole sectors or groups, since banks cannot easily distinguish between potential borrowers in the group. (Stiglitz and Weiss, 1981; Bell, 1988). One possible implication is that banks might screen out women, regarding them as a group as high risk and/or low return borrowers, since they do not have sufficient information to differentiate between different women borrowers (Baydas, 1991). In this view, credit rationing may be an inherent feature of LDC credit markets. In policy terms, this means that under some circumstances, government intervention may be justified in order to offset any inefficiencies in credit allocation caused by ‘market failure’.

2.4 Predicted and actual outcomes of FL policies

According to the financial repression hypothesis, FL should lead to increased real interest rates, improved savings rates and increased quantity and quality of investment, contributing to higher growth. Further, through deregulation, it should reduce entry barriers and stimulate the development of the financial sector, increase competition in banking and leading to a diversification in financial institutions.

The extent to which FL policies have been implemented, the history and context, and the manner of policy implementation varies widely, as do the outcomes of these policies. While a degree of interest rate liberalisation has proceeded in most countries, less progress has been made in reforming the banking sector, increasing competition and deepening the financial sector. In Latin America and Asia, FL took place in the 1970s, with disastrous results in the former, where sudden and radical liberalisation measures were introduced in situations of price instability, and better
results in the latter, where a more gradualist approach was taken, retaining some controls over interest rates, under relatively favourable macroeconomic conditions. Indeed, some would contest that FL has in fact been adopted in countries such as Korea and Malaysia. (World Bank, 1989; Gibson and Tsakalotos, 1994).

In Sub-Saharan Africa and a few other countries, particularly India, the adoption of FL and FSR policies is a more recent development, which has taken root only in the late 1980s and early 1990s, as part of wider structural adjustment programmes initiated through the World Bank. In SSA, initial emphasis has been on the removal of interest rate and credit allocation controls. Following this, restructuring of bank portfolios and enhancing competition have also been components of FSR. In some African countries (e.g. Zimbabwe) Financial Sector Adjustment Projects (FINSAPs) have been adopted to support reform measures, focusing on the rehabilitation of financial institutions and improving the supervisory and regulatory environment (Nissanke and Aryeetey, 1996; Harvey, 1996). With this strong focus on rehabilitation and reform of the formal banking sector, there has been limited attention to the rest of the financial system. For example, in Ghana, support to non-bank financial institutions (NBFIs) only became part of the FINSAP in its seventh year (Duggleby, 1995: 20).

Financial liberalisation in SSA has failed to significantly raise savings rates in most cases, so that SSA countries remain dependent on external finance for investment funds 15. The impact of financial liberalisation on investment has also been limited. For example, Kariuki (1996) finds that in Kenya, rises in the real interest rate occurred with financial liberalisation but did not result in either increases in savings or investment. Lending to riskier small- and medium-scale enterprises (SMEs) did not increase. Neither was a statistically significant relationship found with the allocative efficiency of credit. This was attributed to the rising transactions costs of lending to SMEs, taxation and other operational constraints. The overall conclusion is that financial liberalisation focusing solely on interest rate liberalisation is insufficient. By contrast, in Nigeria, liberalisation was found to have a strongly positive impact on the availability of credit to SMEs, largely due to a shift in allocation from other sectors (Ademola Oyejide, 1993). 16 17

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15 Over the period 1987-91, the savings ratio was 12 percent over a group of SSA countries, although with considerable variation between them. This compares unfavourably with Asian countries, such as India, China and Indonesia, where gross domestic savings rates for 1988-92 are reported to be between 20 and 40 percent. (Nissanke and Aryeetey, 1996: citing Global Coalition for Africa, 1993).

16 This may be due to the relatively developed and diversified nature of the financial sector in Nigeria.

17 (check).
Gibson and Tsakalotos (1994) find that cross country econometric evidence on the effect of interest rate rises on savings and investment is inconclusive. Case study evidence on South Korea and Chile finds only weak evidence to support a positive impact of liberalisation on allocative efficiency of credit in the former case. In the latter case, liberalisation resulted in a huge expansion of financial intermediation but this did not translate into increased savings and investment and led to a financial crash due to loss of control of the banking system. In developed countries (such as France and the UK), financial liberalisation has led to a rapid increase in consumption credit but not necessarily in funds for investment in industry. By contrast, Caprio et al (1991), drawing on studies of six countries, do find evidence of a positive impact of liberalisation on savings and financial depth (broad money as a proportion of GDP) and some evidence also of increased allocative efficiency.

World Bank (1989) reviews the experiences of financial reform in Chile, Argentina and Uruguay, as well as the Philippines and Turkey. In nearly all cases, financial liberalisation policies had to be reversed as a result of ensuing financial crisis. Overall, the assessment recommends gradualism and caution in the pursuit of financial liberalisation. The need for macro-economic stability, deregulation in the real economy and adequate supervision of the banking sector are stressed, as well as the need to assess the distributional impact of liberalisation and adopt compensatory measures where appropriate (World Bank, 1989: 127).

The evidence on the impact of FL shows that the context and manner in which policies are implemented are key factors. Moreover, the mixed results cast considerable doubt on posited relationships between interest rates, savings and investment.18 Increased competition and diversification of the banking sector has occurred to some extent; however, in SSA particularly, new entrants are mainly competing with existing banks for the corporate market rather than creating new markets in the non-corporate sector. In general, banks tend to leave lending to poor households to the expanding NGO sector and special credit programmes. (Charles Harvey, personal communication). In a few cases, new entrants are offering a wider range of more flexible financial services, including savings facilities (Martin Brownbridge, personal communication). The dismantling of parastatal marketing agencies under agricultural market reforms, designed to encourage private sector entry into agricultural markets, may have created a serious transitional gap in supply of agricultural credit, which private sector agents have not yet been able to fill, in part

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18 As shown above, evidence can be found which supports the financial repression hypothesis, as well as evidence which does not.
because commercial banks are reluctant to lend to traders (see e.g. Duncan and Howell, 1992). In some views (Duggleby, 1995), there is a need for greater support for the establishment and development of non-bank financial institutions, where the market has failed to fill the gap.

**Financial liberalisation and the informal sector**

Financial liberalisation acts directly on the formal sector financial system, through the removal of interest rate and other controls. As noted, however, the majority of small scale borrowers, particularly women, gain access to financial services through the informal sector. For this reason, it is important to look at the indirect effects of financial liberalisation on the informal sector, to see how the provision of, access to and use of financial services by women relative to men might change under liberalisation.

Few studies to date focus on the impact of liberalisation on the informal financial sector. In terms of predictions, this depends to some extent on the view taken regarding ‘dualism’. There are competing views as to why LDC financial markets are characterised by (depending on the viewpoint) segmentation, fragmentation, or dualism and thus about the nature of relations between the different segments and how these are likely to evolve. The theory of **financial repression** sees the development of informal sector finance as linked to distortions in financial markets caused by government controls, leading to the creation of parallel markets, to serve those ‘crowded out’ of regulated markets by rationing. In this view, the informal sector should recede in favour of the formal sector, with interest rates converging, as liberalisation proceeds. Savings will increase and move into the formal sector as interest rates rise, increasing the funds available for loan and investment. Informal sector operators may move into the formal sector as entry barriers, controls and taxes on the formal sector are removed or reduced. An alternative view is that problems of **imperfect information** are the main cause of market segmentation and fragmentation, i.e. that high information and transactions costs lead to ‘market failure’ and lack of institutional development. (Nissanke and Aryeetey, 1996). In this view, credit rationing persists even with liberalisation, so that the need for the informal sector persists, or possibly expands, as demand for financial services grows under

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19 Nissanke and Aryeetey (1996, forthcoming) is one notable exception.
20 The definitions of these terms are linked to different perspectives on the issue: segmentation simply implies specialisation, whereas fragmentation implies lack of integration; and dualism, the existence of parallel systems with little if any integration.
adjustment. To a large extent, the effects will depend on the degree of market integration prior to liberalisation. 21

Nissanke and Aryeetey (1996) find little evidence of market integration between formal and informal sectors in four SSA countries. Some informal intermediaries place deposits with banks, mainly for security, since these are short-term and rarely interest bearing. Formal financial institutions are reluctant to lend to informal operators who on-lend. Alongside liberalisation, there is some evidence of increased intermediation by informal agents, who withdraw funds from banks to respond to increased demand for loans. This implies that formal and informal sectors may even become less, rather than more, integrated in response to liberalisation.

In order to understand the gender implications of these scenarios, it is important to first look at existing gender biases in financial markets.

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21 One possibility is that some elements of informal sector finance are parallel, i.e. they develop in response to the ‘crowding out’ of private sector borrowers from the formal sector and that these may therefore decline in importance with liberalisation, while others are flexible indigenous institutions, which predate formal financial systems and which will not necessarily go away as economic development proceeds (Nissanke and Aryeetey, 1996).
3. GENDER ISSUES IN THE FINANCIAL SECTOR

3.1 Gender analysis of the financial sector

Most existing accounts of gender issues in the financial sector focus on the disadvantage faced by women in credit markets, with varying emphases on demand and supply side factors as explanations for this (Holt and Ribe, 1990; Hilhorst and Oppenoorth, 1992; Morris and Meyer, 1993; Baydas et al, 1994.)

However, these accounts tend to overlook gender issues at both macro- and micro-levels, which are important in a gender analysis of the financial sector. There are three levels at which a gender analysis is important in the financial sector:

- **macro level:** gender variables, such as the degree of feminisation of the labour force, may have an association with, or influence on, aggregate investment and savings patterns. The allocation of credit between different sectors (e.g. formal vs. informal; different sectors of activity) may have implications for gender-differentiated access to credit. For example, concentration of credit in manufacturing and cash crops, rather than services or food crops, would create an implicit bias against women’s access in many countries.

- **meso level:** gender may have a significant bearing on transactions costs and issues of imperfect information, which affect the functioning of financial markets. Financial institutions exhibit gender biases, sometimes rationing credit along gender lines, in terms of the proportion of women served, or the loan size granted. Relationships of market interlinkage and trust built up around financial transactions clearly have gender dimensions, in terms of women’s cumulative disadvantage. Women are disadvantaged not just by their limited property rights but also by their relatively low engagement in formalised economic activity and by social barriers to women’s mobility and interactions with men, in some societies. This often leads to segmentation of markets along gender lines.

- **micro level:** Gender divisions of responsibility and labour and power within the household lead to gender-differentiated patterns of demand for financial services.

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22 Further investigation of cross national datasets would be needed to explore these relationships. For example, the wide variation in savings rates between African and East Asian economies may be associated with particular patterns of gender relations (Diane Elson, personal communication).
and differing patterns of control over financial and other assets. Women’s responsibility for day to day expenditures combined with their weaker bargaining position will tend to make it harder for them than for men, to set aside savings and keep them separate. On the other hand, their responsibility for household budgets may afford opportunities for discreet accumulation. Husbands or other family members may be potential sources of loans and ‘gifts’ for women for both consumption and start up capital.

Following the existing literature, the following sections concentrate on the meso- and micro- levels, and linkages between these, to examine gender biases in financial markets and institutions, looking in turn at borrowing, saving and lending. We return to the macro-level issues in section V.

3.2 Gender biases in financial markets

Borrowing

In general, access to formal sector credit is limited for the non-corporate sector in developing countries (i.e. households, small enterprises and farms). Women’s access to formal credit is known to be even lower than this general low level (see Box 2). Traditional directed credit programmes (e.g. for small farmers or small enterprises) have tended to target male heads of household, ignoring the activities of women in family-based enterprises, often as unpaid family labour - see Box 2. Directed credit programmes or allocations have by-passed women by concentrating on sectors (especially manufacturing) where women are not well represented as entrepreneurs. Restriction of credit to one particular sector or output (e.g. cash crops) can also exclude women who tend to have multiple activities, or be concentrated in subsistence production. The concentration of credit in particular segments of activity (e.g. agricultural production) rather than the whole chain, including processing, storage and trading, tends also to introduce a bias against women (Duggleby, 1995). Lack of availability of consumption credit in the formal sector may also create a gender bias

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23 Where, as in SSA, women are generally responsible for day to day household expenditures, and men for lumpy items (such as housing, school fees etc.), there is an inbuilt bias against women accumulating large sums.

24 One solution to this is to register loans and/or associated collateral in both men’s and women’s names.

25 For example, Sefa-Dei (1992) in a study of a farming district in southeastern Ghana, notes that since the majority of cash croppers are men, women producers are at a disadvantage in getting access to farm credit, which is targeted at cash cropping activities. ‘Recent attempts to redress gender bias in farm credit assistance are yet to bear fruit as cash crops take precedence over food crops’ (ibid: 43).
where women are more likely than men to borrow small amounts on a regular basis to meet short term consumption needs. Where women are granted credit, they may be subject to loan size rationing, to a greater degree than men. Baydas et al (1994) examine evidence from a credit scheme in Ecuador and find that women are subject to loan size (although not loan quantity) rationing to a greater extent than men, i.e. women obtained smaller loans than requested, compared to men. Other evidence also suggests that women receive smaller loans on average than men, although the extent to which this is due to requests for smaller loans, rather than credit rationing by banks, is unclear.26

Box 2: Women’s relative lack of access to formal credit27

- In Peru, women represented only 16 percent of borrowers from a development fund for urban industries of the Industrial Bank of Peru in 1983
- In the Indian government’s Integrated Rural Development Programme, while the proportion of women gaining access to credit increased (from 10 percent in 1985-6), in 1988-9, it was estimated at only 20 percent
- In Zaire, only 1.5 percent of commercial bank loans were given to women in 1984
- In the Instituto de Desarrollo Agripecuario (Institute for Agricultural Development) small farmer credit programme in Chile, women were 12 percent of loanees in 1992
- The Caisse Nationale de Credit Agricole in Morocco found in a 1986 study that only 15 percent of loans went to women
- In a survey in Kenya, only three percent of female farmers surveyed compared to 14 percent of male farmers had obtained credit from a commercial bank. Similarly in Nigeria, only five percent of women farmers compared to 14 percent of male farmers had received commercial bank loans.


In general, then, poor women, to an even greater extent than poor men, are heavily reliant on informal sector finance and on special credit programmes for women, which

26 For example, in studies of the agricultural sector in Kenya and Nigeria, the mean size of loans to women was 61 percent and 42 percent of those to men, respectively (Saito et al, 1994: 87).
27 These figures do not give any indication as to the relative weight of institutional (supply-side) or demand side factors in the under-representation of women among borrowers (Mayada Baydas, personal communication).
have greatly expanded in recent years, although only in some countries. Informal sector finance includes self-financing through savings, loans from family and friends, pawnbrokers and money lenders, as well as traders and retailers, rotating savings and credit associations (ROSCAs) and revolving funds. Specifically, women may rely on husbands for access to credit, in a variety of forms. Evidence suggests that women tend to rely more heavily on ROSCAs and family and friends than men, and, specifically, from borrowing from male partners.28

For example, in Niger, three quarters of ROSCAs covered in one survey had majority or exclusively female membership; in Gambia, ROSCAs (‘osusu’) are usually organised by women and have a high proportion of female membership. In one survey, 17 percent of female interviewees, compared to only one percent of male interviewees, were members of ROSCAs. On average, 60 percent of ROSCA members in Bolivia are women.29 In Kenya, 20-30 percent of women farmers compared to 5-9 percent of men were members of ROSCAs (Saito et al, 1994: 89).

Moreover, there is gender segregation within the informal sector, whereby women trader-lenders specialise in lending to women producers, as in Ghana, for example, which means that women, tied to a particular source of credit, receive below market prices for their produce (Sarris and Shams, 1991). More careful analysis of informal financial intermediaries and their clientele is required to establish to what extent informal financial markets are segmented by gender and the differing conditions which may apply in different market segments.

Savings

There is a general lack of provision of savings facilities in the formal banking sector in many developing countries and, in the informal sector, a lack of long-term savings facilities (ROSCAs, for example, often have a limited life-span).

It might be predicted, given women’s relatively low incomes and earning capacity, that women hold less financial savings than men. This may be compounded by biases against women opening savings accounts. On the other hand, there is some evidence that women have a higher propensity to save (study on Gambia cited in Baydas, 1991: 18-19). This may reflect both their lack of access to credit (see above) and their

28 In a study of informal entrepreneurship in Tanzania, Tripp (cited in Baden, 1993) found that 44 percent of women entrepreneurs obtained start up loans from their male partners.
relative lack of security. Moreover, women rarely accumulate large sums with which they could purchase major non-financial assets such as land.

Even low-income women are known to save regularly, holding back some of the household budget, or in some instances, grain,\(^{30}\) in order to accumulate reserves, which can be drawn on for celebrations such as weddings or in times of crisis. Where women do have assets these are often in the form of moveable property, e.g. jewellery, which they can retain as their own property in the event of divorce, or bereavement, for example (Hilhorst and Oppenoorth, 1992). Women often save covertly. Cash savings unless in a secure place might tend to be eroded in day to day household expenditure. Women’s high level of participation in ROSCAs is partly explained by their forced savings function. Given their relatively weak bargaining power within the household, women may not be able to resist encroachment on their reserves where these are kept in a fungible cash form.

We have a lot of detailed knowledge, from both small-scale studies and large-scale household surveys, about gender differences in incomes, expenditure and consumption patterns.\(^{31}\) We know less about differences in savings and investment decisions by gender.\(^{32}\) Consolidation of existing data and further data gathering in this area is needed, specifically on: the level, frequency and rate of savings by women and men, the form in which assets are held, whether financial and other assets are held jointly or individually and how they are controlled; and the nature of existing savings mechanisms and institutions and how these might be modified, extended or replicated. These factors will of course vary considerably with the context.

In practical terms, the way in which savings instruments are defined and the terms and conditions of access may have implications for women and men, relating to gendered patterns of savings behaviour. In particular, women’s need to have regular access to savings in order to meet emergency household expenses may exclude them from using interest bearing deposit accounts.

A more fundamental issue here is the relationship between financial savings and expenditure saving activities which increase demands on women’s time (e.g.\(^{30}\) In Bangladesh, for example, musti refers to a custom by which women remove a handful of uncooked rice from the daily household allocation and later sell this, keeping the cash for themselves (Baydas, 1991: 3).

\(^{31}\) Much of this data, however, is limited to comparisons of male and female headed households.

\(^{32}\) Examination of the anthropological literature in this area might be instructive. A recent PhD thesis by Reilly (1993) gives some evidence on gender differences in savings patterns in Cameroon (Sarah Cook, personal communication).
increased consumption of cheaper foods requiring more processing, in order to accumulate money for school fees).

**Lending**

Women as well as men are involved in financial markets as suppliers of credit, as well as borrowers (Baydas, 1991). This ranges from reciprocal lending to friends and family, in cash or kind, to money lending, by semi-professional urban money lenders (who borrow on the strength of formal sector salaries and then lend on to relatives or colleagues), or to agricultural trading (see Sarris and Shams, 1991; Baydas, 1991 for examples in Liberia and Ghana respectively). Most women lenders supply credit to other women, suggesting a degree of market segmentation along gender lines. The extent and nature of women’s involvement in financial intermediation and whether they face specific barriers, e.g. in terms of market access, access to formal banking facilities, requires further investigation.

A study of financial transactions among low income women in Ghana (Versteylen, 1995) found that women traders had increasing difficulty in enforcing repayment from debtors as economic conditions worsened. It may be that enforcement costs are also gendered; male creditors may have better access to either legal or extra-legal means of enforcing repayment.

There are also gender issues relating to the structure and organisation of lending institutions and credit programmes and the implications for financial service provision, for example: the composition of staff by gender; the relative status and conditions under which women and men work; and the nature of interactions with potential and actual clients. (E.g. are women bank personnel more likely to loan to women? Do male field officers treat women borrowers differently to men? Do they use harassment and violence to get women to repay?).

### 3.3 Explanations for gender biases in financial markets and institutions

Explanations for gender biases in financial markets vary depending on the perspective, particularly in their relative emphasis on demand and supply side factors. For example, Baydas (1991; 1994) finds little evidence to support discrimination against women in formal financial markets. She stresses demand side factors related to the extent and nature of women’s (market) economic activity (i.e. as women’s activities in
the market increase, so will their demand for credit) and also behavioural factors
related to the ‘gender variable’.

However, it might be argued that women’s lack of access to credit is one of the major
factors restraining the expansion of their economic activity. Women may not
demand credit because they perceive institutional biases against them receiving loans:
the distinctions between supply and demand are perhaps less clearcut than they first
appear. Furthermore, if we accept that different patterns of demand exist by gender
(reflecting women’s real preferences or choices), this still implies a bias in financial
institutions in that they do not cater to women’s specific patterns of demand.

A conventional supply and demand framework does not deal adequately with the
institutional biases which are central to a gendered analysis of financial markets. A
useful approach is through the concept of transactions costs, which are widely
accepted to affect the functioning of financial markets and specifically to limit the
access of small borrowers and savers to financial services (Bell, 1988; Rogaly and
Johnson, 1996). Extending this approach, Table 1 below looks at the various
elements of ‘transactions costs’, from the perspective of both institution and client,
and illustrates gender aspects of these costs, as well as possible responses to reduce
transactions costs for both institutions and women.
Table 1: The gendered nature of transactions costs in financial markets

<table>
<thead>
<tr>
<th>Nature of transaction costs</th>
<th>specific costs involved</th>
<th>gender aspects of costs</th>
<th>possible responses?</th>
</tr>
</thead>
<tbody>
<tr>
<td>information costs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>institution</td>
<td>costs of identifying clients and obtaining information about their activities etc.</td>
<td>Women have limited track record in financial transactions or formal economic activity and lack assets and formal property rights. Not recognised as creditworthy, or perceived as risky clients. Bank may go through intermediary (e.g. husband) to obtain information.</td>
<td>Train bank personnel about women’s financial and economic activities; alternatives to physical collateral; women’s groups as guarantors</td>
</tr>
<tr>
<td>client</td>
<td>costs of obtaining information about financial services</td>
<td>Women lack awareness of financial services and lack market knowledge to assess the risks of borrowing. Limited literacy and mobility mean information not easily accessible. May face discriminatory attitudes.</td>
<td>Outreach/awareness raising among women; mobile services/agents</td>
</tr>
<tr>
<td>negotiation costs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>institution</td>
<td>staff etc. costs involved in negotiating arrangements with client</td>
<td>Where women staff not available negotiations may be difficult to arrange or carry out due to cultural restrictions or social distance. Women’s lack of familiarity with procedures may require additional time input from bank personnel.</td>
<td>Increase no. of women staff Simplify procedures</td>
</tr>
<tr>
<td>client</td>
<td>costs involved in getting to bank, negotiating contract</td>
<td>Opportunity cost of women’s time in travelling to bank; limited mobility and lack of access to transport; requirement for husbands’ permission; socio-cultural restrictions on interactions with men. May feel intimidated</td>
<td>Outreach to women clients; simplified and decentralised procedures; remove requirements for husband’s approval Support for women first time clients in negotiations</td>
</tr>
</tbody>
</table>
Table 1: The gendered nature of transactions costs in financial markets (continued)

<table>
<thead>
<tr>
<th>Nature of transaction costs</th>
<th>specific costs involved</th>
<th>gender aspects of costs</th>
<th>possible responses?</th>
</tr>
</thead>
<tbody>
<tr>
<td>administration costs</td>
<td>institution</td>
<td>costs of managing clients’ account, servicing payments and withdrawals etc.</td>
<td>Women more likely to save/borrow smaller amounts and with greater regularity: therefore costs of administration high as proportion of return. Reduce admin. costs through use of agents, group schemes, simplified procedures.</td>
</tr>
<tr>
<td></td>
<td>client</td>
<td>costs of withdrawing and paying in monies, accessing resources</td>
<td>Opportunity costs of time; inconvenient schedules; difficulty in accessing resources when needed More branches/agents near to women’s workplaces; longer opening hours etc.</td>
</tr>
<tr>
<td>monitoring costs</td>
<td>institution</td>
<td>costs of tracking repayments and monitoring whereabouts and activities of clients.</td>
<td>Women’s activities may be more difficult to monitor, due to diverse and informal nature. Use of fieldworkers/agents to monitor women’s activities/payments; group schemes.</td>
</tr>
<tr>
<td>enforcement costs</td>
<td>institution</td>
<td>cost of recovering payment or collateral from debtors through courts or extra-legal means</td>
<td>For women creditors, recourse to the courts may be more difficult. Women’s lack of formal property rights makes claims on assets hard to enforce. Legal awareness and support to women creditors; codification/registration of alternatives forms of collateral</td>
</tr>
<tr>
<td></td>
<td>client</td>
<td>costs incurred in legal proceedings; violence or harassment from creditors; loss of assets or creditworthiness</td>
<td>Women may be more susceptible to pressure, intimidation or violence from creditors or their agents, possibly lowering enforcement costs. Women may lose control over loans and be unable to enforce repayment while still being liable. Protection from harassment and violence. Complaints procedures.</td>
</tr>
</tbody>
</table>
In order to redress gender biases in financial institutions and markets, the gendered nature of transactions costs must be recognised and measures taken to reduce the transactions costs of both institutions and clients.

3.4 Strategies adopted to address gender biases in financial markets

Most interventions in financial markets with a gender perspective have concentrated on increasing the supply of credit to women. Two main strategies have been adopted to date to increase women’s access to credit, given lack of access to formal sector provision. These are:

- provision of targeted credit to women through special schemes;
- attempts to reform banking institutions to make them more ‘woman friendly’.

Targeted credit schemes

There has been a rapid increase in the proportion of women targeted in micro-credit programmes, either in mixed or in women-only schemes, in recent years, as part of the broader expansion of micro-credit as a poverty alleviation tool. Table 2 gives some data on the proportion of women loanees in some well-known schemes and on repayment rates in these schemes.

Table 2: Special credit schemes, percentage of women beneficiaries and repayment rates

<table>
<thead>
<tr>
<th>Programme</th>
<th>Country</th>
<th>% women</th>
<th>Repayment rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>BRAC</td>
<td>Bangladesh</td>
<td>70</td>
<td>95</td>
</tr>
<tr>
<td>Grameen Bank</td>
<td>Bangladesh</td>
<td>94</td>
<td>98</td>
</tr>
<tr>
<td>SEWA</td>
<td>India</td>
<td>100</td>
<td>97</td>
</tr>
<tr>
<td>WWF</td>
<td>India</td>
<td>100</td>
<td>90-95</td>
</tr>
<tr>
<td>FINCA-AFFILIATE</td>
<td>Guatemala</td>
<td>99</td>
<td>95.6</td>
</tr>
<tr>
<td>PRODEM</td>
<td>Bolivia</td>
<td>71</td>
<td>99.8</td>
</tr>
</tbody>
</table>

Source, ICRW, 1995

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33 There is not scope here for a comprehensive assessment of credit targeted at women. For further assessment of the experience in this field, see
The expansion of special credit schemes targeting women is often justified in terms of:

- concern with women’s relative lack of access to credit;
- evidence of their willingness to borrow at market rates and their high repayment rates;
- recognition that money borrowed by women may have high social returns either in terms of investment in human capital, or in terms of poverty alleviation. (ICRW, 1995).

An alternative view is that the increasing proportion of women’s groups in special credit is in part a pragmatic move by financial institutions to reduce administrative and enforcement costs of delivering credit, as pressures from donors to disburse a greater number of loans increases. The costs of disbursal and monitoring are lowered by hiring cheaper female field staff (at lower cost than their male counterparts) and by organising or working with existing women’s groups, since in many cases, women have a history and familiarity with working in groups, whereas men do not. Also, targeting women, even where men use the loans, can reduce enforcement costs, since women are more susceptible than men to pressure to repay (Goetz and Sen Gupta, 1996; Rutherford, 1995).

The experience of special credit programmes for women shows that it is possible to reduce transactions costs and reach women with credit. Successful programmes have featured:

- a flexible approach to loan use and repayment schedules;
- alternatives to physical collateral (particularly group lending);
- good outreach;
- complementary inputs, such as training, provision of information and marketing advice.

Box 3 details some of the features of successful micro-finance services to women.

As micro-credit programmes scale up and commercial objectives come to the fore, there is some concern that poorer clients may be squeezed out, or that clients who were initially targeted as poor become better off through the loan programmes, shifting the composition of loanees. In some views, the push for expansion and sustainability may lead to an erosion of components of such programmes which are vital in reducing the transaction costs of lending to women, causing a reduction in
women’s participation or in the impact of such programmes on improvements in women’s livelihoods. (Goetz and Sen Gupta, 1996; Ackerly, 1995).

Standard statistical performance indicators to assess the impact of credit programmes must be broadened to assess the extent to which women’s needs for credit are being met, for example by measuring the number and volume of loans disbursed to women at different levels of enterprise development, growth in lending to women entrepreneurs, number of women completing training in business or financial management and number of women consulted in the design and evaluation of savings and credit programmes. Lenders need to examine the extent to which they consult women regarding preferences and design of services, their approach to consultation and the degree to which services then provided directly address the needs and constraints highlighted by women. Participation of women in the management of programmes is also vital to create ownership and develop skills. In addition, attention is needed to less easily quantifiable indicators, such as property rights and attitudes towards women’s engagement in independent financial transactions (Duggleby, 1995: 52-3).

**Box 3: Features of successful financial services to women**

- rapid and convenient access to small, short-term loans
- limited paperwork and bureaucracy
- simple transparent terms and conditions suitable for semi-literate and illiterate clients
- access to financial services close to women’s workplaces
- easy access to repeat loans on good repayment
- guidance on loan use and repayment
- convenient and secure mechanisms for saving in small accounts while allowing ready access to emergency funds
- acceptance of non-traditional collateral, e.g. third person or group guarantees, jewellery, cash or savings accounts as fixed deposits
- extension of financial services through existing groups set up by women to facilitate savings or capital mobilization
- involving women in management of financial service delivery
- hiring and training women from local communities to do outreach, marketing, etc. (Duggleby, 1995: 54, citing Women’s World Banking)
Reform of banks and links with informal financial intermediaries

A number of programmes have been implemented aiming to make formal banking institutions more accessible to women. However, the success of these has been short-lived, lasting only as long as special subsidies, incentives or programmes of social intermediation were available. In the longer term, the marginal profitability of loaning to women, given high administrative costs, means that banks tend to move out of this area (Hilhorst and Oppenooirth, 1992).

Other initiatives have attempted to link formal and informal sector intermediaries to ‘graduate’ women into the formal sector, or increase the capacity of informal institutions (particularly ROSCAs). There have also been some savings and insurance schemes targeting women, although in general savings has received limited attention compared to credit. An inventory of efforts (other than micro-credit programmes, which have already been heavily researched) to redress gender biases in financial markets and an evaluation of their relative effectiveness, would be useful to inform any future policy initiatives. Table 3 below is a preliminary inventory of such interventions, requiring further development. [insert Table if possible].

In Senegal, a non-bank financial intermediary ACEP has been successfully serving small enterprises for nine years but in spite of decentralised operations and a growing branch network, it had failed to reach and meet the savings and credit requirements of Senegalese women micro-entrepreneurs. In order to serve these women, it was necessary for a commercial bank to link up with existing savings groups (tontines) and mobilise weekly savings through a financial services agreement with these groups, extending group based credit facilities which were then distributed to members according to need. (Duggleby, 1995: 41)
4. GENDER ISSUES IN FINANCIAL LIBERALISATION

4.1 Analytical approach

Section 3.1 suggested a three-level framework for analysing gender issues in the financial sector, focusing on macro-, meso- and micro-levels. Here this framework is taken up to examine gender issues in relation to financial liberalisation and financial sector reform. While financial liberalisation acts directly on formal sector financial markets, the majority of small-scale borrowers, savers and lenders in LDCs are engaged in informal sector transactions. Thus, it is important to look at the implications of the indirect effects of FL and FSR on the informal sector, to see how gender-differentiated patterns of demand for and supply of financial services might be affected under liberalisation.

Given the limited evidence, it is difficult to make an empirically grounded assessment of the gendered impact of financial liberalisation and financial sector reform. This would require more detailed, gender-disaggregated data on patterns of borrowing, savings and investment and their trends over time, than is currently available. Moreover, it is difficult, and not particularly useful, to isolate the effects of financial liberalisation from those of wider adjustment policies. It may be more useful to locate ways in which financial sector reform has assisted or hindered other areas of market reform, with respect to the extent and terms of women’s market engagement.

Overall, the gendered impact of financial liberalisation is likely to be complex and highly context-specific, depending on the local economy and institutional framework and the mix of policies adopted. There may be ways in which both men and women gain, but men more than women; or ways in which both lose out, again to varying degrees. In some instances, particularly where the available resource base is shrinking, gains by men imply losses to women, or vice versa. As important as the balance sheet of gains and losses by men and women, is an analysis of changes to the regulatory environment and institutional rules and practices, which alter the terms of conditions of access to financial markets for men and women. Finally, micro-level responses to overall adjustment policy, conditioned by existing gender relations and inequalities, feedback into macro-level patterns of savings and investment.
4.2 Macro-level issues

Here, there are three key areas:

- the impact of changing interest rates on overall availability and distribution of financial services across sectors (particularly formal versus informal) and the implications of this for gender biases in the distribution of financial services;
- the macro-policy environment (e.g. changes in banking laws and the regulatory system) which have an actual or potential gender-differentiated impact;
- and the influence of gender-related variables and trends on shifts in patterns of savings and investment.

Changes in the availability, distribution and terms of financial service provision

A general trend observed in a number of SSA countries is stagnation of formal financial markets while informal intermediaries respond to increased demand for financial services where trading and other activities are expanding (Nissanke and Aryeetey, 1996). Informal sector interest rates have not risen significantly alongside formal sector interest rates (Ibid.). This suggests a possible convergence of interest rates but also underlines the continued lack of integration between different market fragments.

Contraction or stagnation of formal sector lending to the non-corporate sector is likely to impact more directly on men, than women, who were poorly served by these institutions. Since women mainly borrow in the informal sector, they are not obviously disadvantaged by its expansion and may themselves benefit as suppliers of credit, in response to increased demand. However, a countervailing ‘crowding out’ effect may occur, whereby, in the absence of expanded formal credit facilities, men begin to encroach on informal financial channels which hitherto they have not drawn on, displacing women. This would depend on the degree to which informal financial markets are segmented by gender and the speed with which informal markets respond to increased demand.

Reductions in or the closure of large-scale, subsidised, directed credit programmes could be a positive development from a distributional point of view, including for women, where directed credit has tended to favour large-scale producers and sectors

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34 In Sub-Saharan Africa, the restructuring of formal sector banking has led to a decline in lending and new entrants are competing for the corporate market, leading existing banks to cut back on retail banking outlets, e.g. in rural areas (Charles Harvey, personal communication).
(particularly manufacturing) where women are poorly represented. This may free up credit for investment in other sectors, particularly services, where women are more highly concentrated, generating benefits in terms of, e.g., increased employment. There is some evidence of increased allocation of credit to SME sector following liberalisation (e.g. in Nigeria but not, by contrast, in Kenya) (see section 2.4). How such sectoral shift would benefit women relative to men would depend on the relative representation of men and women among small and medium scale entrepreneurs.

Women have less access to formal sector financial savings facilities than men and men and women hold real assets in different forms (see 3.3 above). There is every likelihood, then, that rising interest rates will have a differential impact on the both the relative value of men’s and women’s savings and, in the longer-term, on patterns of saving by gender. Men’s financial assets are more likely to be in interest bearing accounts, whereas women’s savings (see 3.3 above) are often in forms where no interest accrues (e.g. ROSCAs) or else held as real assets. In the longer-term, women may move more savings into the formal sector to capture the benefits of increased interest rates, although there are constraints to this already highlighted (see also 5.4 below).

**Changes in the legal and regulatory environment**

Financial sector reform strongly emphasises changes in the legal and supervisory environment to assist lenders in enforcing payment and monitor the activities of banks to ensure stability. Improving systems of enforcement also entails the formalisation of property rights and strengthening of the capacity of legal systems to act in the interests of creditors. Policies which encourage the registration of businesses and of property as collateral in order to formalise credit arrangements may not favour women, who could lose usufruct rights over land, for example (Bell, 1988), or who may not feature in business registration documents for family enterprises, unless countervailing measures are taken. It is important that measures are taken to protect and strengthen women’s property rights as credit institutions demand formal collateral, e.g. by including women’s names on land titles and registration documents for enterprises.

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35 A counter argument is that state development banks have provided support to, e.g., small scale agriculture, that is not available through commercial banks.

36 The analysis of Erturk and Çagatay (1995) cited below looks at this relationship from another angle, suggesting that investment increases in sectors of female-intensive employment precisely because of the relatively low cost of female labour.

37 This would have to be assessed on a case by case basis. However, in general, it is known that women’s enterprises tend to be concentrated at the micro- end of the spectrum.
Another strategy (Duggleby, 1995) is the codification of alternative forms of collateral (e.g. group schemes, savings accounts, jewellery) to ensure that women are not excluded from access to credit because of problems of enforceability. However, this may run the risk of reinforcing inequalities in property rights.

Banking sector legislation or other legislation linked to contracts may include provisions which discriminate against women directly (e.g. by not allowing them to engage in independent transactions without husbands’ permission). [Examples]. They also include provisions, which are not directly discriminatory against women but could lead to a strengthening of gender bias in financial markets. For example, recent proposed changes to legislation in Ghana governing non-bank financial institutions would define fixed deposits as ‘three months or more’ with the implication that at least one new saving and loans company, which accepts very short term deposits (one day to three months) to suit the needs of women traders, would no longer be able to do so (Duggleby, 1995: 24).

In general, Duggleby (1995) argues that financial sector reform policies have paid insufficient attention to creating an enabling environment for non-bank financial institutions, through legislation specifically designed to meet their needs and interests. Banking legislation has tended to apply the standards of the formal sector to non-bank institutions, with little consultation with existing NBFIs in formulating legislation and a tendency to overlook the market realities of the informal sector. The above example illustrates how apparently ‘gender neutral’ legislation could have a significant negative impact on women’s access to savings instruments, and through these, to working capital.

Verstalen (1995) reports increased difficulty experienced by women traders who extend credit to customers in enforcing repayment by clients. This also suggests a need for greater legal protection for small-scale lenders.

**Gender variables and patterns of savings and investment**
Recent analysis based on an adaptation of Keynesian growth models has linked savings and investment patterns in the context of adjustment with the intensification of female household labour and the feminization of the labour force.38 In other words,

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38 On the basis of conceptual analysis and empirical evidence, these processes are held to accompany processes of macro-economic adjustment. Savings are held to be in positive relationship to the intensification of household labour, which constitutes ‘expenditure saving’ activity, and thus substitutes for market purchases in consumption, increasing the marginal propensity to save. Investment is held to be in a positive relationship to the feminisation of the labour force under adjustment, since the relatively
the responses of women to broader adjustment processes (intensification of household labour and/or entry into the labour force as low paid workers), themselves conditioned by women’s disadvantaged position in both the household and the labour market, may be significant in determining the overall pattern of savings and investment. These relationships are proposed in a tentative way and require further exploration, specification and testing (Erturk and Çagatay, 1995).

4.3 Meso-level issues

Meso-level issues mainly concern changes in the structures and functioning of financial sector institutions and financial markets, following liberalisation. Two key issues here are:

- Changes in the structures and practices of existing banking institutions;
- Diversification of the financial sector, to include a wider range of non-bank institutions, as well as changing relationships between formal and informal institutions.

Changes in banking structures and practices

As indicated above, the pace of change in financial institutions under liberalisation has been slow. Some banks have been closed due to insolvency. Others are being prepared for privatisation. And most are facing programmes of restructuring which involve introducing much more rigorous management practices, particularly in the area of foreclosure and seizure of collateral and the introduction of more conservative lending policies. (Charles Harvey, personal communication).

There are a number of ways in which such institutional changes could have gendered impacts, although this would be subject to empirical investigation. For example, through the impact of bank closure, restructuring or privatisation on redundancies by gender (if, for example, women are more highly concentrated in retail banking, where jobs are being cut); and on the hierarchy of employment within banks (for example, do pay differentials increase as a result of new management practices, impacting differently on male and female employees?). Changes in the gender profile of personnel in banks or other financial institutions could in turn affect the profile of clientele.

low cost of female labour in expanding sectors allows for faster capital accumulation and thus investment (Ertuk and Catagay, 1995).
As banks restructure, there is also the scope for the introduction of new procedures and practices which might encourage greater use of services by women (e.g. increased flexibility over collateral requirements, simpler and more transparent procedures, removal of requirement for husband’s permission, greater decentralisation, improved outreach etc.). Such changes could be supported by the training of key bank personnel, perhaps through placements with institutions which do serve women effectively, by incentive systems encouraging innovation and outreach in lending, and by improved accountability.

**Diversification and changing relationships in the financial sector**

The diversification of financial institutions which is occurring to a limited extent under liberalisation may lead to the creation of new, more flexible lending (and savings) facilities, as new institutions compete in the non-corporate sector. This, in turn, could improve the access of small borrowers and lenders and specifically women, to formal sector institutions. Success stories, such as the savings and loans companies in Ghana, some of which started as *susus* run by market women (Nissanke and Aryeetey, 1996) show how new products and ways of delivering financial services can reach particular market niches so far unserved by the formal sector (see Box 4).

Another important area of investigation is how financial liberalisation impacts on those informal intermediaries which do lend heavily to women (particularly ROSCAs, self-help groups), through changes in the relationship between formal and informal sectors and specifically, how this might affect women’s capacity to act as financial intermediaries.

Finally, one important benefit of liberalisation may be increased access to deregulated foreign exchange markets. Again, the gendered impacts are not clear, but the reduction of bureaucracy associated with liberalisation in this area is likely to make such markets more accessible to small scale borrowers, including women. This may be of particular benefit to women with partners working overseas, who are in regular receipt of remittances (Martin Brownbridge, personal communication). An important area of investigation would be whether women engaged in import and export trading have ready access to foreign currency through deregulated foreign exchange markets.
Box 4: Savings and loans companies in Ghana: responding to the need of market women

One of the most significant developments identified under financial liberalisation in West Africa is the emergence of new finance institutions, semi-formal in nature, but with strong links to the formal sector. In Ghana, Citi Savings and Loan is one such institution, which began operations as a Savings and Loan company following the introduction of the Financial Institutions (Non-banking) Law in January 1993.

Citi Savings and Loan (CSL) targets market women and other small businesses, using informal sector strategies, such as sending collectors to market women, keeping long working hours. 92 percent of its customers are women, individuals and groups, from the urban markets of Accra, including marketers of foodcrops, and small scale producers of clothes and processed food products.

CSL provides deposit facilities (one day to three months) and short term credit facilities (daily, weekly, or up to three months) as well as hire-purchase financing for account holders. Deposit rates on savings are higher than those offered by commercial banks and customers use their savings accounts as collateral for loans, whereas banks in Ghana generally require further security. Market women may also be provided with physical items for working capital in lieu of cash. Credit is extended to large traders (including ‘market queens’) for farm gate purchases, with repayment expected in 2-3 days.

Through its combination of services, as well as their delivery and packaging, CSL has tapped into a niche - the financial wealth controlled by market women - that banks have so far been unable to serve. However, the term structure of deposits and limited volume of savings mobilised limit the capacity of CSL to extend credit to meet effective demand. CSL is also limited in its capacity to extend long-term investment finance to women entrepreneurs.

(Nissanke and Aryeetey, 1996: Chapter 7: 8; Duggleby, 1995: 24)

4.4  Micro-level issues

Key issues at the micro-level are:

- changes in patterns of savings/borrowing/lending in response to wider processes of adjustment (this relates back to the macro-level patterns of savings and investment -see 5.2 above);
- changes in creditworthiness of women’s (and men’s) enterprises as a result of shifts in aggregate demand;
- changes in the availability of credit through informal networks of family, friends, including husbands;
• the degree to which control over credit/savings is contested within the household, especially where there is a reduction in credit availability.

Changing income and expenditure flows under adjustment affect women’s need to save and borrow, as well as their capacity to do so and also increase demands on them to loan to others. Verstralen (1995), in a study of financial self-help activities of women in a low income community in Accra, found that under adjustment, demands on women’s expenditure were increasing while their incomes were falling. Thus, their capacity to save, to repay their own debts and, importantly, to enforce others to pay debts, were declining. Because of greater demands on expenditure, women were saving less regularly and for shorter terms. This was reflected in less regular contacts with susu collectors, a declining number of women with savings in banks and individual susu collectors becoming more popular than susu groups. Women experience both an increased need for both consumption and suppliers’ credit; at the same time, there were pressures on them to extend more credit to customers, with considerable risk attached to this due to low capacity to enforce timely repayment.

Where adjustment is associated with falling aggregate demand and increased entry into the informal sector as formal employment declines, small-scale enterprises may face reduced profit margins. Men may begin to move into sectors previously dominated by women, as other opportunities decline. To some extent, such effects may be offset by substitution in consumption towards cheaper, informal sector goods. However, the likelihood is that some small businesses, particularly in those areas where women work, which have low entry costs (and are thus vulnerable to competition) may no longer be ‘creditworthy’. (Baden, 1993). On the other hand, where growth is occurring under adjustment, there may be increased demand for financial services to respond to increased trading activity. The problem then is the responsiveness of financial institutions to this increased demand (see 5.2).

The squeeze on household incomes resulting from an overall reduction in aggregate demand under adjustment may mean that relatives and friends and other sources of informal credit are less willing to lend, with a particularly strong impact on women who rely heavily on such sources. A study in Nigeria found that reduced household incomes under adjustment meant that the scope for informal lending between family and friends reduced (Elabor-Idemudia, cited in Mehra, 1991).

If less credit is available to men through formal sector channels, within households, men may seek opportunities to tap into resources accumulated by women.
Experiences of implementing credit programmes for women have shown that women do not always retain control over loans.\textsuperscript{39} They are more likely to do so where alternative sources of credit are readily available to men.

\textsuperscript{39} E.g. Goetz and Sen Gupta, 1996.
5. CONCLUSIONS, RESEARCH AGENDA AND POLICY IMPLICATIONS

5.1 Main conclusions

This review has illustrated the gender-blindness of most of the discussion of financial liberalisation and financial sector reform. Where gender issues are given attention in discussions of the financial sector, these focus mainly on the reasons for women’s limited engagement in credit markets and on interventions to improve women’s access to credit for small-scale enterprise. Here, a different approach has been suggested, looking at gender issues at macro-, meso- and micro- levels in relation to financial liberalisation. It has been suggested that FL and FSR policies are likely to have a gender-differentiated impact and, further, that underlying variables related to gender may have an impact on the outcomes of financial sector policies.

In general, it is difficult to make strong conclusions about the gender-differentiated impact of FL (or, for that matter, the general impact of FL on small scale borrower) due to lack of systematic evidence. What evidence does exist casts considerable doubt over the predictions of financial repression hypothesis and particularly on its view of how interventions affect the fragmentation of financial markets. Evidence suggests that institutional barriers between formal and informal fragments of the financial market persist even when markets are liberalised.

In SSA, particularly, the lack of integration of the financial sector and slow recovery and restructuring of formal sector banking institutions have been brakes on the desired impact of FL. Direct positive effects of financial liberalisation on small-scale borrowers and savers and specifically women, are difficult to discern, with one or two possible exceptions, e.g. access to foreign exchange and the appearance of new institutions providing a more flexible range of services, of which some are targeting specific groups of women.

The uneven impact of FL policies has led to considerable rethinking in this area and much greater emphasis is now placed on links to other macro-economic policy reforms and on regulatory and institutional issues in the financial sector. This increases the scope for the analysis of gender issues in relation to FSR and for the introduction of measures to redress gender bias.
This review has also demonstrated that the formal financial sector has limited direct relevance for non-corporate borrowers. Financial liberalisation affects small-scale borrowing mainly through its linkages to the informal sector. More attention is needed to formal-informal sector linkages (or wholesale-retail linkages). For example, bank policies on lending to informal intermediaries (for on-lending) have tended to be very conservative and banks deposit facilities are rarely attractive to informal intermediaries, except for security purposes. Further examination is required of how this specifically affects women as financial intermediaries and their clients. Duggleby (1995) argues that interventions should be designed to affect a transfer of resources from wholesale (bank, development finance institutions) to retail (informal operators, NBFIs, NGO facilities) institutions.

One notable positive benefit of liberalisation in the financial sector has been the diversification of financial institutions, although this has been more limited than perhaps anticipated. A few institutions (e.g. Citi Savings and Loan in Ghana - see Box 4) are successfully responding to needs for financial services of women traders. There are lessons to learned here about the range of services provided, packaging and flexibility in delivery, which could provide a model for other similar initiatives. It is important that regulation of the financial sector does not sabotage such initiatives by failing to recognise their need for flexibility and their different client base. At the same time, it is important that such institutions are carefully regulated to ensure that women and other clients are protected from potential losses.

5.2 Research agenda

There is a need for more systematic collection and analysis of data comparing borrowing, savings and investment behaviour of men and women in different sectors. However, bringing a gender analysis into financial liberalisation involves more than a ‘gender disaggregation’ approach (Elson, 1995). It also requires analysis of the macro-economic relationships to incorporate gender-related variables, where these can be shown to have an influence on economic outcomes. Further work is needed to investigate the gender variables underlying macro-economic trends in savings and investment.

There is a need to re-examine the concepts of transactions costs and imperfect information from a gender perspective, particularly looking at issues of trust and market interlinkage, to see whether these can be modelled to incorporate gender-
specific dimensions, which, as empirical evidence and the analysis here suggest, operate in financial markets. In-depth studies of the operation of particular financial institutions and the social relationships between different agents, including their gender dimensions, or of specific financial markets, could inform understanding of this area. It would also be important to locate such studies within the context of adjustment, given that changes in the wider economic and institutional setting are likely to impact on transactions costs.

Some evidence reviewed here suggests that women and men have different relationships with the informal sector. A gender-disaggregated analysis of informal sector financial institutions is needed to assess the extent of segmentation here, to inform policies to support the development of existing institutions favouring women and look at how wider sectoral reform (and indeed broader changes in the economy) might impact on different segments of the informal financial market.

There is also a need for much greater attention to savings and investment behaviour. Study of the different savings patterns of men and women (i.e. different marginal propensity to save; preferred type of savings etc., constraints on savings) would provide insights into how financial liberalisation policies (as well as broader adjustment policies) might affect the value and form of savings by gender and how complementary policies could be designed to increase women’s choices in terms of access to savings instruments.

There is currently a great deal of emphasis on micro-credit programmes for the poor generally and women specifically and much has been learned about best practice in this area. This should now be complemented by inventorying and assessing the impact of other types of financial sector intervention to increased women’s access to financial services.

5.3 Policy agenda

There is a growing consensus that financial institutional reform, rather than interest rate policy, is the priority in financial sector development in LDCs. Current focus on the meso-level provides the scope for addressing gendered institutional biases in the banking sector, through, e.g. reform of banking laws and procedures, introduction of new management and incentive systems, improved staff training etc. At the same time, the danger is that as commercial objectives and sustainability become
paramount, any concerns with increased outreach or innovative lending practices are sacrificed. Past attempts to promote gender-sensitive banking practices in formal sector institutions were short-lived. There is a role for donor agencies here in supporting institutional change favouring women borrowers, through staff training programmes and changes in management structures and practices. In this respect, it would be important to draw on previous experiences of attempting to introduce reforms into formal sector banks.

Where NGO and other credit programmes are being extended, there is a danger that the push for formalised property rights as collateral will lead to pressure on women’s less defined rights in this area. Measures are needed to ensure that women are not being deprived of property rights. These could include legal reform but also require localised measures to ensure legal rights have force. Where, for example, women are working as unpaid family labour in household-based enterprises, efforts should be made to get loans and collateral agreed in joint names. Land titles on ‘family farms’ could be issued jointly as a condition for receiving loans to agricultural enterprises.

There is a need for continuous close monitoring and evaluation of credit programmes, as they are scaled up, to assess the relative participation of men and women, their repayment rates and, beyond this, to assess loan use and control. High repayment rates cannot be assumed to translate into economic or social benefits for women.

There is also a need for a broadening of emphasis beyond the extension of micro-credit provision, to focus on measures to integrate existing informal financial intermediaries serving women with formal institutions and/or to ensure regulation and supervision of new forms of intermediary emerging as the financial sector develops. There is also a particular need to place greater emphasis on savings.

Savings are important for women as a means of accumulating capital which they own and which cannot be encroached upon by other family members and to maximise the contribution of partners to the household. They are also an important source of collateral for loans, as seen in the case of Citi Savings and Loan (see Box 3). Mobilising women’s savings - at present often held outside financial institutions - could provide important new source of investment funds. There are few saving facilities open to women which both protect their value (i.e. are interest bearing) and also flexible, in order to cater to fluctuations in income flows and regular need to draw on saving. Means of increasing women’s capacity to save, to secure and retain control over savings should be given much greater priority in financial sector interventions.
In parallel to this, insurance schemes targeted at women are another policy option requiring further investigation.


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APPENDIX I: THE THEORY OF FINANCIAL REPRESSION AND FINANCIAL LIBERALISATION

The original theory of financial repression was developed by McKinnon and Shaw in 1973. Their models focus on the issue of controls or ceilings on interest rates for loans and/or deposits. Real interest rates are thought to influence growth through their effect on savings and thus investment. In the McKinnon Shaw model, investment is a negative function of real interest rates and savings are influenced by interest rate and rate of growth.

If the interest rate ceiling applies to deposit rates only, banks can charge what they like for loans and the margin will be used in non-price competition. However, it is more likely that ceilings will be on loan as well as deposit rates, leading to unsatisfied demand for investment, in other words, credit rationing. This will leave some profitable projects which do not have access to finance. Those projects which do get finance will tend to be those with rates of return only just above the interest rate, since, it is argued, banks are not able to charge a risk premium and therefore will be unwilling to invest in risky projects with higher returns.

Thus, it is argued, interest rate ceilings stifle savings by promoting current consumption (and also reduce the demand for financial vs. real assets) and thus reduce the quantity of investment below its optimal level. They also reduce the quality of investment by encouraging banks to invest in relatively low return projects. The assumption underlying this model is that savings determine investment - that savings are necessary prior to investment and will be channelled into productive investment. The effect of financial liberalisation (i.e. removal of controls on interest rates) will be to increase both the overall funds available for investment and the efficiency of that investment, since riskier projects with higher rates of return are now being undertaken, leading to increased growth.

McKinnon and Shaw have different views on the transmission mechanism whereby savings effects investment and growth. McKinnon’s complementarity hypothesis states that since economic agents have to accumulate money balances before investment can take place (this assumes that all investment is self-financed), money and physical capital are complementary. Since a high deposit rate positively influences the accumulation of savings, a high deposit rate will encourage investment. In Shaw’s debt intermediation view, liberalisation leads to a greater role for financial intermediaries, who can offer more attractive deposit accounts and lower loan rates, thus encouraging savings, investment and growth.

Extensions of the basic McKinnon-Shaw hypothesis have been made to look at financial liberalisation in the context of macroeconomic stabilisation programmes in both closed and open economies. In a closed economy with surplus capacity (capital and labour), the real supply of credit affects capital accumulation through its role as the sole source of working capital. The supply of credit is in turn determined by the demand for broad money, which is a function of inflation and the deposit rate. Under liberalisation, the deposit rate and reserve requirements are removed, acting to increase capital accumulation and thus growth. A reduction in the reserve requirement directly increases the supply of credit and thus enables firms to borrow
more working capital, which, given spare capacity, will allow output and growth to increase. Raising the deposit rate increases the demand for broad money and thus savings accounts, allowing banks to supply more loans. Galbis introduce the issue of the **quality of investment** into the model, with a two-sector model which comprises a traditional, low-growth sector, where investment is self-financed, and a modern, high growth sector, with investment financed through the banking system. An increase in the deposit rate reduces investment in the traditional sector, since firms find it more profitable to invest their surplus in a bank. This makes more funds available to invest in the modern sector, raising the overall quality of investment and hence growth (even though the quantity of investment has not increased).

Source: Gibson and Tsakalotos (1994: 585-587)
APPENDIX II: ALTERNATIVE APPROACHES TO FINANCIAL LIBERALISATION

In the post-Keynesian scenario, investment is dependent not only on the interest rate, as in the McKinnon model, but also on expectations of future demand. The role of effective demand is emphasised which is in turn influenced by income distribution. Financial liberalisation may lead to fall in output and growth and financial instability. A rise in interest rates increases the marginal propensity to save, leading to a reduction in demand which may outweigh the increased supply of credit, investment and growth caused by the interest rate rise. Other effects which reinforce this and may lead to financial instability include:

- the effect on exchange rates which can lead to overvaluation and squeeze on tradeables/aggregate demand;
- large losses for banks if they have contracted a high proportion of long term loans at fixed rates but have to pay higher rates;
- increased government deficit due to increase in debt service payments on domestic debt and possibly reduction in revenue if taxes on financial sector are reduced;
- danger of upward financial repression since market clearing interest rates may be negative (people may still save because of uncertainty and the need for credit to make large purchases) and government attempts to push them up may be damaging, undermining the stability of the banking system.

Neo-structuralist views on financial liberalisation are similar to post-Keynesian in that price rigidity means that adjustment in output rather than prices occurs. However, they differ in their detailed specification of the supply of credit and in their emphasis on the importance of the curb market. The overall assessment is that liberalisation can result in stagflation, as increased desire to save results in decline in aggregate demand and possibly in increased inflation.

In the neo-structuralist approach, households hold their assets in a variety of forms, including physical assets, time and currency deposits, direct loans to business through curb market, depending on interest rates, inflation, income and other factors. The impact of rises in the deposit rate depends on where the increased savings induced come from. If they originate from non-productive assets such as jewellery, then there is likely to be an increase in the supply of credit overall. However, if they come from the curb market, this is likely to reduce the overall credit supply since the curb market does not have reserve requirements whereas official markets do. According to neo-structuralists, rising interest rates will tend to shift funds from the curb market into time deposits, so reducing the overall availability of credit. This in turn leads to a fall in output and investment. It may also lead to increased inflation, if the effect of the rise in costs of working capital on output is greater than effect of fall in aggregate demand. (Gibson and Tsakalotos, 1994 609-10)
APPENDIX III: SELECTED CURRENT AND RECENT RESEARCH RELATED TO FINANCIAL LIBERALISATION, CREDIT AND GENDER

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Joint programme on ‘Finance for Low Income Groups’ of the University of Manchester and the University of Reading will be producing a book to be published by Routledge in July ‘96, entitled ‘Finance Against Poverty’ including research from their series of published working papers plus additional material.

The Development Centre at Reading University is currently trying to secure World Bank funding for a research programme on credit to reach the very poorest people. Plans include research to produce gender disaggregated data on credit.

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Producing a new Christian Aid public policy document in critical response to the Micro-Credit Summit draft declaration. It will cover; financial sustainability; savings; need for consumption loans; organisation and ownership; macro-economic context for micro-credit.

40 Thanks to the individuals listed for their co-operation in supplying information about their research.
Machiko Nissanke/Ernest Aryeetey
School of Oriental and African Studies
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Russell Square
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Work on an ODI research project ‘Financial Linkage and Development in Sub-Saharan Africa’, currently producing an overall project paper with the provisional title ‘Financial Integration and Development in Sub-Saharan Africa: Financial Gaps under Liberalisation in Four African Countries’, to be published by ODI Publications. This looks at the effects of financial liberalisation on financial systems encompassing the informal and formal sectors and examining measures to widen financial services to smallholders and microenterprise, in Ghana, Tanzania, Nigeria and Malawi. Co-authoring a paper to be published in World Bank Economic Review with, Hemama la Hettige, and William Steele, entitled ‘Financial Sector Reform and Market Performance in Sub-Saharan Africa’ which is currently available as a discussion paper from the Africa Technical Department, World Bank.

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Currently producing a proposal for a project to look at issues of gender and credit with six other UK NGOs.

Pekka Seppala
World Institute for Development Economics Research,
Helsinki,
FINLAND
Tel: 35 80 6159911
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Working on a newly launched UNU WIDER programme, to be led by Dr. Lipumbeba, on the ‘Impact of Liberalisation on Key Markets in Sub-Saharan Africa’, and looking at how interest rate changes effect formal financial sector restructuring.
Information on the programme is available from the UN WIDER web-site at http://www.WIDER.UNU.EDU./.
Richard L. Meyer
Department of Agricultural Economics and Rural Sociology
Ohio State University
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USA
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Currently working on a new microenterprise learning project launched by USAID in March ‘96, entitled ‘Microenterprise Best Practices’ (MBP). Ohio State University is the lead academic institution in a consortium led by Development Alternatives Inc. (DAI), and including, ACCION International, The Foundation for International Community Assistance (FINCA), Opportunity International, the Small Enterprise Education and Promotion Network (SEEP), Harvard Institute for International Development (HIID), and the International Management and Communications Corporation (IMCC). MBP is a five year project with objectives to improve the design and implementation of USAID-supported projects, and the efficiency and effectiveness of institutions providing services to microenterprises. MBP will conduct research on 21 major issues facing microenterprise and microfinance development (some of which will consider gender), and will create an online exchange facility.

Jonathan Baker
Nordic Africa Institute
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SWEDEN
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Organising a small conference to take place at NAI in November entitled ‘Gender, Entrepreneurship and Informalisation in Africa’ together with Tade Akin Aina of CODESRIA. Interested in women as entrepreneurs, their capital accumulation and survival strategies, as well as the effects of structural adjustment on women. Hopes to have papers on credit.
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Marguerite Robinson  
Harvard Institute for International Development  
Harvard University  
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Cambridge, Massachusetts 02138  
Tel: 617 495 2161  
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Currently writing a book on the history of micro-finance. HIID is working in an advisory capacity with the Reserve Bank of India looking at ways of combining sustainability with wide outreach in banking.

Mohini Mahotra/ Mike Goldberg  
Consultative Group to Assist the Poorest  
World Bank  
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USA  
Tel: 202 473 3788  
Fax: 202 522 3744

CGAP currently have seven working groups carrying out research with a financial systems approach on issues in micro-finance covering; mainstreaming; financial services including savings; impact; private sector involvement; financial reporting and auditing standards; poverty yardsticks and measurement tools; donor structures and modalities. The research aims to support efforts to improve standards. (see CGAP web-site http://www.worldbank.org/html/cgap/cgap.html)
Lynn Bennett/
Carlos Cuevas
World Bank
Washington D.C.
USA
Tel: 202 458 2722/ 458 0451
Fax: 202 522 1662/ 522 1668

Co-managing the project ‘Sustainable Banking with the Poor’ conducting independent research into best practices. Sociologists and financial analysts are looking at financial and management systems, and behaviour in twenty successful organisations, including the Kenyan Rural Enterprise Programme, Women’s Worldwide Banking in Columbia, and the Alexandria Business Association. The project’s first report ‘Worldwide Inventory of Microfinance Institutions’ will be produced in July 1996 and should contain gender disaggregated data.

Shimwayee Muntemba
Action Research on Rural Finance
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Washington D.C.
USA
Tel: 202 458 7370

An ongoing project to build up networks of institutions involved in micro and rural finance. ARRF started two years ago in Kenya and Ghana and will be extended in selected countries in Africa. Involves a preliminary assessment of institutions which might be appropriate, a study and review is then carried out on the best ones, and seminars held to discuss what the institutions can learn from themselves, each other and the best in the country. No publications planned.

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The Behrend College
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Research on men’s and women’s attitudes to accessing financial services in Uganda. Publication forthcoming in ‘Africa Crop Science Journal’.
Simel Esim
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Shahid Khandker
Poverty and Social Policy
World Bank
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USA
Leader of research project ‘Credit Programmes for the Poor’, based in the Poverty and Social Policy section of the World Bank. Research now completed and some discussion papers published, currently preparing a book entitled ‘Fighting Poverty with Finance: experiences of the Grameen Bank and other programs in Bangladesh’ to be published by the World Bank in late 1996. This book will look at the impact of micro-credit on women, on poverty and on rural finance. It will also consider the cost-effectiveness of micro-credit programmes vis a vis other programmes targeted at the poor.

Gloria Almeyda
Inter-American Development Bank
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Currently completing a research project conducted at the end of 1993 and beginning of 1994 of some 24 institutions including banks, credit unions and NGOs about ‘Financial Services for Women Microentrepreneurs’. The study was carried out by research centres in each of the participating countries: Colombia, Chile, Costa Rica, Ecuador, Dominican Republic and Jamaica. The focus of the paper is micro, institutional case studies.
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Ohio State University  
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Currently completing research carried out with UNIFEM on ‘Demand for Financial and Non-Financial Services in the Microenterprise Sector in Lebanon’ looking at entrepreneurs who are working with NGOs and examining their demand for, and use of financial services. Aims to have strong gender analysis. To be published (probably by OSU) in summer 1996.

Maria Otero/  
Gabriela Romanow  
ACCIÓN International  
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Non-profit making organisation dedicated to providing business credit to the self employed poor in the USA and Latin America. Future study on ACCIÓN collected statistics in Latin America is planned. Recent publications include ‘Balancing the Double Day: Women as Managers of Microenterprises’ by Eliana Restrepo Chebair and Rebecca Reichmann looking at 700 microentrepreneurs, clients of ACCIÓN’s affiliate organisations in Bolivia, Brazil, Colombia and Guatemala, with suggestions for improving financial institutions in order to better serve women microentrepreneurs.
Leaders of IFPRI’s ongoing multicountry research programme (MP5) entitled ‘Rural Financial Policies for the Food Security of the Poor’. Research has been conducted in nine countries: Bangladesh, Cameroon, China, Ghana, Madagascar, Malawi, Mali, Nepal, and Pakistan. Most of the country studies are in-depth, multiple round household surveys covering linkages between financial transactions and household assets, income and consumption and also surveys at the level of financial institutions, communities or credit and savings groups. Synthesis of the results across individual country cases will begin with the compilation of descriptive tables which compare characteristics of rural financial markets, of access to credit and participation in financial markets by various socio-economic groups, patterns of income and consumption.

Recent research on ‘Women Microentrepreneurs and Access to Financial Services in Latin America’ with the Inter-American Development Bank, and ‘Incentive Structures of Rural Financial Institutions’ (IRIS discussion paper, University of Maryland), with focus on the Philippines. Currently working on gender and human resource development in the Philippines, looking at a range of issues including credit, international migration of women, and the effects of structural adjustment. Working for UNDP, covering gender and credit in 1996 Human Development Report.
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Working on the AIMS project (Assessing the Impact of Microenterprise Services). ‘The goal of AIMS is the better understanding of the processes by which microenterprise services strengthen businesses and improve the welfare of microentrepreneurs and their households, and to strengthen the ability of USAID and its partners to assess the results of their microenterprise programs.’ Research will include impact assessments of three microenterprise programs through longitudinal field surveys in three different regions, desk studies on specific substantive and methodological issues, and exploratory field assessments to refine and test key hypotheses and measures of specific variables.

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Ongoing research and publications on credit and nutrition, and credit with education. Currently carrying out a longitudinal study in Ghana and Bolivia to look at the impact of credit with education on income, assets, accumulation and nutrition.

Jacob Yaron  
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Currently preparing a paper entitled ‘Rural Finance, Issues, Design and Best Practices’ to be published by the World Bank in September. This paper revisits three financial institutions (BRI Village Fund, Indonesia; BAAC, Thailand; Grameen Bank) first examined in 1993, adopting assessment criteria and comparing their performance.
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Currently completing research on the importance of understanding household gender-disaggregated livelihood strategies for appropriate microcredit. Has conducted livelihood analyses (using adapted Rural Rapid Appraisal techniques) in Cochabamba, Bolivia using 40 case studies across a variety of households. Includes information on savings, investments and financial management and gender.

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Co-editor (with Susan Johnson, Action Aid - see above) of a volume which looks at the relationship between savings and credit interventions and poverty reduction. The book will include a paper on ‘Macro-economic conditions for successful micro-finance for poor people’ as well as case studies of Mexico, Pakistan, Ecuador, The Gambia, UK and a Typology of private and informal financial services. It will appear in the Oxfam Development Guidelines series in early 1997.

Rogaly has also written a number of articles on credit interventions, including Rogaly, B., 1996, ‘Micro-finance evangelism ..’ (see bibliography)

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‘The MicroCredit Summit is the first step of a decade-long campaign which seeks to ensure that 100 million of the world’s poorest families, especially the women of those families, will be receiving credit for self-employment by 2005. To be held on 2-4 February 1997, in Washington D.C., it is an opportunity to convene the people and organisations necessary to launch a global movement to extend microcredit.’
Selected Electronic Sources

**Informal Credit Homepage**  
http://titsoc.soc.titech.ac.jp/titsoc/higuchi-lab/icm/index.html  
Large number of documents on informal credit including sections on: best practices in community finance and micro-credit schemes; credit access for women in community development programmes; the design of credit policies and programmes; finance for microenterprises. Most of the documents are currently biased towards the developing countries of Asia, but it is hoped to correct this to a global scale later.

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