guide

A guide to Gender sensitive microfinance

SEAGA

Socio-Economic and Gender Analysis Programme

Food and Agriculture Organization of the United Nations

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Preface

Many of the ideas contained in this Guide are the result of a long process of testing methodologies for integrating gender mainstreaming concerns into microfinance initiatives and programmes. The authors would like to thank all those who were involved in the process for their views and opinions on gender issues in microfinance initiatives.

In addition, the gender and development service of FAO organised two workshops on gender issues and microfinance, namely in Greece (1998) with participants from Western Europe, countries in transition and developing countries, and in Iran (2001) with local participants from the government, banks and some NGOs. A workshop containing SEAGA elements for Romanian NGOs willing to start microfinance operations was funded by the International Training Centre of the International Labour Organization in Romania (2001). Many of the concepts for this Guide were tested at these workshops as well as during other missions undertaken by the authors in other regions of the world.

TABLE OF CONTENTS

Introduction to this Guide

Why microfinance and gender?

Microfinance as a business sector emerged when it was realised that low-income people can pay back loans on time and can save money, provided they are able to access tailored financial services. So, why is it important to ensure that microfinance policies and programmes are gender sensitive? Experience has shown that the most effective (and efficient) microfinance programmes for low-income people must be highly personalised explicitly taking into account the needs of such clients (i.e. a 'Client First' approach to microfinance). Prudent business practice stresses client responsiveness. Socio-economic and gender analysis can greatly assist in helping to disaggregate clients and determine if there is a neglected market niche for the services offered by a specific microfinance intermediary. In addition, microfinance delivery must be gender-sensitive because a new source of income can change intra-household relationships and has differential impacts on women and men depending on who controls the new source of finance. An analysis of gender issues at the planning stage of microfinance activities helps to guarantee that programmes and projects are more likely to reach their objectives. Many microfinance institutions (MFIs) are increasingly aware of the importance of gender concerns in their activities. This is particularly true when outside donor funding is contingent on a social and gender audit of a proposed programme. Nevertheless, gender issues are often prominent in the rhetoric of microfinance intermediaries, but absent in practice.

Indeed, there are microfinance viewpoints which assume a lack of gender issues simply because microfinance has become a sector that caters predominantly for women. However, having exclusively male or exclusively female projects does not mean that there are no gender issues. There may still be important gender issues and a gender bias may exist in service delivery. For instance, some members of the community or society may be adversely affected and excluded by a microfinance programme but may not be vocal or powerful enough to express their needs. This Guide takes the approach that it is not sufficient only to cater to women clients to solve gender issues. A gender-sensitive approach is inclusive rather than exclusive. Taking into account the needs and constraints of both women and men when designing and delivering finance, helps to ensure gender sensitivity. Gender analysis is a powerful approach to assess the impact of microfinance on the various stakeholders regardless of whether they are direct or indirect beneficiaries.

Another reason for concentrating on microfinance and gender is because socio-economic and gender issues are now firmly on the agenda of many governments, international donors and bilateral founders. In the widely accepted Beijing Platform for Action at the Fourth World Conference for Women, 1995, governments pledged to; *"promote and support women's self employment on appropriate terms equal to those of men and review, reformulate if necessary and implement policies to ensure that they do not discriminate against micro, small and medium-scale enterprises owned by women in rural and urban areas"* (UNDP, 1995a). Gender sensitive microfinance policies provide the supporting framework for an enabling environment. The promotion of women's self-employment often requires the transformation of existing policies with a gender perspective to ensure that women have equal rights to obtain financial services in their own right (Jahan, 1995).

This Guide was developed as a practical aid for those involved in microfinance programmes to ensure that socio-economic and gender issues are taken into account when starting or developing a microfinance programme, when designing national policies for microfinance and for disaggregating microfinance markets to find out more about clients. Such an approach can minimise risk and improve efficiency by drawing on lessons learned regarding socio-economic and gender concerns that can help microfinance institutions become sustainable.

The Guide draws upon the Food and Agriculture Organisation's (FAO) Socio-economic and Gender Analysis (SEAGA) framework. The aim of the SEAGA programme is to increase awareness of gender issues, as well as to strengthen the capacity of development specialists to incorporate socio-economic and gender analysis considerations into development planning. SEAGA emphasises the socio-cultural, economic, demographic, political, institutional, and environmental factors that affect the outcome of development initiatives and the linkages between them from a gender perspective. Furthermore SEAGA examines the linkages among these factors at three levels – macro (programmes and policies), intermediate, (institutions) and field (communities, households and individuals).

The Guide structures questions that can be asked by microfinance intermediaries in attempting to ensure that their operations are gender sensitive. There are suggestions in the Guide for ensuring that policy or macro level microfinance planning is gender sensitive. Questions are also posed for finding out more about gender relations at the microfinance client level. Overall, this Guide should serve as a reference point to ensure that microfinance activities reach their intended socio-economic target group.

The objectives of this Guide

The objectives of this Guide are two fold:

1. To raise awareness on socio-economic and gender issues in microfinance. The development context for microfinance is mainly made up of the macro policy environment, the institutions that provide microfinance services, and the women and men clients. The Guide outlines socio-economic and gender issues at these three levels.

2. It is intended to provide users of this Guide with practical suggestions for integrating a socio-economic and gender approach at these three levels: (a) through their field level operations; (b) within the structure of their microfinance institution itself; and (c) in their lobbying for macro level policy change. It is also hoped that the Guide will stimulate a process of increased dialogue and discussions between gender advocates and microfinance/private sector development divisions in donor agencies.

The target group

This Guide is for people involved or interested in microfinance at the three levels: policy-makers and donors (the macro level), practitioners and other actors (the intermediate level) and the ultimate clients themselves (field level). Questions are raised within the text, and examples are used to encourage the reader to reflect on their own situation.

The Guide is intended for users in both developing and developed countries and is of relevance to any contexts where microfinance activities are proposed to improve social and economic development. Although microfinance emerged in developing countries as an alternative to top-down economic development activities, today it has also become an interesting proposition for the industrialised economies and economies in transition. A particular focus of this Guide is to allow a 'reality check' analysis of whether poorer or marginalized social groups can be reached by particular microfinance activities.

The Guide's structure

The Guide is divided into 5 chapters. **Chapter 1** is an introduction to microfinance and a background to the subject. **Chapter** 2 outlines the difference between microfinance programmes targeting women and those that take a broader gender-based approach. Socio-economic factors affecting microfinance are summarised and a 'stakeholder analysis' concept applied to microfinance is explained with examples. **Chapter 3** looks at socio-economic and gender factors at the client or field level. **Chapter 4** considers socio-economic and gender issues within microfinance intermediaries, examines what is meant by 'mainstreaming gender' at the organisational level, and has concrete suggestions for planning microfinance programmes. **Chapter 5** deals specifically with the macro level or the policy environment that is required for gender sensitive microfinance operations, and provides practical suggestions for making inputs for development of microfinance policies that are more gender sensitive.

Chapters 3,4 and 5 are similarly structured. Each chapter examines socio-economic and gender issues at the respective level (field, intermediate and macro). Primary stakeholders for each respective level are identified, and each chapter highlights both resources and constraints for microfinance operations at the respective level. Finally each chapter has practical guidelines for moving forward in terms of implementing gender sensitive microfinance activities. Such practical guidelines, suggestions, and questions are contained in a set of appendices after Chapter 5.

How to use this Guide

Each of the chapters in this Guide can be read as a stand-alone chapter. It is recommended that all users read **Chapters 1 and 2**. If suggestions are needed on socio-economic and gender issues as they affect microfinance clients, **Chapter 3** outlines practical advice on the matter, while if it is felt necessary to learn more about socio-economic and gender mainstreaming issues concerning microfinance intermediaries **Chapter 4** is appropriate. Those working on policies concerning microfinance and who are interested in including a socio-economic and gender perspective in such policies can go directly to **Chapter 5**. To maintain the flow and continuity of the text of the Guide, the range of gender and socio-economic tools (for example checklists, guidelines, questions etc.) that can be used in the context of microfinance activities are to be found in the comprehensive **set of appendices** attached to this Guide.

Chapter 1 - Introduction to Microfinance

1.1 Anti-poverty oriented banking: The Microfinance Revolution.

For commercial reasons financial services have historically been targeted to the richer proportion of society who have a greater capacity to repay loans and maintain savings. However the poor remain typically either un-served or offered inappropriate financial services. Poor farmers and landless labourers have extreme difficulty accessing financial services from conventional financial institutions such as commercial banks (Marr, 1999). Banks and other formal financial institutions are currently estimated to service only 25% of potential clients worldwide. Statistics indicate that apparently only 2% of micro-entrepreneurs are serviced by banks (Women's World Banking, 1994). To overcome these obstacles, a new approach to provide appropriate financial services to poorer clients has emerged in the past decades – this approach is called microfinance.

Microfinance gives access to financial and non-financial services to low-income people wishing to access money for starting or developing an income generation activity. As the name implies, the loans and savings of the individual poorer clients are small. Microfinance came into being from the recognition that micro-entrepreneurs and some poorer clients can be 'bankable', that is they can repay on time both the principal and interest, and also make savings provided financial services are tailored to suit their needs. Microfinance as a discipline has created financial products and services that are packaged in a way that enables low-income people to become clients of a banking intermediary. The characteristics of microfinance products include:

- Small amounts of loans and savings
- Short loan terms (usually up to one year)
- Payment schedules featuring frequent instalments (or frequent deposits)
- Instalments made up from both interest and principal
- High interest rates on credit (higher than commercial bank rates but lower than loan-shark rates) reflecting the labour intensive work associated with making small loans and allowing the microfinance intermediary to become sustainable over time
- Easy access to the microfinance intermediary, saving the client time and money, while also permitting the intermediary to better know the client in their home/business context
- Simple application forms which are easy to complete
- Short processing periods (between the completion of the application and the disbursement of the loan)
- The availability of repeat loans in higher amounts for clients who pay on time
- The use of tapered interest rates (decreasing interest rates over several loan cycles) as an incentive to repay on time. As larger-size loans are less costly to the MFI, some lenders charge lower interest rates: higher rates on small credit amounts and lower ones on larger credits.
- No collateral is required contrary to formal banking practices. To replace collateral (which low-income people generally do not have), microfinance intermediaries use alternative methods, such as: the assessments of clients' repayment potential by running cash flow

analyses based on the stream of cash flows generated by the activities for which loans are taken; all enterprise/household income and expenditure items; individual or group guarantees (solidarity groups); and compulsory savings schemes.

For many years the banking credo was that provision of loans to the poor, especially in peripheral rural areas, was a high-risk venture for commercial banking operations. When it comes to provision of loans to low income people, commercial banks are concerned about a range of issues, including the lack of information regarding the use of loans, lack of collateral, limited debt capacity, limited ability to enforce loan re-payment, and the high transaction costs associated with servicing many poor clients with small loans (Marr, 1999). The commercial banking sector failed to recognise the strengths of informal 'local-level' financial institutions (e.g. lending-investors, pawnshops, co-operatives, support NGOs), and the comparative advantages of some methods for loan provision and re-payment that evolved in the informal sector (Marr, 1999).

Informal financial markets have always existed among the poor, especially in rural areas, and involve groups of low-income people taking joint liability (social collateral) for the repayment of loans amongst their members. Social factors such as peer pressure act as enforcement incentives for loan repayment. In some cases such group liability schemes were observed to have higher repayment rates and lower transaction costs. Hence, they can provide key mechanisms for the development of microfinance services for poorer groups. As a result the microfinance sector is growing, and there is much potential for its development.

1.2 Microfinance methodologies

The vast majority of MFIs provide credit on a solidarity-group lending basis without collateral. There is also a range of other methodologies that MFIs employ. Some MFIs begin with one methodology and later move or diversify to another so they do not exclude certain socio-economic categories of clients. It is necessary to have a basic understanding of microfinance methodologies in order to unpack any gender issues related to the microfinance activity.

1.2.1 Group lending

Group based lending has been a novel approach to lending small amounts of money to a large number of clients who cannot offer collateral. Group sizes vary but most have between four to eight members. The group self-selects its members before obtaining a loan. Loans are granted to selected member(s) of the group first and then to the others. Most MFIs require a percentage of the loan to be saved in advance to indicate the ability to make regular payments and serve as collateral. Group members are jointly responsible for the repayment of each other's loans and usually meet weekly to collect repayments. Peer pressure and joint liability is used to ensure repayment. In case of default by one member, the entire group will not be allowed to borrow again. The creditworthiness of the borrower is therefore determined by the members rather than by the MFI.

One of the best-known group lending and savings institutions is the Grameen Bank in Bangladesh. Grameen targets women (women are 98% of their clients) on the basis that women repay their loans better than men and Grameen believe that loans extended to women benefit all the household members with improved level of food intake, health, and education. Average loans range from US$100 to US$200 for a period of 3-12 months (Binns, 1998). In countries in transition average loan amounts tend to be higher ($500 or more).

While group formation leads to lower transaction costs for the MFI, there are social costs associated with this process. These social costs can be negative constraints to group borrowing and joint liability approaches, and include coercive peer pressure, loss of trust and the likelihood that the poorest and most vulnerable will remain excluded or further stigmatised (Marr, 1999). Such social costs are higher in some societies than in others and depend upon underlying social relations (which influence the ease/difficulty of group formation) and the distances people must travel to participate in group activities. In rural areas these costs can be higher.

1.2.2 individual lending

Only a small number of conventional financial institutions (e.g. banks) provide individual loans to low-income people. This is simply because poorer clients are considered highest risk – due to their lack of collateral, plus the labour-intensive nature of the credits and hence the lack of profitability of small-credits. Usury Acts (lending with interest) often put a ceiling on interest rates, which can be below the rates required for microfinance, further limiting the likelihood of individual loans being disbursed to poorer microfinance clients. In addition banks often cannot compete with the grant funds (subsidies) that MFIs obtain at the set-up stage.

Nevertheless, Bank Rakyat Indonesia (BRI) and ADEMI in the Dominican Republic are examples of successful lenders to poorer individual microfinance clients. However BRI does request collateral and a loan co-signer, while ADEMI will take the best collateral it can. Barclays Bank in Kenya has a special credit line for individual female customers, which are guaranteed by Women's World Banking (WWB). Some branches have not disbursed individual loans because of the resistance of bank managers. Barclays is now looking at the possibility of replacing collateral with an insurance premium (Binns, 1998).

1.2.3 Credit Unions

Credit unions are grassroots organisations that operate as financial membership based savings and loan cooperatives (Poyo, 1995; Adams, 1995). They collect savings and provide short-term credit. The demand for loans typically exceeds the supply of savings, so members' loans are typically limited to a low multiple of savings. In most rural areas credit unions are still the only source of deposit and credit services, apart from the informal financial market. Because credit unions have social as well as commercial objectives they may have a key role to play in providing pro-poor financial services. It has been found that some women have not benefited much from credit unions because the level of savings required was too high.

Typically credit unions can achieve financial self-sufficiency within a decade. These have been the observations for credit unions in West Africa (PARMEC[1]), Madagascar (CECAM[2]), Haiti (Caisses Populaires) and Central America (Bancos Comunales). According to the World Council of Credit Unions (WOCCU), by the end of the 1980s in 67 low income countries there were about 17,000 credit unions with nearly 9 million members, 60% of which are in Africa and the Caribbean. These credit unions handled approximately $2 billion in deposits and share capital and it is estimated that they are disbursing US$300 million in small loans to about 1.5 million small businesses (Adams, 1995).

1.2.4 Village banking

Village banking is a financial services model that enables poor communities to establish their own credit and savings associations, or village banks. Village banking (Bancomunales) was initiated by FINCA (Fundación Integral Campesina) in Costa Rica in 1984[3]. In Bolivia, during the 1980s village

[1] Project d'Appui à la Réglementation sur les Mutuelles d'Epargne et de Crédit
[2] Projet de promotion des Caisses d'Epargne et de Crédit Agricole Mutuels
[3] FINCA International is currently active in many parts of the world.

banks were developed as an alternative to rural credit. Village banks provide a credit line of non-collateralised loans to members, a place to invest savings and promote social solidarity. The sponsoring agency makes one loan to the village bank, which then makes individual loans to its members. The bank guarantees these loans and relies on peer pressure and peer support among members to ensure repayment. The small, working capital loans are repaid every four to six months. Borrowers start with a very small loan and work their way up to an established loan ceiling. Credit is linked to savings, and in most cases loans sizes are related to the amount each borrower has saved. Members' savings are held by the village bank, and are lent or invested to increase the resource base of the bank. Commercial standards are applied to interest rates and fees.

At the end of 1994 there were 3,499 recorded village banks with 90,754 members. According to UNIFEM, in 1996 women constitute 90% of the membership of village banks around the world. In Asia all of the 6,678 members of 172 banks are women (Nelson *et al.,* 1996). Village banks in rural areas have had more difficulty in building trust and solidarity and for reasons not yet understood suffer from large numbers of members leaving. Low levels of literacy are said to result in precluding all members having the same control over the organisations (Nelson *et al*., 1996).

1.2.5 Self-help groups/associations

Rotating savings and credit associations (RoSCAs) exist in many parts of the world and are known under different names including Tontines and Susus (Bouman, 1995). They are often female dominated organisations that save small amounts and can borrow from the common pool on a rotating basis. RoSCAS and other self-help groups have sometimes been used by MFIs for group lending.

'Tontines' are widely used in West Africa. In Senegal for example Tontines allow members to save very small amounts of money at a pre-established rhythm and obtain interest free loans from the collective membership (Balkenhol and Gueye, 1995). The level of the loan that can be obtained from the collective membership varies between meetings because a tiered system of loan entitlements is rotated among the members. In Dakar and other urban centres in Senegal some Tontines have originated as women's groups. Tontines are also more common in some 'castes' of Senegalese society than others. The 'nienio', a caste of craftsmen composed of jewellers, blacksmiths, weavers, shoemakers have extensively used the Tontine system of mutual guarantee. Between the two major Muslim communities in Senegal different types of Tontines have evolved. There is a Tontine (adji maka) among the Tidianes which functions as a means of saving for the pilgrimage to Mecca, while among the Mourides there is an 'insurance type' Tontine called 'dahira' which assists members in financial difficulties due to theft, legal disputes, illness and fire. In Dakar Tontines are increasingly important for financing short-term trading and service activities. In Senegal, tontines are the most important form of informal savings organisations and the sums involved are substantial (Balkenhol and Gueye, 1995).

1.3 The evolution of microfinance

The microfinance movement grew out of several field programmes conducted in the 1970s in Asia, Latin America and Africa, which proved that low income people who were willing to develop a micro enterprise, could in fact repay their micro- loans while succeeding in their business. This finding represented a paradigm shift in economic development in that it presented low-income people not as a group that needed charity but rather as a population that could be treated on an equal basis once they were offered equal opportunities. Loan recipients were now seen as 'partners' in development, and development 'Aid' involving microfinance became based on a more business-like philosophy. Some of the best-known actors in the early development of Microfinance in the 1970s were ACCION International in South America and The Grameen Bank in Bangladesh. ACCION International promoted the minimalist approach to microfinance whereby clients are given little else than a loan with minimum ancillary services (Adams, 1995).

Throughout the 1980s and 1990s the microfinance 'movement' continued to grow, particularly due to the fact that aspects of microfinance programmes were fully in line with shifts in development thinking throughout this period. For example, microfinance programmes developed 'outreach services' for their clients, often in countries where government economic adjustment measures were cutting services they had provided in the past, and an overall emphasis on promoting the private sector rather than government led development initiatives (such as agricultural subsidised credit) was being pursued. The movement gained relevance when it became apparent that microfinance programmes were contributing to the development of 'civil society' through the strengthening of the intermediate level – the organisations delivering these services, in many cases NGOs - and also through the empowerment of clients at the field level.

Microfinance promotes a 'relationship-based' situation between client and lender, considered to be the business relationship of the future. There are now several examples of microfinance programmes throughout the world contributing to poverty reduction, empowerment of disadvantaged groups (especially women) and to employment creation.

1.4 Sustainable microfinance

In development circles the widely used term 'sustainable' has proved to be difficult to define and even more difficult to measure when it comes to microfinance. The most commonly discussed indicator for institutional sustainability is financial sustainability. This is generally considered to be: earned income (excluding grants) divided by operational and financial expenses, where financial expenses include some cost associated with inflation (Yaron, 1992).

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MFIs that offer savings facilities have a cheap source of funds for further lending leading to more sustainable operations. Credit unions and cooperatives always use member funds for making loans, and many of them begin lending operations only after they attracted sufficient funds for on lending to their members. MFIs that do not attract savings have to rely on commercial sources of funds (paying a higher interest rate on such funds, in comparison to the interest paid out on savings), or on public or donor sources. MFIs can also obtain funds from interest on their own investments, and by charging fees for their operations, including penalty fees.

Some MFIs are financed by the public sector. In some cases MFIs are financed by a combination of local government money and international donors. Many MFIs started as NGOs with donor money and some international NGOs have by now developed an expertise in starting MFIs[4]. It is quite common for some donors to give successful MFIs the necessary money to capitalise their operations. MFIs can place the capital money given by donors in the bank and gain interest income, a source of funds. Some MFIs choose to invest part of their capital money in real estate, e.g. buy the building where they operate thus avoiding future higher rental costs (e.g. ADOPEM, The Dominican Republic). In both cases, MFIs increase their assets, which makes it cheaper for them to borrow commercial funds. This paves the way for MFIs to become sustainable organisations.

Donors can in fact provide both financial and non-financial resources for MFIs. However, donors and governments who fund microfinance activities should ensure that they are not subsidising interest rates for the poor, unless they aim to do this in perpetuity as this minimises the chances of the operations becoming sustainable. If limited duration subsidies are necessary for a pro-poor microfinance activity then such subsidies are probably better targeted to improving the management of MFIs (Marr, 1999). Any resources in the form of subsidies from donors should be temporary and transparent, and not linked to lending activities but rather to institution building (FAO, 1998b).

The cost of lending is made up of a) cost of funds; b) operating costs; c) loan loss reserve and d) inflation. Interest rates paid by borrowers have in principle to cover these costs, thus enabling the microfinance intermediary to become self-sustainable in the long-term. An additional small margin is necessary to be included in the interest rates to pay for further development of the programme.

Experience has shown that the microfinance sector can be sustainable over the long term i.e. microfinance institutions can cover their costs within 3-5 years after their creation, providing that sufficient scale of operation and sound institutional organisation have been achieved. The typical borrower from financially self-sufficient programmes has a loan balance of approximately $430 and loan amounts often much higher. A typical client of subsidised programmes with a clear focus on poverty alleviation has a loan balance of $100 (Morduch, 1999).

In reality, many microfinance programmes provide micro-loans at interest rates that do not cover all costs. This is especially the case with certain programmes aiming to alleviate poverty, which may be averse to charging very high interest rates. However, the coexistence in the same area of programmes that do charge high interest rates with financially unsustainable ones charging lower rates creates frictions. It is important to create formal or informal forums for microfinance intermediaries where issues such as interest rates charged can be discussed. Furthermore practitioners can exchange lists of client names to avoid situations where the same client takes loans from two or more microfinance intermediaries.

Financially sustainable MFIs will have difficulty in reaching the poorest or the most peripheral in society (Hulme and Mosley, 1996; Marr, 1999). For instance, the Grameen Bank has not been able to attract those referred to as the poorest (Schneider, 1997). The poorest may consider themselves so destitute that they cannot service debts or they may be ostracised by group members when group-lending guarantees are required (Hulme and Mosley, 1996). Other approaches to poverty alleviation may be necessary if the livelihoods of the poorest are to be improved. While maintaining the objective of sustainable microfinance there are a **range of challenges facing the sector**, especially if it is to meet the needs of poorer sectors of society (Marr, 1999). These include:

a) How to reach the poorest of the poor, including landless labourers?
b) How to identify poorer groups (e.g. child labourers, older people, disabled people) that are excluded from MFI service provision and determine the reasons why they are excluded?
c) How to reach the poor in peripheral and remote areas?

[4] There is a range of NGOs from the United States that have international microfinance operations. For instance, Accion International, one of the pioneers of microfinance since the 1970s, has currently 15 MFIs in Latin America and the United States. More recent newcomers to the field of microfinance include Save the Children, Opportunity International, and Mercy Corp.

d) How to increase the impact of MFIs on poorer clients?

e) How to reduce the vulnerability of borrowers to sudden falls in income, or of deposit holders to inflation?

f) How to diversify microfinance services, and improve contract terms and conditions?

g) Whether the provision of financial services should be part of a broader rural development strategy or a stand-alone intervention?

h) How to find novel ways to reduce the transaction costs of lending to small-scale borrowers, while at the same time increasing repayment rates?

Overall it appears that microfinance can be sustainable and a 'good investment' for donors (and private sector investors). Successful microfinance programmes contributed to bring about a change in attitude from a welfare approach of doing development work to a more business-like one, which can 'empower' recipients as partners working together with the intermediary organisation for their mutual satisfaction. Aid money channelled through MFIs can contribute to building sustainable (non-subsidised) institutions capable of offering perennial access to financial services for low-income entrepreneurs.

1.5 Scale and impact: microfinance reaching global dimensions

Although the microfinance movement started in some developing countries, its scale of application has become global because it has huge potential for changing economic situations. Despite socio-economic and cultural differences, different microfinance models have been widely transferred and adapted globally on different scales. The United Nations Conference on Trade and Development (UNCTAD) estimates that 7000 microfinance institutions world-wide exist, reaching a very small fraction of potential clients (Filippis, 2000). Grameen Bank estimates that there are approximately 20 million clients in the world who benefit from microcredit services (Filippis, 2000).

In 1997 the Microcredit Summit[5] launched a campaign to reach 100 million of the world's poorest families, especially women, providing financial and business development services for self-employment by the year 2005. It is estimated that US$21.6 billion will be needed for this effort, the funds will cover operational expenses, loan capital and infrastructure development. Of these 100 million families it is expected that four million will be in industrialised countries (Microcredit Summit, 1997).

There can be various different types of institutions involved in microfinance (Binns, 1998). These can be for instance:

(a) Government related MFIs (e.g. BRI, Indonesia; Grameen Bank, Bangladesh)

(b) Privately owned (e.g. Hatton bank in Sri Lanka, Barclays Bank of Kenya; Commercial Bank of Zimbabwe; ADEMI in the Dominican Republic; BancoSol in Bolivia)

(c) NGOs, (e.g. CARE Niger; ACCION International; Oxfam; Opportunity Trust

(d) Cooperatively owned (e.g. credit unions; village banks such as FINCA in Uganda; self-help groups or associations such as West African tontines).

[5] The first international conference on microfinance bringing together over 3000 representatives from the macro, intermediate and field levels

(e) Individuals (e.g. moneylenders, pawnshops, friends, suppliers, relatives)

Many of the initial pioneer microfinance intermediaries have expanded. The ACCION Network serves 277,000 clients in thirteen Latin American countries and in the US; Grameen Trust has replicated its model in nineteen countries in Africa, Asia, Europe and Latin America; Opportunity International has initiated programmes in twenty-six countries while the 'Village Banking Model' has been replicated in thirty-two countries around the world.

Some existing banks also started to offer microfinance services on a large scale. Examples include Hatton Bank, Sri Lanka, and BRI, Indonesia, a state-owned agricultural banks. In the 1970s BRI undertook village-level implementation of the credit component of the national agricultural plan to attain national self-sufficiency in rice production. By the end of 1996, Bank Rakyat Indonesia (BRI) had some 2.5 million borrowers and 16 million depositors, spread across 3.500 locations. However, these are exceptions - the vast majority of MFIs have less than 10,000 borrowers (Binns, 1998).

Several MFIs eventually became commercial banks, such as K-Rep in Kenya. Another example, BancoSol in Bolivia originally started as an NGO (PRODEM) and became a bank in 1992. By the end of 1998 BancoSol served over 81,000 low-income borrowers in urban areas. This represents about 40% of banking customers in the entire country (Morduch 1999). The average loans for BRI and BancoSol in 1996 were US$560 and US$660, respectively. All the above illustrate microfinance operations reaching global proportions.

The Microfinance sector is characterised by a fast rate of change, and this is expected to continue. The sector is constantly responding to clients' needs. For example there are now MFIs that offer credit card services, such as ADEMI in the Dominican Republic; insurance services: SEWA Bank, India; or housing loans: Grameen Bank, Bangladesh. The latter has also innovated a scheme to involve clients in high-technology services, forming two independent companies, GrameenPhone and Grameen Telecom. GrameenPhone has obtained a cellular phone license, and is a profit making company, while Grameen Telecom, a non-profit company buys bulk airtime from GrameenPhone and retails it through Grameen borrowers throughout the villages of Bangladesh. It is expected that in 68,000 villages of Bangladesh a woman borrower will become the 'telephone-lady' of the village, selling telephone services.

Despite its growth, , a lack of favourable policy framework conditions hinders the scale, growth, and impact of the microfinance sector in many countries. In addition, existing legislation, financial instruments, and infrastructure in these countries do not reflect the pressing need to create a gender-sensitive enabling environment for entrepreneurs.

The provision of financial services in rural areas has proved to be the most difficult challenge for the microfinance community. Rural and agricultural issues such as seasonality, risks associated with agricultural production and the dispersed spatial distribution of potential clients increases both the risk and transaction costs of servicing the poorer rural groups or individuals. These problems are particularly acute in rural Africa where there have been few successful rural microfinance initiatives.

1.6 Microfinance men and women clients

Given that most large commercial banks derive about 80% of their business from about 20% of their clients, their rationale for avoiding low-income clients is apparent. Nevertheless, the success of microfinance programmes has proved that 'banks' can trust low-income clients if there is an incentive for both to develop a long term partnership, even when the bank may at times lack 'watertight' guarantees for loan repayment. After all, when banks were initially created in the Middle Ages, '*credit'*, or *'credo'* in Latin, meant 'trust' in the client.

From the beginning, the focus of microfinance has been on providing savings and credit to low-income entrepreneurs and has facilitated small-scale enterprises, mostly in the service sector (**Box 1.1**). In the food and agriculture sector, the typical clientele of MFIs are rural or peri-urban micro-enterprises, poorer farmers, landless farmers, women, market traders, contract growers, artisanal fisherfolk, and small households. Such low-income women and men, both urban and rural micro-entrepreneurs, have again and again proven to be viable savers and borrowers.

Individuals, households, and groups of households make their living in a diversity of ways. The livelihood systems of women and men can be different and certain groups of people can have cash flow problems at different times of the year. For instance, because of seasonally in agriculture production, income is not regular and often payments from produce have to be held to tide people over other less lucrative months of the year when individuals are unable to generate as much income. Likewise expenditure can be seasonal with particular payments being cyclical for instance school expenditures (books, fees) and tax payments are due at certain times of the year. It cannot be assumed that it is the head of the household that takes responsibility for expenditures, as it differs from country to country and within countries. For example, in many cultures husbands and wives earn and keep their financial resources separate and payments for expenses related to children is not expected to come from the father, but considered the mothers responsibility. In some regions of Bolivia for example, when development agencies were working on coca crop reduction, they soon realised that cash from the sale of these illicit crops went to the women farmers, who called the plant 'their crop'. The development agencies had to readjust their crop development programmes to accommodate alternative crops for women or alternative sources of income.

Microfinance services are most easily targeted at micro-enterprises that are likely to generate an income that will allow the borrower to repay the loan. A range of typical micro-enterprises is listed in Box 1.1.

Box 1.1: Illustrative types of micro-enterprises

Services	***Production***
Transportation	*Tailor/dressmaker*
Machine repair	*Furniture making*
Rice husking	*Food processing*
Street vendors	*Weaving*
Market vendors	*Beer making*
Hairdressing	*Grass and cane work*
Photocopying/fax/phone	*Carpentry*
Off-farm labour	*Blacksmiths*
	Pottery

Micro-enterprises are usually family businesses or self-employed people operating in the semi-formal and informal sectors. In most developing countries micro-enterprises and small-scale enterprises account for the bulk of companies and a large percentage of employment. In Romania, firms with fewer than ten employees account for over 90% of all companies. The statistical definition of Medium to Small Enterprises (MSE) varies by country and is usually based on the number of employees or the amount of assets. Micro-enterprises are said to employ up to 4 people, the lower limit for small-scale enterprises is most often considered to be 5-10 employees and the upper limit 50 to 100 employees (Hallberg, 1999).

The MSE sector (mainly trading) is typically very large employing a substantial part of the working population e.g. 16%-27% where surveyed across Kenya, Zimbabwe, Swaziland, Malawi, and Lesotho (Parker and Torres, 1993). In all countries, the rural poor do not derive all of their income from farming and typically have to perform a diverse range of off-farm work to maintain their livelihoods (Binns, 1998). Hence, it is significant that a sizeable proportion of MSEs are located in rural areas (68% to 90% where surveyed above) and over half of the households can depend on MSEs for at least half of the household income (Parker and Torres, 1993). A high proportion of MSEs operate from home. Surveys conducted in Zimbabwe, Swaziland, Kenya, Lesotho, Malawi and the Dominican Republic have revealed that approximately half of MSE entrepreneurs were women (Liedholm and Mead, 1995).

1.7 Services provided by microfinance intermediaries

Poorer people often require services in addition to credit access. They may also lack access to secure savings locations that provide interest on their savings, or they may not have access to relevant and timely information about markets beyond their immediate vicinity. Furthermore they may not be aware of the range of financial services that would make running their business more productive.

Microfinance intermediaries can provide a variety of services for their clients. Such services include:

- Credit
- Deposit Services (voluntary or compulsory)
- Insurance products (health, life, retirement, etc.)
- Credit cards
- Venture capital
- Business development services
- Hire-purchase for the poor

Details of some of the above (a few are in an early development phase for low-income clients) are outlined below. To ensure that socio-economic and gender issues are systematically included in MFI services, all types of MFIs should review all operations and regulations from a gender perspective, integrate gender equitable practices into services for both women and men, fully integrate gender issues at board level and into all client/member and staff training, conditions of recruitment and incentives structures.

1.7.1 Credit

It must be acknowledged that credit tends to be used by clients not only for income-generating purposes, but also for household-related needs such as housing and home repairs. It is sometimes hard to draw a clear separation line between these two uses of credit as low-income people often use their homes as their production bases. In the informal sector it is often difficult to separate enterprise activities from household economics. A woman borrower who has a home business of making bread illustrates this point. When she takes a loan to fix her roof, the question arises as to whether such a loan is a consumer loan or not? Sometimes there is a need for borrowed cash to repay debts, and loans are used for this reason. If the money was originally borrowed for income generating activities and the cash has to be used in other ways, tension is often created in the household, depending on who is responsible for loan repayment (Goetz and Sen Gupta, 1996).

Using home for planning and production

1.7.2 Deposit Services

Deposit services provide safe places for individuals to save with interest. Experience has shown there is a high demand for deposit services. For example in Ghana and Mozambique market women pay collection agents to come around regularly and collect their surplus funds.

Savings are important because of seasonal aspects of many microenterprise activities, and also because of sudden situations people find themselves in or emergencies. Assumptions are often made about how 'poor' people manage their money and it is often forgotten that poor people also protect themselves against risk and emergencies. Most people put aside money for unexpected expenditures such as funds for funerals, crop failure, or natural disasters. Savings facilities are a service that is needed and largely unmet.

Key questions that should be asked about potential microfinance clients include what savings services can be provided to clients and what interest can be paid? How easily accessible would savings have to be for both women and men clients to use such facilities? How diversified are people's livelihood activities? What are the most important sources of income and sources of expenditures, and what are the crisis coping strategies of different socio-economic groups?

Many microcredit organisations build into their credit system a compulsory savings component. Others choose to have a voluntary savings component built into their credit scheme. As most MFIs are not entitled to attract savings themselves for regulatory reasons, they ask borrowers to either deposit the savings in the bank, in most cases in the name of the solidarity group, or they let the group keep the savings.

1.7.3 Insurance products

The SEWA Bank[6] was an innovator in that it launched various insurance products that proved that low-income women valued them and found ways to pay for them provided they were tailored to suit their needs. Other MFIs are now experimenting in this domain.

[6] The Self-Employed Women's Association (SEWA) was established in 1972 and registered as a trade union in April 1972. In 1974, 4,000 self employed women established the SEWA Bank as a cooperative bank with the specific objective to provide credit to self-employed women with a view to empower them and reduce their dependence on money sharks. Qualified managers hired by the Board professionally run the bank and its operations are supervised by the Reserve Bank of India.

1.7.4 Business development services (BDS)

Non-financial services, or business development services (BDS), can include entrepreneurship development, labour and management training, extension, consultancy and counselling; technology development and information dissemination; information on markets, standards, technologies; development of linkages through franchising, subcontracting, creating business clusters, etc. These services are part of the 'market support structure' that helps microenterprises become and remain competitive (Hallberg, 1999).

BDS provision tends to be profit oriented, offered by market actors to respond to client needs, much like microfinance, rather than to be provided in a subsidised manner by governments and donors. Supply-side mechanisms of BDS provision rely on institutions that provide marketing and technical assistance to micro or small and medium sized enterprises (SMEs), and that can become commercially viable in the long term.

Demand-side interventions are designed based on the perceived needs of the customers. Demand-side mechanisms include the use of vouchers and matching grants that can be justified on a temporary basis in cases of under-developed markets where microenterprises are unaware of the benefits of BDS. There are also supply-side interventions regarding BDS (**Box 1.2**).

> ***Box 1.2: Example of 'supply side' Business Development Services (BDS)***
>
> *SwissContact is a Swiss NGO that has developed expertise in offering support to BDS providers, called Business Development Centres (BDC). It has worked with eight such BDCs in Peru and six BDCs in Indonesia. The SwissContact approach emphasises a business-like philosophy and a market orientation that breaks away from former subsidy arrangements familiar within the NGO sector. However, at least two caveats exist: 1) there is a risk that BDCs will work only with better-off microenterprises, and 2) costs associated with SwissContact's technical assistance and monitoring of BDCs are high.*
>
> *SwissContact has a business contract with the BDCs that outlines financial targets. The BDC partner under contract typically covers up to 50% of its operating costs for up to a year. SwissContact also provides scholarships for staff training, market surveys, and networking with other business centres. Financially sustainability is to be achieved by the BDCs in two to three years from inception. Other measures of success are cost effectiveness (such as inputs per client) and financial contribution (gross margin) of different services. SwissContact's experience demonstrates that there is a market for BDS and that BDS providers can become sustainable institutions.*
>
> *Adapted from Hagnauer, 1999*

In BDS, the key to success is to develop a low-cost service that meets the need and the 'ability to pay' of smaller scale clients (Hallberg, 1999) including both women and men.

1.7.5 Hire-purchase for the poor

Hire purchase is a system by which a person may purchase an object t by regular payments while having the use of it. It is a service often provided. For example, in order to overcome the fear that some people have of taking out loans, Action Aid in Bangladesh purchases rickshaws and then rents them out to a group. Later, a client may decide to purchase the rickshaw, and part of the hiring fee is used as a down payment, thus only a small loan is required for the outstanding amount.

1.8 Microfinance and its effect on women entrepreneurs

Women constitute the majority of the poor (UNDP, 1995b). However, from a socio-economic and gender perspective women (or the poor) are not a homogenous group and there is no generic microfinance recipe, which can meet the differential needs of women. There is a growing consensus regarding the gender and socio-economic issues that need to be analysed to ensure that microfinance is equally useful to both women and men, or to different poorer or marginalized groups in society (Binns, 1998).

Although not always recognised by governments or commercial banks in the past, many poor women had business acumen and management skills, and in some contexts largely supported the household. But it was in part through their success as users of microfinance that women as entrepreneurs in their own right became recognised. Microfinance programmes which initially intended to target both a male and female clientele became predominantly women-oriented. This was because such programmes believed that poorer women were better and timelier payers than poorer men; and also that women dedicated more of the income generated from business activities to their families' well being (due to the overlap between women's' productive and reproductive roles).

Many women work in the informal sector (source IIRR 1998)

In some situations, microfinance programmes have helped to improve women's social position. For example, through running their own business, women have become more mobile geographically. Because of the success of many female businesses, women say that they become more respected in their communities, and their opinions and power to influence decisions in the household and the community may carry more weight. Many women clients of microfinance claim they now feel less isolated; they express satisfaction for belonging to solidarity groups or informal client groups, where they feel encouraged, understood and supported by their peers. This view has emerged in many parts of the world, as expressed by microfinance clients in some developing countries, ADOPEM, a microfinance NGO in the Dominican Republic; and some developed countries, the Froya and Hitra Microcredit Foundation in Norway.

Nevertheless, although many low-income women are economically active as self-employed (unrecognised) local microentrepreneurs, in general many laws and the majority of conventional financial institutions ignore them. Hence, a significant feature in the microfinance sector is the visibility and evidence of women as key actors in social and economic development. Women have become more visible as successful microentrepreneurs; disciplined credit payers; investing the proceeds from their businesses to improve their households and the family nutrition, childcare, health, and education. Microfinance can also provide the power 'platform' to create a favourable context to encourage women to gain political rights. The SEWA Bank in Ahmedabad, India is such an example. SEWA originated as a trade union and helped its members fight for their employee and other rights.

Financial services have enabled many women to develop their businesses (source: IIRR 1998)

Another positive development for women in the microfinance arena is the deliberate hiring of them as staff of microfinance intermediaries, to management and leadership positions, including as board members. Women's World Banking[7] (WWB) has developed affiliation criteria that encourage MFIs to put women in management and board positions. WWB only affiliates MFIs whose executive directors are women and whose boards of directors have a majority of female members.

[7] Women's World Banking was established in 1975 with a mission to expand low-income women's economic participation and power by opening access to finance, information, and markets. WWB operates through a network of 45 affiliate MFIs in 37 countries worldwide. Since 1979, WWB-affiliated MFIs have made more than 200,000 loans to low income women worldwide, with approximately 80% of the loans (average size US$600) for existing businesses, with a repayment rate of 97%.

1.9 Specific issues women face with respect to financial services

Apart from the standard barriers that lower income people face when dealing with financial institutions (for example their need for small loans which are unprofitable for the banks to deliver), poorer women as a group face more inconveniences and difficulties in gaining access to financial services. While illiteracy hinders both women and men's ability to fill-in application forms for financial services, female illiteracy levels are higher than male in most countries worldwide. Often both women and men everywhere find the financial language symbols and concepts confusing.

In many countries, as men generally own land and other fixed capital, women tend to lack collateral required by formal financial lending institutions. Very often procedures in formal lending institutions require the signature of a male head of household - this does not make it easy for female-headed households to apply. On the whole, women tend not to know about their rights to apply for financial services, even in industrial countries and countries in transition.

In most countries in transition, both men and women have not been accustomed to engaging in private enterprise and less so in taking loans from banks for business purposes. Probably because of their lack of confidence, women in general are even less inclined than men to take loans initially, even though they may have a higher pay back rate. This is because the structure of the formal credit system can tend to be very hierarchical and from a poor women entrepreneur perspective, the system may appear even less user friendly than for other prospective borrowers. Low-income women tend to be less educated and less used to dealing with official people, and formal procedures. Banks are perceived to be powerful institutions and many women may not have the confidence to approach them.

Women's perception of bankers

Even when opportunities for loans for micro-entrepreneurs exist within the formal banking system (due to a subsidised government scheme), often the application and screening process is time consuming and sometimes highly unpleasant. As a Polish woman entrepreneur recalled in 1997, *"entrepreneurs were treated by bank employees who were assessing their credit risk as if they were thieves"*. In conclusion, entrepreneurs are happier to pay higher than market rates to microfinance intermediaries ensuring they get loans quickly and conveniently rather than trying to access loans that are hard to get.

Box 2.2: Jordanian woman increases her bargaining power in the household

A client of one of the United Nations Relief and Works Agency's (UNRWA[8]) microfinance programmes in Jordan featuring women solidarity groups recalled that since she had become an entrepreneur, her opinion carried more weight in discussions with her husband regarding for instance items to buy for the family.

She now feels that she gained more authority and her husband listens to her, for example she convinced him to buy a smaller TV set than the one he had originally intended to buy and put the extra income to other, in her opinion, more pressing uses in the household.
Source: Authors work 1998

Despite these difficulties, access to financial services can enable women to leverage their skills and ultimately to develop their business. By upgrading their skills, (through gaining access to technology, raw materials, market information and business linkages) women can expand their economic role. Improving women's economic position contributes to building their confidence, and ultimately improving their social and political role as well.

[8] The United Nations Relief and Works Agency (UNRWA) was created in 1950to respond to the plight of Palestinian refugees. Today the agency provides health, education and relief and social services to over 3.5 million Palestinians living in camps in: Jordan, Lebanon, Gaza, Syria, and West Bank.

Chapter 2 - Microfinance: the socio-economic and gender context

2.1 Microfinance and SEAGA

A Socio-economic and Gender Analysis (SEAGA) Programme is organised through Food and Agriculture Organisation (FAO). The SEAGA approach is based on examining socio-economic and gender factors that affect the outcome of technical development initiatives. This can include the socio-economic and gender considerations in a microfinance programme. This Guide is written within the SEAGA framework.

One of the core SEAGA ideas is to analyse problems and situations from different perspectives. The SEAGA approach structures such an analysis at three levels, 1) the macro or policy level, 2) the intermediate or institutional level and 3) the field or grassroot level. Hence the FAO SEAGA framework is very useful for systematically planning a microfinance operation; where people at the grassroots require financial services, intermediaries are attempting to provide such services, and all operate within the national regulatory and legal context.

Although there have been many successful examples of microfinance programmes, it must be acknowledged that microfinance service delivery does not always turn out as originally planned. This may be due to various socio-economic and gender factors that had not been considered in advance, or were not within the control of the microfinance intermediary or the clients. Once issues or 'bottlenecks' to microfinance activities have been identified, both planners and microfinance clients can decide whether these issues are beyond their control (for example a policy that cannot be easily changed) or whether it is something within their control (for instance a staff training issue, or gaining a better insight to clients needs). Possible solutions and ways to overcome 'bottlenecks' can be targeted at one of the three levels, the microfinance policy environment, the microfinance intermediaries, or the microfinance clients, or indeed in some cases all three levels. Often solutions to 'bottlenecks' require linking the field level reality to macro and institutional level decisions.

In the FAO SEAGA Programme, emphasis is placed on the participatory identification of both women's and men's priorities for development. Hence the emphasis is on clients participating in defining their needs and participatory planning for change based on those needs. This is very relevant to microfinance programmes where MFIs tailor their products and services specifically to meet their clients' needs. The SEAGA Programme facilitates a systematic way to identify the major stakeholders for a particular issue or set of issues. 'Stakeholders' include all those who directly or indirectly stand to gain or lose in a microfinance programme, including those who may be displeased about planned microfinance activities because it may affect their business or territory. The resources and constraints of each stakeholder group are examined. If possible, it is recommended that disparate groups of stakeholders are brought together and conflicts resolved from the outset.

2.2 Microfinance and poverty

Most formal financial services have failed to reach the poor. Analysis of microfinance activities from a socio-economic and gender perspective can help in targeting microfinance activities to poorer or marginalized social groups. It is argued here that improved access to and options for financial services such as savings, credit, and various other services offer potential for increasing income levels, facilitating productive self-employment, and enabling poor people to safeguard their assets during times of hardship. However it is fully recognised that the complexity of constraints posed by poverty and inequality makes microfinance only one element in an approach to alleviate poverty. The premise of this Guide is that 'microfinance' is simply a highly useful tool that provides access to financial and non-financial services to low income entrepreneurs and is not by itself a 'magic ingredient' for poverty reduction (Mayoux, 1997). This Guide provides some gender analysis tools to assist microfinance initiatives in a clearer definition of their clients' needs and whether such activities can contribute to poverty reduction.

The draft declaration of the 'Microcredit Summit' held in Washington in 1997[9] put forward microcredit as a '*powerful tool in the struggle to end poverty and economic dependence*'. The Consultative Group to Assist the Poorest (CGAP) is a multi-donor effort established by the World Bank to reduce poverty by focussing resources towards supporting the pro-poor microfinance sector (CGAP, 2000). CGAP was established in 1995 with approximately $35 million in funding. CGAP has decided that its ultimate clients are the poor who can benefit from improved access to credit (CGAP has an emphasis on credit more so than financial services), with an emphasis on reaching the poorest. CGAP have decided that their policy will be to target poor women.

Poverty is not only a quantitative and an economic phenomenon, but is fully related to structural issues in a given country. Debates about the provision of financial services for the poor and the ability of such services to have an impact on poverty reduction have recently arisen (Johnson & Rogaly 1997). The 'poor' are not a homogeneous mass, but highly heterogeneous groups of consumers, producers, savers, investors, innovators and risk adverse economic actors (Remenyi, 1997).

Unfortunately poverty is also a growing phenomenon. It is estimated that approximately one billion people live in poverty, on less than one dollar a day. The difference between the top and bottom 20 percent of the world's population has been calculated by comparing total GNP's of countries with the highest and lowest per capita incomes. In 1993 the ratio was 60 to 1; by 1998 it had risen to 74 to 1. Income disparity was forecast to reach 150 to 1 by 2000 (Baker and Nordin, 1999 cited in Ricupero 1999).

It has been shown that some aspects of poverty may be rooted in inequalities between women and men. In fact women's risk of impoverishment may be greater than men's in three ways (Moghadam, 1996 in Chant 1997):

1. Being disadvantaged in respect of entitlements and capabilities

2. Having heavier work burdens and lower earnings

[9] At the time of the Summit many microfinance practitioners deplored the choice of its name 'Microcredit Summit'. They pointed to the fact that low-income entrepreneurs need savings as much as they need credit, perhaps more and that microfinance is a more encompassing term also covering other financial services unavailable to the poor, such as insurance and home mortgages. Several practitioners also objected to the Summit's focus on credit, maintaining that credit should not be construed as being the panacea for reducing poverty, but rather a tool that could help do so.

3. Facing constraints on their upward mobility as well as their geographical mobility due to cultural, legal and labour market barriers

Recent findings suggest that microfinance credit brings far more benefit to people just below the poverty line than to those far below it, and that the poorest people have in some cases been made worse off (Hulme and Mosley, 1996). Thus, the reality is that we cannot exaggerate the power of microfinance and related assistance, while ignoring key structural issues that may be more pertinent to the long-term improvement of the situation of certain lower socio-economic groups. Poverty alleviation is rarely an issue of simply improving access to financial services. On the one hand, it is recognised that giving low-income women and men a chance to develop their business gives an opportunity for changes in the pre-determined conditions of poverty inheritance. On the other hand it is necessary to combine poverty reduction strategies at the local level with sectoral strategies in the intermediaries that work with the 'poor' and at the macro-level. The major questions are how to, and what is the most effective way to, combine such strategies.

2.3 What do we mean by 'Gender'?

The premise that some aspects of poverty may be rooted in inequalities between women and men necessitates consideration of what is meant by the term 'gender'. Women and men have different responsibilities in a given culture or location. For example, in some countries when we refer to 'farmers', it is usually assumed that we are referring to men; however in many countries it is women who are involved in the majority of farm work and hence are actually the 'farmers'. A farmer can therefore be either male or female. Gender refers to the social roles of women and men, and is not to be confused with the biologically determined sexes of male and female. Gender is hence a relational concept that analyses women's social roles in relation to the roles of men and vice versa.

From an early age, we learn our gender roles. But such roles are not static, for instance women can do traditionally male jobs, men can take care of children. Roles change according to geographic location and vary as a result of socio-economic and political circumstances. Taking the example of household finances, many development interventions in the past have assumed that if money enters a household, it is pooled for the common benefit of those in the household. In some cultures women control money for small household items, but men control the income for larger items, while in other cultures women and men's assets are completely separate and when money is required to purchase an item, a bargaining system take place between women and men within the 'black box' called the household.

Gender roles are influenced by perceptions and expectations arising from various factors including class, age, ethnicity and religion. Taking money and religion as an example, in some Buddhist cultures, it is considered 'lowly' to handle money and handling money is often women's responsibility, because their status is lower. While in some Islamic cultures, men may control household finances and purchase all items for household use. Such social differences regarding men and women's roles across regions and cultures can be called gender related differences.

2.3.1 Gender analysis

Gender analysis is a systematic way to study different impacts of development activities on women and men and typically requires separating data and information by sex (or ethnicity, income level, age etc). It also requires an understanding of how labour is divided and valued within a particular cultural context. Development planning can become more effective if it is informed by an understanding of the social and gender relations through which production is organised and needs are met.

> **Box 2.1: Changing roles in Armenia**
>
> *A group of women in Yerevan in Armenia reported to the authors in May 2000 that they felt that in their country, women seem to be the most capable in adapting to market changing conditions and in embracing free enterprise as the only way to support their families.*
>
> *In a situation of endemic high unemployment, estimated at over 40% of the labour force, men, traditional bread winners in the Armenian society do not seem to be as quick as women in changing their roles from being state employees to starting their own businesses. With access to microfinance services from a handful of MFIs, many women have taken on new roles by starting their own business operations over the last two years, and have became petty traders, small producers and service providers.*
>
> *Several women microfinance clients now financially support their households. Some say that they would prefer to become employees again, but since this does not seem to be an option, they are pleased they can earn money as micro-entrepreneurs[10].*

Given that the roles of women and men change in different cultures, locations and contexts, gender analysis helps us to frame questions in order to avoid making incorrect assumptions about the roles and activities of women and men. Gender analysis helps us frame questions about the relations between women and men. Men and women do not live in isolation from each other. For example, if a microfinance programme specifically targets women, men may sometimes manipulate the programme, resulting in loans being disbursed in women's names for other uses. Hence, apart from considering static roles of women and men, we must also try to understand the dynamics of relations between women and men and how a microfinance initiative may alter roles and if this will affect microfinance operations.

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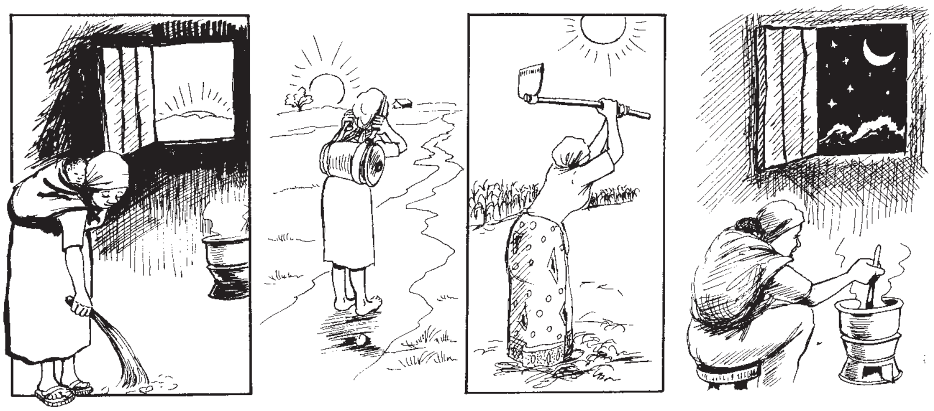
Indeed, taking the example of household finances again, gender analysis demonstrates that we cannot plan microfinance activities based on the notion that within the household decisions are based on a 'unitary' model. The unitary household model treats a household as having a single decision maker (Becker, 1981) and in terms of the allocation of resources it is assumed that this decision maker is altruistic. However, this should not be thought of as the norm as it has been shown that in reality household composition, use of resources, and decision making is much more complex and does not necessarily imply that once resources enter a household, they are equally divided. Often access to resources within the household follows complex cultural norms and involves bargaining systems between husbands and wives. The difference in impact between what women or men differentially use money for in the household has many policy and programmatic implications. Case studies have shown that increased income received by women leads to a greater share of the household budget devoted to expenditures on human capital and a higher level of nutrient intake (Haddad, 1999). Although impact analyses of microfinance on micro-entrepreneurs, and implicitly on women, are still scarce, observations have been made that point to the fact that women increase their share of work in the household when they undertake an additional income-generating activity. This has implications in planning microfinance programmes, if women are already 'over-burdened' in terms of their roles within the household.

[10] A recent market study gave a conservative estimate that there are over 20,000 potential microfinance clients in Yerevan. To date two MFIs service this market with positive results. Their combined current clients reached over four thousand, i.e. slightly less than 20% of the estimated market. They work mainly with women solidarity groups.



Gender analysis helps us avoid incorrect assumptions about the roles of both men and women and recognise invisible roles (source: IIRR 1998)

2.4 Microfinance programmes that 'target women' may not be gender sensitive

In the area of microfinance, accumulating evidence of some women's higher repayment rates has led many microfinance intermediaries to specifically target women. It is often perceived that the small credit amounts used in microfinance seem to suit women better than men and because women in some countries are less mobile than men they will not tend to 'take the money and run'[11]. However, there are problems inherent in the 'women only' targeting approach that may (counter to expectations) further exacerbate gender inequities.

Because of the different roles of women and men, they will have different needs for financial services and different access to infrastructure that supports their income generation or business expansion schemes. Again, however, it is important to repeatedly stress that neither women nor men (nor poorer women and men) are a homogenous group and should not be treated as such. Women for example can be widowed, single, newly married, pregnant, young girls, unemployed, employed, rural, urban, etc. Likewise men can be categorised by their marital status, age, income level and health status. For example, savings are very important for both low-income women and men. Savings are particularly important as a safety net for single-mothers or women who face an uncertain future.

Recently accumulating evidence has illustrated that when microfinance programmes target women exclusively, women often act as a 'front' for men who want to gain access to credit (Haddad, 1999; Goetz and Sen-Gupta 1996). The motivation of a female 'surrogate' borrower can be drawn from her ability to help her husband, sons, or other relatives attain higher status and economic prospects. In fact accessing loans or other financial services is rarely taken independently. In the context of the Grameen Bank, Goetz and Sen-Gupta (1996) found that the majority of women borrowers in their

[11] Rahman (1998) has made some generalisations about women and men's behaviour with respect to financial services, and suggested women tend to act according to 'culturally patterned behaviour', i.e. they tend to be more sensitive to verbal hostility addressed to them by bank workers and fellow group members when repayment difficulties arise. The stigma of repayment failures can be made worse if there is public collection of payments at group meetings. Rahman puts forward the notion that women are particularly sensitive because their failure to repay reflects negatively on the household and lineage, while men seem to have a more casual attitude.

study did control neither the loans received, nor the income generated from their micro-enterprises. A significant proportion of women's loans were actually controlled by male relatives, who had used the women as a front to access the credit on offer.

There is a possibility that "women-only" targeting of credit can place women at risk of domestic abuse where they are forced to act as fronts for others who are excluded from access to credit. In some cases loans have been used by men to set up enterprises over which women have little control, in other cases there are fears that women's small increases in income are leading to a decrease in male contributions to certain types of household expenditure (Mayoux, 1997). It is often assumed that just because it is women who are involved in rural finance transactions they are controlling their loans. The question remains as to what is the best way to ensure that women maintain sufficient control over their loans, invest in the most profitable activities (which can be male dominated) and maintain control over the benefits of that investment (Binns, 1998). In other cases, microfinance programmes that focus exclusively on women's economic productive role i.e. her capacity for earning money, have also led to heavier work loads for women (Mayoux, 1997) with increased pressure to work for money, simply because they have been targeted as having potential to repay loans.

Hence the impact of microfinance activities cannot be simply inferred from the take-up of financial services or repayment levels of women. Overall, it cannot be naively assumed that increases in household income will necessarily translate into increased control over that income or increased household well being, or changes in other aspects of gender inequality (Mayoux, 1995). It is important not to ignore the fact that women and men live together and have complex relations and negotiations.

On the other hand programmes that target women can be, and are, justified on the basis that to address the structural causes of gender inequity over the longer term, targeting women may sometimes prove to be the most practical entry point for making the programme work and as a bonus raising gender awareness. For instance, if a women comes to a group lending meeting and has not been able to repay her loan because her husband took the money and used it to buy alcohol with friends, or she was unable to go to the market and sell her produce because her husband beat her, by being part of the group, the woman may gain more confidence to discuss her problems at group level and come up with ways of addressing this problem. Such problems are not unusual, and peer pressure is often a useful way to stop husbands beating their wives (Johnson, 2002 pers. comm.). Hence, the inability of the woman to repay her loan is examined in the wider context of her relations to her husband. Hence, a 'gender approach' examines women or men in relation to each other and the society at large. In comparison, interventions that focus exclusively on women as a group may result in resentment among men and not be successful, as they do not consider the relations between the sexes. "Gender" and "women" are not interchangeable terms. Incorporating a gender perspective is an analytic task. It requires an assessment of the way in which gender (among other factors) contributes to shaping a particular trend, problem, or potential outcome from interventions. The reason that gender analysis often results in more discussion of the constraints faced by women is because inequality is usually highlighted through a gender analysis.

Nevertheless, in many countries there may still be a need for targeted, women-specific policies, programmes, and/or legislation because they have fewer alternatives than men in terms of accessing credit and other financial services. For this reason, many of the examples and recommendations in this Guide advocate positive discrimination towards women (i.e. targeting women) in situations where gender analysis indicates that women are a marginalized or neglected social group.

In summary, microfinance programmes that 'target women' in isolation may not be gender sensitive, because addressing gender issues in microfinance interventions means more than targeting a programme towards women, or counting the number of loans made to women. It requires adopting a more client-led approach. For instance, a gender approach would imply examination of both women's and men's economic and social position in the family, and the community. A gender approach would also imply examining how women and men's economic and social position is reinforced through the institutions that they deal with, and how national level laws and customs govern the economic and social position of women and men (Johnson, 1999). This is why this Guide does not just focus on gender issues at the client (or field) level, but also questions how gender issues are embedded within the intermediaries that provide microfinance services and within the national policy context.

2.5 Different perspectives: the macro, intermediate and field levels

Different actors in microfinance, whether they are users or providers of microfinance services will have different perspectives. To differentiate challenges, problems, and issues that arise in microfinance operations, it is helpful to distinguish different perspectives at three main levels: the macro or policy level; the field or microfinance clients level; and the intermediate or MFI level. The three levels are outlined in **Box 2.2** below.

Box 2.2: Macro, intermediate and field levels

The Macro level *includes the national policies that govern microfinance activities in the country. This includes legislation and regulations. Such national policies influence the way in which MFIs operate and also the existing incentives for entrepreneurs. National agricultural policies, demographic trends, terms of trade, national educational policy, unemployment figures and trends, public sector spending also have a strong influence on both microfinance intermediaries and clients. Multilateral institutions that can have an impact at the macro level through international laws and agreements, international co-operation and development, policy, are the World Bank, the IMF, UN agencies, the European Union (EU), bi-lateral agencies, as well as the OECD.*

The Intermediate level *focuses on institutions, (NGOs, banks, development organisations, credit unions and co-operatives, etc.), and how they operate in terms of service provision and implementation, as well as how they influence national policy governing microfinance and 'best practices[12]' within the sector. At this level, issues include the role of the public and private sectors, levels of decentralisation, institutional structures, and levels of expertise and experience within institutions.*

At the Field level *the focus is on the women and men entrepreneurs. It is essential to question how microfinance intermediaries or indeed policy makers can identify women and men's specific needs and priorities with respect to financial services. Other actors are grassroots organisations, client associations, and client networks.*

The advantage of dividing the context into macro, intermediate and field levels is that it becomes easier to diagnose at what level problems should be tackled, and to decide which issues are within our control in terms of effecting change. Recognising linkages and interdependence between the different levels is vital. By taking into account the other levels, it is hoped that no matter which level one operates at, activities will be organised more effectively. After this categorisation, it is important to identify actors involved at each level. This is achieved using stakeholder analysis, which gives an insight into the dynamics of each level, and also the interplay between levels.

[12] 'Best practices' are principles or procedures that have proved to work successfully in many contexts and are necessary for ensuring MFIs operate in a sustainable way.

2.6 Stakeholder analysis

For microfinance operations, identifying a broad range of stakeholders can prove to be a useful planning exercise to ensure that microfinance programmes run according to plan. Stakeholders include all those, directly or indirectly, who stand to gain or lose given a particular microfinance activity, programme or policy. Stakeholders can be individuals or groups and can include:

- Women or men entrepreneurs and grassroots organisations at the **field level.** In rural areas these can be farmers with small plots of land, landless labourers, migrant workers, resettled men or women farmers, different ethnic groups (with different farming practices), child labourers, rural youth, traders, etc..
- Informal finance sources (money lenders; rotating savings and credit associations - RoSCAS, etc.) as well as formal ones (banks; other financial institutions), MFIs, NGOS, Credit Unions, co-operatives; private sector enterprises; farmers' organisations; lobby groups; special interest groups at the **intermediate level**
- National and local government officers; different ministries (agriculture; finance; trade and commerce, etc.) the Central Bank; international bodies and agencies; (the European Union; the IMF; the World Bank; the UN agencies; bi-lateral donors) at the **macro level**

Attempting to identify a broad range of stakeholders for particular microfinance activities requires an understanding and appreciation of the stake of all players. The relationship of each stakeholder group to the microfinance programme objectives should be considered. The success of a microfinance operation depends ultimately on the interactions of all relevant stakeholders, who will inevitably have different goals and interests.

Stakeholder identification will perhaps help to reconcile the various demands and capacities of the different stakeholders and highlight potential conflicts of interest between the various groups. Microfinance institutions may not have the ability to resolve conflicts among different groups, but they need to be aware that they exist in case such conflict undermines the programme.

Stakeholder analysis enables effective communication of information. Identifying and if possible including a broad range of stakeholders at each of the three levels in planning should help to establish structures that will eventually channel information from the real situation at the field level to the MFI and vice versa – such information should ultimately reach policy level decision-makers.

2.7 Socio-economic factors that affect microfinance

Both women and men live in a complex world that is constantly changing. For example, farmers perpetually face decisions as to which crops or varieties to concentrate their micro-entrepreneurial efforts and resources on in response to new market opportunities, environmental constraints such as pests and diseases, labour availability and costs, amongst other reasons. Many poorer farmers do not derive all their income purely from their own farming activities and have to weigh up the benefits of different income generating activities.

It is not generally recommended to merely transfer a particular microfinance approach or microfinance model that has worked successfully in one context or culture to another, without making modifications for that particular context or location. The context within which different microfinance activities operate differs from place to place and various factors (including gender factors) influence how planned activities will operate in practice. In some cultures for instance solidarity groups as a microfinance methodology are not popular. This is the case for most of transition countries where any form of imposed collectivism revives memories of communism. Some examples of different approaches to replicating microfinance programmes are included in the **Box 2.3** below.

Box 2.3: Replicating and modifying microfinance approaches

In Russia: Several programmes started by Opportunity International, a US based international NGO, built initially on a solidarity group model, switched to an individual lending methodology.

In France: ADIE, a French NGO catering to a target population that includes immigrants and unemployed, had to drop the solidarity group model they were using in favour of individual lending. The reason ADIE changed their approach was because borrowers were from urban setting and had very few community ties. It was therefore difficult for them to identify and convince potentially interested group members to join in.

In Poland: Clients initially resisted the idea of joining solidarity groups in a microfinance programme organised by Fundusz Mikro, one of the larger MFIs in Poland. Fundusz Mikro adopted an interesting intermediary solution – they used financial incentives to attract borrowers to solidarity group lending. A group of four borrowers would get better rates on each of their loans rather than if they requested individual loans.

Solidarity group loans are cheaper for MFIs in comparison to individual loans, given the lack of collateral of microfinance borrowers and the economies of scale gained when servicing several borrowers at the same time. In addition solidarity groups share some of the work of the account officers, which further decreases the cost of loans. Hence there was a strong incentive for Fundusz Mikro to favour solidarity groups as their lending methodology, and pass the savings onto their clients.

In Norway: On Lofoten Island in Northern Norway, women had no major income generating activity prompting them to leave the island in large numbers. Men were heavily involved with fishing. An adaptation of the Grameen Bank model was initiated on the Island as a way to curb the exodus of women to the mainland. The solidarity group model, adapted to the Norwegian reality on the Island proved to be a success. Women started to develop small production and service businesses particularly oriented towards the tourist market. In general women become more content to stay on the Island.

Subsequently the solidarity group model was multiplied in other parts of Norway. For example the Froya and Hitra Microcredit Programme targets both these islands and the mainland region of central Norway. In 1998 representatives from the Swedish government became interested in exploring ways in which to adapt the Norwegian model to the Swedish context. They considered it wise to adapt the already adapted Norwegian model to the Swedish context rather than start from scratch with the original Bangladeshi model. .

Source: Authors' work

For effective planning, it is important to consider in advance the socio-economic factors that may affect a particular microfinance model in a new location or a newly planned microfinance operation. In the SEAGA programme six socio-economic factors are highlighted and these serve as a reminder of factors that could be taken into account when planning microfinance activities. Such factors include:

economic, socio-cultural, institutional, political, environmental, and demographic. All these factors should be considered in relation to gender differences.

Economic Factors

- An economic factor could be differences in women's and men's access to paid jobs and hence the level of savings they may have.
- Differences in women and men's access to financial services or issues around who controls money in a household.
- Economic factors also relate to ownership of land and other resources.
- The overall economic climate within the country is of course relevant to the way in which microfinance institutions can operate. Market liquidity, GDP per capita, potential demand for microfinance services as they exist, level of inflation (for example the financial crises in Russia and parts of Asia), the amount of aid from donors (the International Monetary Fund's support to maintain low inflation for instance), poverty levels, all constitute important factors to take into account when designing or managing a microfinance programme.

Political Factors

- Political factors may affect the way in which women and men assume and share power and authority. This can affect the policy making process with respect to microfinance.
- Political factors include government policies to promote entrepreneurs in general and women entrepreneurs in particular. The socio-political situation in the country is a crucial factor for investment and the perceived political stability or lack thereof, as well as the foreseen political situation of the country are all-important factors.
- In conflict situations, microfinance programmes face different challenges, for instance commodity flows may be difficult if not impossible. Microfinance programmes can still be adapted to such situations. For instance, where there are displaced people (Georgia) or where interethnic conflicts have occurred (Bosnia and Herzegovina) it is still possible to organize microfinance programmes.

Demographic Factors

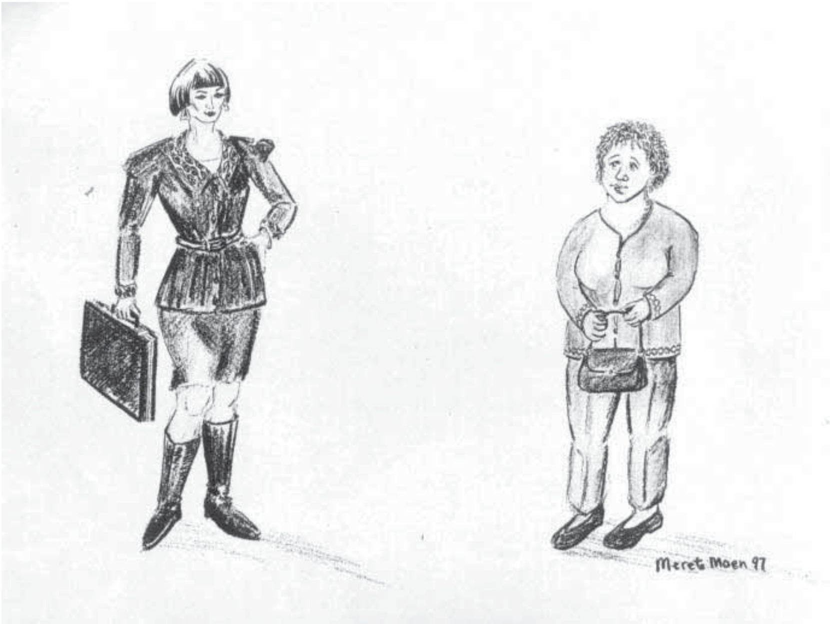
- Demographic factors related to financial services include the number of banks per head of population, or the ability of a microfinance intermediary to attain depth and scope in their operations by increasing their number of clients. For example, in Bosnia and Herzegovina where there are approximately 3.8 million inhabitants, there are now about 27 MFIs. Having realised that there are too many MFIs, they have started to merge among themselves.
- The fact that many people are nowadays moving to urban areas is also an important demographic factor. By the year 2025, the majority of the world's population will live in urban areas. It may be necessary to consider in each region whether more males than females are moving to cities and the consequence of this.
- Levels of migration, immigration and emigration in a given country or region is a demographic consideration. Immigrants make up a high percent of the Swedish population. Some of the newcomers express an interest in accessing loans to create microenterprises. The authorities are considering microfinance as a way to help the immigrants integrate into society while creating employment growth and building sustainable businesses.

Socio-cultural Factors

- Socio-cultural factors include the way we are socialised to think that women should behave in a certain way and men should behave in another way with respect to business operations (for example the dress code involved in being a business woman as illustrated in the cartoon below).
- Women and men are conditioned to behave in a certain way and to follow a certain route from the way they are brought up. Boys and girls play with different toys; are given different household chores, are expected to choose certain professions and this is enshrined in people from an early

age. In many countries schoolbooks have illustrations of men as doctors, engineers and directors and women as nurses, educators, secretaries.

- There are in general few women in key positions at all levels, in conferences it is mostly men who moderate discussions or make presentations, etc..



Sociocultural factors affect our perceptions of people, for example dress codes

Institutional Factors

- Sociocultural factors often become institutionalised. Institutional factors could be linked to the lack of education and training opportunities for women entrepreneurs because it is assumed by training providers that men should take the lead or that men will transfer the knowledge they have gained to their wives or their colleagues.

Environmental Factors

- Environment factors might include natural resources available for initiating entrepreneurial activities. Such resources might be legislated for at the national level (e.g. logging of forests) but the field level reality may be different. Women and men use natural resources differently.
- Natural catastrophes such as flood, earthquake and drought have environmental consequences and affect entrepreneurial activities.
- In some countries, legislation exists that encourages environmentally friendly uses of resources via taxation.

2.8 Resources and Constraints Analysis

Within the framework of this Guide we look at both resources and constraints of the different stakeholder groups (at the macro, intermediate and field levels). Understanding how individuals and groups at all levels allocate and use resources and overcome constraints will be important in a socio-economic and gender analysis of a microfinance operation.

2.8.1 Resources

A resource is a means of providing what is needed. Financial capital is a resource and includes savings and credit access as well as regular remittances for use of labour. Tangible assets such as land and production equipment are resources available to certain groups. Other resources necessary for entrepreneurial activities include skills, knowledge, labour, and membership of particular groups. A favourable macro policy towards entrepreneurial activities is also a resource. Natural resources can also be regarded (land, water, wildlife). Basic infrastructure is a useful facilitating resource in terms of market assets and is usually provided and controlled by the government.

The state, institutions, households and individuals all seek to maximise their resources and make use of them to manage risks and take full advantage of opportunities. At the field level for example, individuals require specific resources for their entrepreneurial activities. Both women and men must balance their use of resources to assure household food security and provide for shelter, clothing, health care, education, and production inputs. From the point of view of a microfinance intermediary, it will be necessary for example to ask questions about competing demands for resources before extending loans.

At the intermediate level, through the delivery of services, MFIs allocate resources respecting the rules laid down by the state, and the authority given to them through it. How resources are and can be used within an institution and how resources are allocated to client groups is also of great consequence to microfinance operations. Successful microfinance intermediaries have shown that they can reach sustainability with limited grant inputs, provided managerial resources exist. Governing boards can be a key resource and can play an important role in the success of MFIs. A 1995 survey of all WWB affiliates indicated that they view the relationship between the MFI management and governing board as being the main challenge in building strong MFIs. The existence of functional, successful boards is therefore a major resource for MFIs.

At the macro level, the state controls financial and productive resources and some key natural resources. Favourable national policies governing microfinance intermediaries are an important resource for rural financial institutions, banks, NGOs intending to set up programmes and activities. National policy dictates how resources are allocated among the citizens of a country. Political decision making, legal and economic systems and ethnic and cultural norms all influence how resources are allocated to whom at all levels.

2.8.2 Constraints

A constraint is a limitation imposed on a desired action or movement. Constraints to achieving an optimum situation of economic well being exist at each level, macro, intermediate and field.

At the field level women and men face many constraints in terms of getting out of their poverty situation. They also face constraints in terms of prevalent norms and values based on social roles or group membership. In many instances constraints to business development for women are as a result of gender-linked differences. For example, in some contexts women themselves are not encouraged by other women to engage in business. Hence there is peer pressure preventing women from starting entrepreneurial activities.

Governments face constraints in terms of how much they can and should spend on different sectors. They also face constraints due to the economic situation in which they currently hold office. Environmental conditions such as drought, pollution, and depletion of natural resources are all constraining forces limiting governments' ability to meet their objectives.

Microfinance intermediaries face constraints due to legislation and regulations in the country they are operating in, as well as constraints in terms of their organisational structure. In addition they are constrained by their access to donors' money and to commercial sources of funds. Political and economical events often heavily affect the operation of MFI intermediaries.

Some constraints are beyond the control of particular groups of stakeholders, whereas others can be overcome. For example the degree of infrastructure in a country is controlled at the macro level while at the field level it constrains entrepreneurs in terms of their access to markets. Inflation rates can affect the real value of individual's savings. Conversely, constraints related to non-professional approaches by MFI staff can possibly be overcome through training.

Chapter 3 - Gender and Microfinance: The Field Level

3.1 Introduction

Microfinance is often proposed as a 'cure-all' for 'poor' people, with small loans and saving facilities provided. However, it is necessary to be realistic and to highlight that many credit and saving programmes do not in fact reach the poorest, although they can benefit the 'slightly less poor' (Marr, 1999). Nonetheless, there are some approaches to providing financial services for the poorer sections of communities which have been successful and there is a body of 'best practice' on such programmes that this section draws from.

The field level section of this Guide concentrates on microfinance clients. The focus is on examining the socio-economic differences between different client groups so that microfinance services can better meet clients' needs. If development activities, including microfinance activities, are designed by outsiders only, this can ignore the capacities, priorities and needs of local women, men and children and it can lead to failure. Even in cases where the local people who are potential clients are asked for information on the range of financial services available to them, microfinance programmes may still be planned without involving local people in the planning process. However, it must be noted that microfinance programmes cannot be tailored exactly to each location, because it would be too costly to have different services for every region. Regardless, knowing your clients can mean that the correct services available are offered to the correct groups.

One way to address this problem is to consider socio-economic and gender analysis as a set of tools to allow a better assessment of clients' needs. Any such analysis should be done in a way that ensures the active participation of potential microfinance clients at all stages of planning. By avoiding assumptions about the division of labour within a community, including an assessment of entrepreneurial activities by gender, a better understanding of resource use can be obtained.

3.2 Stakeholders at the field level

The key stakeholders at the field level are the low-income women and men who are potential clients of microfinance programmes. On the whole, field-level stakeholders will include the borrowers and savers, as well as other interested groups (including the government and the MFIs themselves). Although the key stakeholders are the clients (or potential clients) of microfinance services, all such clients cannot be treated as a homogeneous group. They are in fact highly heterogeneous groups of consumers, producers, savers, investors, innovators and risk adverse economic actors (Remenyi, 1997, FAO, 1994). Deconstructing and disaggregating stakeholder groups will ensure that the most appropriate services and products are better tailored for different client groups. **Stakeholder analysis** can facilitate learning about the importance of financial institutions and any savings and credit groups that exist or existed in the past. The questions in **Appendix A3.1** will be useful for obtaining a complete picture of stakeholders.

The following subsections raise issues that will highlight potential bottlenecks evident at the field level. This section can be used by MFI practitioners to help reflect upon existing programmes, or to improve upon them.

3.2.1 Targeting the poor?

Microfinance evolved to target low-income entrepreneurs, in particular those who do not have access to formal financial services. Although many households are below the poverty line, an MFI has to prioritise which group they are targeting or may target different groups with different products. **Categorising client stakeholders** in a manner similar to that outlined in **Appendix A3.2** might be helpful as a first step (Remenyi, 1997). Such a categorisation will help in deciding which services should be offered to which group. It will also help to identify where the cut-off point is in terms of suitable clients for a self-financing MFI, and also identify the 'poorest' groups that should be beneficiaries of other types of development intervention, and which may require subsidies (e.g. education, health).

3.2.2. Are women entrepreneurs viable clients?

Women are very active in the informal sector as micro-enterprise owners and operators. Yet, women entrepreneurs as a category are often forgotten when it comes to financial services needs, even though research from several developing countries indicates that from one third upwards of all businesses in the informal sector are owned by women. In certain regions this figure is much higher. For instance in Zimbabwe 67% of all small and medium sized enterprises are owned by women; in Lesotho 73%; in Swaziland 84% and in two South African townships 62% are owned by women (Downing and Daniels, 1992).

Women's businesses can differ from those of men in some important dimensions (Rhyne and Holt, 1994). A survey from South Africa shows some key patterns and this survey has been supported by data from other countries. Some very generalised findings are listed below:

- Although women businesses last as long as men's, they tend to start smaller and grow slower; they stay smaller throughout their lifetimes.
- Women's businesses are concentrated on commerce, services and light manufacturing, particularly in sectors using traditional technologies.
- Women frequently use family members rather than hired labour (conditions and methods of payment may differ); their income generating activities are often based in the home
- Business activities provide important income for women to maintain the household well being, women's income is often as important or larger that the income of men.

Consequently, it is necessary to be aware of the particular characteristics of women owned businesses in different contexts, in order to support such an important entrepreneurial sector. MFIs need to understand these socio-economic differences so that they can offer specific products to encourage female entrepreneurship.

3.2.3 Transparent presentation of what the MFI can offer

The active participation of clients as key stakeholders in the planning and execution of MFI services can make decision making more transparent, and help to clarify what MFIs can and cannot do. However, the involvement of potential clients at the initial stage of a microfinance programme tends to generate much enthusiasm and anticipation about what microfinance can deliver. This can be problematic if the microfinance operation does not live up to expectations, or if the community has been involved in subsidised credit programmes in the past. It is essential to be honest and clear from the beginning about what microfinance can and cannot offer, in order to avoid the long-term damage that can be caused by generating unrealistic or over-expectations.

3.2.4 Stakeholder financial information

Any discussions on how people organise their financial affairs as a household, or as individuals, is usually extremely delicate and has to be treated carefully. Not all women and men are prepared to divulge details about their sources of income and expenditure levels. Many people may not want to discuss their personal financial matters with an outsider or an interviewer. People often either understate or overstate their true income. They may be afraid of revealing sources of income from illegal activities, or fearful that they will be reported to the authorities for tax evasion, or even that they may miss out on government handouts. Because of complex patterns of power relations, people often tell an 'outsider' what they think the outsider wants to hear, especially if they perceive that the outsider is of a higher income or social status than themselves. Responses from people will therefore vary depending on who the interviewer is, how the interview is conducted, and on the power relations between the interviewer and the interviewee.

Local power relations and inequalities also influence which views are expressed, as well as which members of a community participates in encounters with outsiders from MFIs (Mayoux, 1999). The timing, location and facilitators have to be appropriate for different groups of people. In addition, there are time costs to participation because people are busy and may not have the time to respond. The 'costs of participation' may be highest for the poorest in society and hence act as a significant barrier to the active involvement of the poorest social groups in microfinance activities.

The responses given by people may be interpreted in a different way than intended by the interviewer. In addition, information about income and expenditure changes quickly and although it may be true at the time of the interview, circumstances can easily have changed since that time (Mayoux, 1999). For instance if interviews take place before a harvest, interviewees may not have regular incomes at this time, or they could be anticipating a disastrous or bountiful crop depending on the growing season.

3.2.5 Group discussions

It is often difficult to get people to discuss financial issues in a group. If group discussions at the field level are planned at any point in a microfinance programme, they have to be carefully handled. Sometimes it is best to separate women and men, or have both separate and combined group discussions. Rather than actually talking about poverty and money, proxies for poverty can be devised. This could for example include housing situations, asking about families where migration involuntarily occurs, and nutrition of children. Potential and actual clients can give the most accurate information on poverty levels. Ranking neighbours on a scale from high to low can result in a consensus view of which households in a village are at the bottom of the poverty pyramid.

Group discussion using PRA methods (source: IIRR, 1998)

3.2.5 Institutional profiles from a field level point of view

Once the different organisations, institutions or individuals offering financial services to the community have been identified by the potential microfinance clients, an analytical chart such as the example in **Appendix A3.3** can be created to examine what each financial service accomplishes. For each local group or institution identified by the community, it is worthwhile to discuss different types of information: (1) their founding mission, strategy, and goals; (2) the services offered and who currently avails of them (women, men, socio-economic groups etc..); (3) management and flexibility; (4) leadership strengths, (5) governance and (6) any problems with the service, particularly gender related problems, for instance why women and men can or cannot use them. This information can be put on a chart for all to see and comment on. It is also worthwhile to ask about memberships, activities, decision-making processes and interactions or conflicts with other groups or institutions.

3.2.6 Client stakeholders needs and priorities, avoiding assumptions

It is essential to determine the financial needs of the potential clients of microfinance services before setting up microfinance operations. A system of participatory consultation involving the different stakeholders in a particular geographic location is often suggested (Mayoux, 1997). Other financial institutions operating locally (including informal money lenders) may be useful sources of information if they do not perceive a new (or a changed) MFI as a threat. A participatory needs assessment approach can help to establish ways in which credit delivery and savings mobilisation can be more market relevant, and reconcile the various demands and capacities of the different stakeholders, while at the same time identifying potential conflicts of interest between the various stakeholders (Mayoux, 1999).

For instance, **participatory needs assessments** can determine whether savings and/or credit is actually what is needed or not by poorer clients. There is often an assumption among lenders that poor women want smaller loans or only have a small amount that they can save each week. Lenders then believe that the loans required by the very poor are too small to generate significant interest income and are expensive to deliver, especially in the case of dispersed rural populations, and likewise that the savings are too small to be attractive.

The rural poor may be more susceptible to fluctuations in their income due to harvest seasonality, labour seasonality, climatic or pest/disease tolls on harvest among other factors. Hence, poorer households endeavour to smooth their expenditure, and often sacrifice potential investment opportunities at the local level that could improve their livelihoods over the longer term. In such instances, financial services such as insurance, savings, and loans for consumption purposes may be more effective financial services than productive credit (Marr, 1999). However, the key point is that microfinance planners should not make assumptions, particularly about who does what, has access to different resources and what financial services and advice people require.

Participatory needs assessments can be used to determine whether the assumptions of financial organisations are valid or not. Many rural women lack access to land or have insecure land tenure. It is their husbands, fathers, and brothers who hold land title, a practice that essentially eliminates their eligibility for formal sources of credit or membership in farmers' organizations, which could enable them to gain access to inputs that can help stabilize or enhance their production systems. Again, the assumption should not be made that women only require credit for such traditional entrepreneurial activities such as handicrafts. Women are also farmers in their own right, are involved in harvesting, selling, and other rural activities.

Box 3.1 Example of unreal assumptions about women

An integrated rural development project in the upland areas of Luzon in the Philippines was using a group savings approach prior to organising loans, with groups of 10 women. Each woman had to contribute a small amount each week, around 20 pesos. The assumption was made that this was what the women could afford. Although the women reported that they were happy with the approach, on deeper analysis it was found that the amount the women were savings was too low, they were easily able and willing to save more per week, and the aspect of the project that they were most happy with was the fact that they could meet each other weekly to contribute their pesos, have a chat with their neighbours as well as discuss their entrepreneurial activities.

In reality, these rural women were involved in a complex production and selling process, where market women would come from the nearby town and buy the rural women's produce prior to harvest. A set price would be agreed in advance, and the women in fact often required a large sum of money to tide them over the period prior to harvesting. Consequently following the production chain, some of the market women required large loans to buy the produce in advance of selling the produce, and some type of insurance cover in the event of crop failure. So in essence in this case the actual microfinance component of the integrated rural development programme was ineffective and not answering the women's real needs.

However, it can be argued that when women meet as a group, such as the example above, over the longer period, these women gain confidence and knowledge of services available leading to their increased capacity to negotiate with formal finance structures, and can later demand services from banks.

Source: Author's work

Situations are not static, rural migration and HIV/Aids is changing the demographics of rural life, so assumptions cannot be made about who is present in rural areas. As outlined in 2.4 the problems of rural women should be seen in relation to men, rather than in isolation. Solutions can then be less fixed on women alone, but more on changing stereotyped views and meeting strategic needs.

Poor people often prefer to save by accumulating non-financial assets like animals, gold, and consumer goods that can be quickly and locally liquidated, instead of cash. This is especially true in countries where inflation is a problem and interest earned on savings does not keep up with inflation. Sometimes women do not wish their husbands to know of their savings so confidentiality is important. People may only wish to save cash for particular events such as a forthcoming ceremony, or a journey that has to be made to nearby urban centres. Where such activities are widespread this has to be taken into account by the MFI.

Including a broad range of stakeholders at an early stage and avoiding assumptions may also help to establish a process that links correct information to decision-makers at a later stage. Some suggestions of initial questions for potential client stakeholders from different socio-economic groups are outlined in **Appendix A5.4**. It is important that women's (and marginalized groups) views are sought , as their opinion often get overlooked when questions are asked to heads of households, or in group discussions.

3.3 Socio-economic factors and gender at client level

Culture may determine which resources are controlled by whom in the family, who makes decisions about what to produce, how much to produce and how to distribute the benefits. For instance, a woman who manages her own enterprise may not automatically have access to the resources controlled by her husband. She may have to make a bargain with her husband in which she gets access to additional land to grow vegetables for sale, in exchange for her help with a crop that he fully controls. Similarly, to start a food trading enterprise, a woman may have to get a loan from her husband or brother, repaying with interest (Wilde, 1997).

As outlined in 2.3.1 the term 'gender analysis' is used to describe a systematic approach to examining the different impact of development activities related to gender. It involves a deliberate effort to identify and understand the different roles, relations, situations, resources, benefits, constraints, needs and interests of men and women in a given socio-cultural context. A gender analysis can help reveal not only where women and men have separate interests and responsibilities, but also where there is an overlap. Why this is important for microfinance is because the relationship between the sexes affects their abilities for income generation and decision-making. For example a wife's vegetable growing enterprise, a husband's cash crop enterprise and a daughter's beer brewing enterprise, may be linked to one another through exchanges of labour, shared access to resources but the income derived is often not pooled, the wife's income is often the only one used for the household (Wilde, 1997). A gender analysis of enterprise and employment options in the region may illustrate segregation in types of economic activities women engage in, differences in labour force participation rates, a sex difference in paid employment, differential wages for paid work, occupational segregations, as well as an unequal share in part-time employment and in informal employment. It often reveals that although women are earning income in their own right, they still bear most of the family and childcare responsibilities.

The intra-household division of labour and distribution of income has important implications for savings and loan repayments. Microfinance planners should not make assumptions about what happens within households especially regarding the distribution of household income or how increased income might impact on the overall welfare of the different household members (see 2.3.1). There is evidence that suggests that the marginal effect of income in the hands of women is different from the same income in the hands of men (Haddad, 1999). Women and men are likely to spend any increases in household income in different ways leading to different welfare outcomes regarding the household as a whole (Tripp, 1981; Pahl, 1983).

Socio-economic factors will determine the type of financial service provided in communities. In some areas of Uganda, it was found that women prefer women-only savings groups composed of members of the same age, because tradition makes it difficult to pressurise men or older women to fulfil their repayment obligations (Binns, 1998). Socio-cultural factors may also provide opportunities for discussing financial services, such as taking advantage of areas where women congregate, like markets. Such occasions may also prove an opportune place to carry out financial transactions as it would demand little extra time for women compared to women themselves having to pay a visit to a financial institution.

Socio-economic and gender based information can improve and enhance financial services programmes to be planned according to clients' needs. The SEAGA Field Handbook offers many methods and techniques to conduct a gender analysis and support a participatory process at the community level (Wilde, 1997). Two specific methods that are useful for adapting to the financial services sector are included here.

3.3.1 Income and expenditures matrices

Livelihood vulnerability varies by social group and gender. This fact has implications for microfinance activities. To understand the security or vulnerability of different people's livelihoods an attempt can be made to quantify the relative importance of different sources of income. Furthermore, the priorities and limitations of different people's livelihoods (including both women and men from each social group) can be highlighted by quantifying the relative importance of different sources of expenditures.

If an MFI is working with low-income and disadvantaged groups, it is necessary to acknowledge that loans are sometimes used for non-productive activities (Johnson and Kidder, 1999). Hence, it will be important to see if all, most or only some of client groups' total income is spent on meeting basic needs such as food, water, clothing, shelter, health care and education. Only after meeting basic needs, will people be willing to put substantial cash or assets aside in savings, or willing to take risks in terms of investing in new entrepreneurial activities. People adjust their expenditures in times of crisis, and questions about this can also be asked. **Appendix A3.5** outlines an indirect method for finding out about incomes and expenditures (Wilde, 1997). This method works very well in the context of microfinance because amounts are not discussed, only sources.

An example of some income and expenditure matrices from Yabrang Village in eastern Bhutan is provided in **Boxes 3.2** and **3.3.** These matrices were produced by two focus groups, one focusing on differences by sex (**Box 3.2**) and the other focusing on differences by wealth (**Box 3.3**). The income and expenditure matrices disaggregated by sex revealed that women and men in Yabrang have completely different sources of income (Wilde, 1997). For women, poultry and vegetables are most important, whereas men get most of their income from large stock and cereal crops. This implies that women and men may have different types of savings that they may want to deposit. Spending responsibilities, on the other hand, overlap a great deal; the greatest expenditure for both women and men is school fees. This could imply that loans disbursed during the period where school fees are due, (if payment is at regular times) may be used for this purpose rather than other productive purposes.

The income and expenditure matrices disaggregated by wealth differences revealed that the development activities that have functioned best to diversify the incomes of the poorest households are those that require little land and limited inputs, namely pigs, poultry, fruits and vegetables.

Box 3.2: Example of income and expenditure matrices disaggregated by sex

Income & Expenditure Matrices by Sex
Location: Yabrang Village, Phongmey Gewog, Trashigang
Participants: 8 women, 2 men
Date: 16 November 1996

Sources of Income	Women	Men
Buckwheat		6
Rice		6
Maize		6
Potatoes	7	
Sugar cane	7	
Vegetables	9	
Bananas	4	
Cattle		11
Horses		7
Pigs		6
Poultry	14	
Cloth sales	9	
Road Construction		8

Sources of Expenditure	Women	Men
Religious Expenses	7	4
Basics (soap, salt)	5	8
School fees	14	11
Clothing	5	6
Jewellery	3	
Seeds & Inputs	2	1
Cattle	3	3
Horses	3	5
Pigs	4	3
Poultry	3	1
Butter & Cheese	1	
Farm implements		3
Radio and watch		5

Note: Women and men were each given 50 sticks to represent their total annual income. After selecting picture cards of relevant resources and activities, they allocated their sticks accordingly.

Box 3.3: Example of income and expenditure matrices disaggregated by wealth

Income & Expenditure Matrices by Wealth
Location: Yabrang Village, Phongmey Gewog, Trashigang
Participants: 3 women, 5 men
Date: 16 November 1996

Sources of income	Rich	Average	Poor
Maize	5	1	
Wheat	1	1	
Sugar Cane	1	2	
Fruits	1	1	1
Oranges	1	1	
Vegetables	1	2	1
Bulls	5	1	
Horses	5	1	
Pigs	3	1	1
Eggs	2	1	1
Butter	5	2	
Waged Labour		1	1

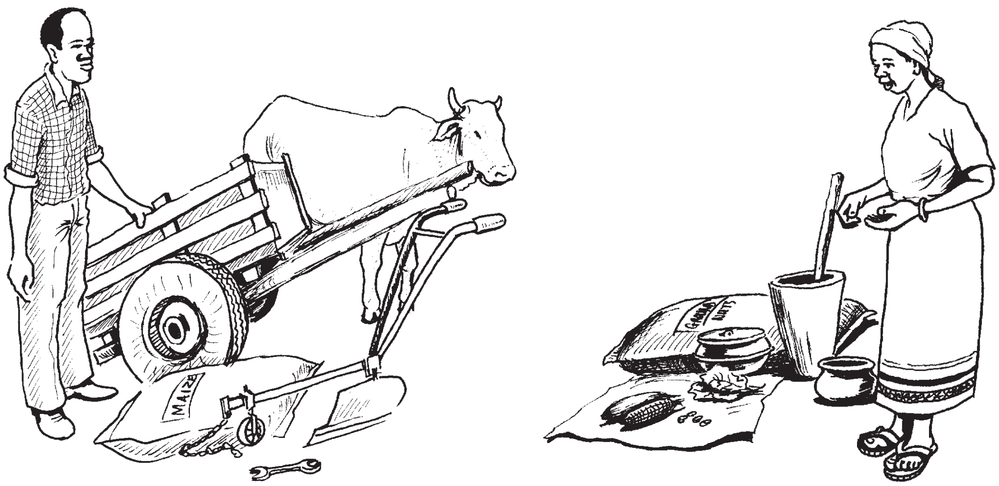
Note: 50 large leaves represented the total annual income of the community. The participants chose to divide the leaves as follows: 30 leaves = annual income of the "rich"; 15 leaves = annual income of the "average"; and 5 leaves = annual income of the "poor". The same proportions were used also for discussing expenditures.

Sources of Expenditure	Rich	Average	Poor
House	4	2	1
Religious	3	1	
School uniforms	1	1	1
Basics (oil, salt, dry fish)	2	2	1
Clothing	2	1	
Cattle	2	1	
Bulls	2	1	
Horses	2	1	
Piggery	1	1	
Poultry	1		
Seeds, seedlings & tools	3	2	1
Fertiliser	1	1	
Savings	3		
Misc.	3	1	1

Source: Wilde (1996).

3.4 Resources and constraints of clients

People engage in activities such as agriculture, marketing and paid labour to secure their basic needs and to earn surplus income. These activities depend greatly on access to resources such as land, water, labour, and technology. Within any given culture, access to such resources varies by gender, age, wealth, caste and ethnicity. When planning microfinance activities at the field level it is essential to have a good knowledge and understanding of the resources available to clients. It is important not to make assumptions regarding access of different client groups to particular types of resources, or whether different groups of potential clients have control over particular resources. In addition, MFIs must be aware of constraints that different clients will face, if such clients are to become sustainable microfinance partners.



Access to and control over resources may vary by sex (source: IIRR, 1998)

3.4.1 Resource picture cards to disaggregate resource management

In order to learn about the gender-based use and control of resources as they relate to specific proposed entrepreneurial activities, a technique called resource picture cards can be used. Such an exercise will help find out who has access to the resources that are relevant for their proposed income generating activities, for which financial services will be provided by the MFI. This includes land for collateral, livestock, raw materials, and equipment. Questions can also be asked about who makes decisions about the use of such resources. The steps in conducting such an exercise are outlined in **Appendix A3.6.**

3.4.2 Clients perception of risk

When planning MFI operations, it is important to recognise that MFI programmes are asking poorer clients to invest their hard-earned resources, and this often may mean taking a big risk. The level of risk is likely to be greater for some groups than for others. The assumption is that there is a point at which the risk is not worth the potential outcome to clients, and hence clients are unlikely to invest their resources in a microfinance programme. Minimising risk should be part of the planning process (Norem, 2000).

3.4.2 Constraints related to agricultural activities

Microfinance activities can take place in rural areas where people engage in both agricultural and non-agricultural related work. However, agriculture has unique features that can limit access to financial services. **Appendix A3.7** outlines the constraints when dealing with lending for agriculture under the headings economic, political, cultural, institutional, demographic and environmental. Approaches to overcome these constraints will depend on whether the constraint is due to; (a) agriculture practices by farmers themselves, (b) financial intermediaries perception and attitude towards farmers or (c) because of national policies.

For poverty alleviation objectives, the MFI and its stakeholders need to consider whether loans should only be provided for productive purposes. In many instances, poorer clients are subject to seasonal fluctuations in their household income and may want loans for consumption purposes to tide them over vulnerable periods (Marr, 1999). For example low-income people often work at home which further makes it difficult to distinguish between income generating loans, and credits aimed to improve the well being of the client. A loan used to repair the roof of the household may be regarded as having a productive purpose if the entrepreneurial borrower works under that roof. If the definition of productive purposes is limited only to income generating activities, then clients who may want access to loans for socially productive purposes such as improving their education or health are likely to be excluded. If the MFI decides that it will provide loans only for 'income-generating' productive purposes, this forces poorer clients to propose bogus 'productive activities' as a front for accessing loans for consumption purposes. This duplicity benefits neither the poorer client nor the MFI.

3.4.3 Constraints rural women face (and low-income people in general)

The specific constraints that rural and low-income women as a group face can be different to those of men. Some of the constraints that women particularly encounter are outlined in **Appendix A3.8**. Obviously not all women will face all such constraints, nevertheless questions about these constraints can be asked when planning microfinance activities. Likewise, constraints that people from different castes face, such as low self-esteem, may not apply to richer or more socially influential groups. Information about relevant differences and constraints faced should be obtained if such groups are potential microfinance clients.

Using focus groups, questions regarding constraints can be asked to different groups and charted like the examples provided in **Appendix A3.8**. Following the identification of constraints with respect to financial services, the constraints can be categorised at different levels; i.e. the macro (policy), intermediate (development agencies or microfinance institutions) and field (people at the grassroots level). Once constraints have been identified people can decide whether the issue is beyond their control (a policy cannot be changed easily) or whether they can come up with a solution - something that is within their control. The next step is developing strategies that can address these constraints.

3.5 Seizing opportunities for gender sensitivity at the field level

3.5.1 Holding a client stakeholder meeting

A stakeholder meeting should be conducted before formulating further initiatives or proposals for microfinance programme implementation at the local level. After conducting a participatory analysis of the status of access to financial services in a particular geographic location, and identifying the resources and constraints of particular groups, it is important that the findings are shared in a transparent and open manner. However, in many cultures details about the way individual women and men manage their finances and whether or not or how they share resources within the household is a very sensitive issue. Most people do not wish to discuss this in front of each other, let alone at the community level.

So the objectives of a client stakeholder meeting would be to share with potential clients the range of service the MFI could potentially offer, and give examples of what was offered in other villages, i.e. present what the MFI is doing and intends to do. Such a meeting would thus be a good way to share information and attempt to invite all stakeholders that have been consulted to a the meeting to learn more about the MFI. Learning by illustration is often a good way of showing potential clients what benefits they may obtain from the MFIs services, and it may be useful to invite a 'successful' entrepreneur from another nearby region, particularly a woman entrepreneur.

The identified constraints should be shared at the meeting. Discussion should be focused on opportunities for gender sensitive and sustainable rural finance strategies in order to overcome constraints identified. Ideally the organisation and agenda of such a meeting should be geared towards the setting up sustainable microfinance services.

In some cultures, a major constraint in conducting such a meeting is getting women to participate and attend. Primarily, this is often because the majority of bankers and project staff tend to be male and they then meet with and talk only to men in the village. Protocol often requires that the village leader/chief/mayor is consulted first. If only men are met, or attend such a meeting, it cannot be assumed that men will necessarily tell their wives about what went on at the meeting. Also the message can be distorted or lost in transmission.

MFI staff hence have to very clearly state that their services are for both women and men and also explicitly specify that women can also become involved in credit and savings or other services. If this is not stated, there may be a tendency for women to think it is only for men and they will not attend meetings or training. Likewise, MFI staff must specify clearly that women can also attend the meeting or else they will not go. It has to be a deliberate suggestion to the community.

Depending on the MFI products on offer, it might be important to state well in advance that individuals do not need to be able to read or write to attend a stakeholder meeting, as rural people will often assume that this is the case and may not attend because they feel ashamed or embarrassed to attend. Women in general have a lower literacy rate than men.

The meeting should be organized at the most suitable time for women as well as men, and recognize that their labour intensity differs throughout the day and during different seasons. The meeting should take place in the most centrally located place for the majority of the potential client stakeholders. Alternatively, but more costly, shorter but more frequent meetings or sessions can be held so that women do not have to be away from their household for extend periods in one day.

Appendix A3.9 has some additional suggestions for preparing a stakeholder meeting for determining microfinance services.

Client stakeholder meeting (source: IIRR 1998)

3.5.2 Starting with clients needs

The basic principles of strategic marketing inform us that we should always start with our clients needs. It is important to remember that microfinance activities should start with women's and men's own priorities, in light of what was identified in the socio-economic and gender analysis. This would be in contrast to designing microfinance services based only on the priorities and strategies of the microfinance intermediary. Basic questions that can be put forward for discussion at the client stakeholder meeting could include:

- How are the interests of women served by providing financial services to both women and men, women alone, or men alone? This question could be asked about different categories of client stakeholders, such as landless farmers and petty traders.

- What can be practically done to ensure that certain groups of women (and other different groups) are enabled to gain access to financial services in equal volumes as men?

- How will a new microfinance service affect gender relations (and other socio-economic relations)?

One method is to get potential clients groups to list their expectations from a microfinance intervention and they types of problems, constraints, or obstacles that they think may occur. This can be done separately for women and men. It is important to also list what the microfinance intervention cannot deliver. **Box 3.4** outlines how this can be done (adapted from Johnson, 1999).

Box 3.4: Potential microfinance intervention	
What is expected by the community from the MFI	**Constraints or obstacles that may occur**
1. 2. 3.	
What the MFI cannot deliver	**Why not**
1. 2. 3.	

3.5.3 Institutionalising participatory feedback from clients

It is important to ensure that all the relevant information from client stakeholder meetings is actually fed into any planned microfinance activity. This will largely depend on whether or not all the relevant staff from the MFI attended such stakeholder meetings. It is necessary to establish from the outset what information is relevant for the planning of operational MFI activities and who needs to know what, as well as what decisions can be made based on this information. Whether further information is required will also be a consideration. If a written report is required, then it should be kept as short as possible and be written in simple language.

On a broader level, at a later stage, networks play an important role in institutionalising feedback from clients not only to the intermediaries but also to the government. Networks can help with the exchange of information; to gain psychological support and to improve business activities. MFIs can encourage clients to belong to networks, or can facilitate the creation of support groups, sub-sector member organisations, business clusters, women associations of entrepreneurs, or resource centres. MFIs can form networks themselves (as in the case of Women’s World Banking, the Microfinance Network, Cashpor and others), to lobby the government for issuing legislation favourable to microfinance and to entrepreneurship development. In addition networks are efficient vehicles for the dissemination of information and of best practices.

Chapter 4 – Gender & Microfinance: The Intermediate Level

4.1 Introduction

Banks providing both savings and credit services are intermediaries because they bring together savers and borrowers to facilitate each other's goals. Microfinance institutions (MFIs) as intermediaries are no different except that their market consists of low-income clients, the self-employed or owners of micro-enterprises from the rural and urban informal sectors (Remenyi, 1997). Microfinance intermediaries can be commercial or agricultural banks that organise financial services for the urban or rural poor. However, microfinance intermediaries can also refer to financial NGOs, credit unions, or grassroots organisations that organise microfinance activities; and other moneylenders. Microfinance intermediaries can be classified into either formal or informal providers. There are also microfinance networks, composed of coalitions of MFIs (and other stakeholders), which play an important role in promoting the sector. In this chapter, we focus on microfinance intermediaries as the key stakeholders.

A major development challenge is to create sustainable MFIs that can help develop successful client sensitive businesses in a manner that raises overall living standards. Sustainable institutions are those that generate enough income to cover both administrative and financial costs in the medium to long-term (Marr, 1999). All institutions offering microfinance services need to be clear what they are doing and why. Hence, a clear vision and a transparent mission statement with an accompanying strategy are essential. To clarify expectations regarding what can be achieved, a clear definition of clients is also particularly important and should be included in any mission statement. The expected lifespan of an MFI is also worth considering for inclusion in a mission statement.

This chapter is targeted towards those working in a MFI, planning to work with a MFI, or those who wish to consider socio-economic and gender issues in planning microfinance activities. Socio-economic and gender concerns in MFIs can be considered at three levels: firstly in terms of whether the programmes, policies and services that MFIs offer their clients are gender sensitive, secondly in terms of gender issues in the actual organisation structure of the MFI and thirdly whether the MFI lobbies for an enabling legislation that has a gender development dimension.

4.2 The key stakeholders at the intermediate level

The key stakeholders at the intermediate level are the staff, management, and boards of the financial institutions or microfinance intermediaries. This also includes workers' organisations (e.g. unions) and families of those working in intermediaries. The primary stakeholders are of course the low-income women and men clients of the MFI outlined in Chapter 3. In this section we will concentrate on identifying stakeholders from the point of view of a MFI. Stakeholder analysis is important to determine who is involved in microfinance from the point of view of the microfinance intermediary. As mentioned in 2.4. microfinance programmes that 'target women' may not be gender sensitive. Examining the attitudes of the key stakeholders at the intermediary level is essential to ensuring gender sensitive microfinance operations. Box 4.1 presents a categorisation of the range of key stakeholders, from both the formal and informal sector, which may offer microfinance services.

Such an analysis may include for instance people that are already accessing credit or use saving services in the informal sector, using traders or savings and credit associations. If this is the case then the level of success and suitability of the existing mechanisms should be determined. Such analysis provides information that is critical to decision-making regarding whether the needs of the client target group can be best met by supporting existing informal financial mechanisms and institutions, or by developing new MFIs.

Box 4.1: Stakeholders who offer microfinance services	
In the formal sector: ▪ Commercial banks** ▪ Agricultural and development banks** ▪ Savings banks ▪ Credit unions and co-operatives ▪ Leasing/hire-purchase companies ▪ Housing companies ▪ Insurance firms ▪ Local and international NGOs a) Financial NGOs (ADEMI in the Dominican Republic, PRODEM in Bolivia, Fundusz Mikro in Poland). Some financial NGOs eventually became commercial banks: BancoSol in Bolivia and K-Rep in Kenya. b) Generalist NGOs that run microfinance programs (BRAC in Bangladesh, BOSPO in Bosnia and Herzegovina, Catholic Relief Services and Save the Children worldwide[13]). ▪ Networks of microfinance practitioners (Cashpor, Accion International, FINCA International, Women's World Banking) ** Banks can be further classified into private banks (The Hatton Bank in Sri Lanka); state-owned agricultural banks (Bank Rakyat and Unit Desa in Indonesia) and poverty oriented banks (SEWA in India, the Grameen Bank in Bangladesh, BancoSol in Bolivia and K-Rep in Kenya).	**In the informal sector:** ▪ Those who lend directly to individuals: friends/relatives, money lenders, suppliers who give credit, retailers who give credit, pawn shops ▪ Self-help groups/associations such as RoSCAS that can be structured in a variety of ways for emergency, consumer or investment credit. Self-help groups are called by different names, e.g. tontines in Western African countries and susu's in East Africa ▪ Grassroot organisations

Apart from MFIs and MFI clients as key and primary stakeholders at the intermediate level, a variety of other organisations, individuals, and groups at the intermediate level will be affected by the activities of a MFI and their opinion will have an input, either in terms of supporting the MFI or being concerned about the MFIs activities. Because all of the following stakeholders may interact with MFIs and may hence affect the services that MFIs provide, a broader perspective on stakeholders at the intermediate level could include:

[13] The NGO called Save the Children has recently spun off several of its microfinance institutions (e.g. in Armenia, Gaza, Jordan, Lebanon, Morocco, and the West Bank). These MFIs have become (or are in the process of becoming) autonomous, i.e. 'stand alone' local institutions.

- Business suppliers and buyers who engage in business transactions with micro-entrepreneur clients of MFIs
- NGOs that are not set up primarily to work in the area of microfinance but wish to offer some credit and savings services
- Entrepreneur associations of various types (SME business associations, chambers of commerce, handicraft associations etc.)
- Business consulting bodies and business service providers
- Vocational and training institutes that provide skills that can be used for entrepreneurial activities
- Various national and public sector institutions geared to develop the private sector

Having identified the key stakeholders, the next step would be to assess their perceptions of financial services available. Assessment of stakeholders' (including clients') perceptions of an MFI can reveal reasons why potential clients avoid or do not use the services of the MFI. For instance, many poorer rural people will prefer to invest in tangible assets (e.g. livestock, televisions) that can be quickly liquidated in local markets, rather than place their savings in new MFIs located in the nearest urban area. Pawnshops exist because some people prefer to invest in kind rather than in cash and to liquidate their investments when cash is needed (Chua and Llanto, 1996). MFI staff should consider and address such perceptions if they are to reach poorer clients.

The perceptions of rural people regarding the stability and long-term future of new MFIs will also have a large bearing on whether they consider it too risky to trust their money with such MFIs. This problem will be more acute in situations of social upheaval or political uncertainty. The client's perceptions of the likely lifespan of the MFI will also influence the attitude of borrowers vis-à-vis repayments. If they feel the MFI is not going to last, borrowers might be tempted to delay payments or avoid making them. In fact MFIs play on their continuity when enticing borrowers to repay loans in time so as to take subsequent loans in increasingly higher amounts. This problem will be more acute in situations of social upheaval or political uncertainty. Hence from the MFI's point of view, it is crucial to know how people view their position in the market place.

In summary, if an organisation is planning new microfinance operations in a given location/sector or with a particular client group, an essential first step would be to list all the stakeholders (individuals, organisation or groups) that are most important in terms of financial services delivery and who have a vested interest in microfinance initiatives, including potential client groups. The construction of a **Venn Diagram of Stakeholders** as outlined in **Appendix A4.1** is one useful way to examine the interests of all the key stakeholders, including those who might be adversely impacted by any new finance services offered. The advantage of developing such a representation of stakeholders is to identify all the relevant actors, and whether women and men, or different socio-economic groups view and value different MFI services in the same way. It can also help to examine the relationships among stakeholder groups.

Conducting a Venn Diagram of Stakeholders (source IIRR 1998)

After identifying the stakeholders, it is useful to evaluate their relative 'stake' in the MFI programme or project. To do this it is useful to systematically list the stake and relative influence of each group identified as a key stakeholder, the potential effects they will have on the microfinance programme, and the importance of the stakeholder group for the success of the microfinance operations. A matrix similar to the one provided in **Appendix A4.2** could be developed for this purpose (Rietbergen-McCracken and Narayan 1997). This exercise will help in the planning of microfinance operations and help to determine which services should be offered by your MFI.

Clearly, the MFI planning the microfinance activities is a major stakeholder. It is necessary to internally assess the procedures, processes and programmes within the MFI offering the services to ensure that they are gender sensitive.

4.3 Socio-economic factors and gender issues in MFIs

A range of socio-economic factors and gender issues within MFIs will affect the ability of the MFI to successfully deliver microfinance services in a sustainable way to its targeted clients. In this regard, the category of intermediary involved in MFI operations matters much less than the policies it follows in terms of its clients and the environment within which it works (FAO, 1998b). Successful delivery of financial services to women (and other potentially marginalized groups) will need to respond to the differential needs of such clients, and thus will differ from traditional entrepreneurship development programmes (Rhyne and Holt, 1994).

In all cases, clients are more likely to participate when services offered seem suitable for the types of enterprises they run or would like to run. The identification and addressing of socio-economic factors and gender issues affecting MFI service delivery can improve the functioning and effectiveness of a MFIs activities. In this section elements are outlined that together constitute the preconditions for institutionalising socio-economic and gender considerations in microfinance intermediaries, including mainstreaming gender concerns into the day-to-day operations of the MFI and examining staffing issues. For an overview on characteristics of women owned enterprises refer to Chapter 3.

4.3.1 What is gender mainstreaming?

Gender mainstreaming[14] is achieved when an MFI can systematically assess the implications for women and men of any planned action, including legislation, making women's as well as men's concerns and experiences integral dimensions in the design, implementation, monitoring and evaluation of policies and programmes (ECOSOC, 1997). Gender mainstreaming ensures that women and men benefit equally from MFI services and inequality is not perpetuated. Thus, rather than merely targeting women clients, gender mainstreaming refers to the process through which an organisation assumes a comprehensive gendered perspective. So rather than having the focus only on women, –the relative conditions of men and women in access to financial services are examined in order to highlight differences and then focus on identifying and reducing gaps and inequalities between women and men.

This approach recognises that gender roles are culturally specific. In fact the purpose of adopting such an approach is to understand the different realities of men and women in particular (cultural) contexts. As such gender analysis, should ensure that activities are designed to be more appropriate in different cultural contexts by informing an understanding of norms and realities of men and women on the ground.

As a first step in 'mainstreaming' gender issues within a MFI it should be asked how your MFI rates on the following issues or approaches:

- Awareness of the importance of socio-economic and gender issues in microfinance operations
- Commitment to addressing socio-economic and gender issues in microfinance activities
- Capacity for formulating gender-focused microfinance activities (rather than women only focused)
- Capacity for applying the findings of socio-economic and gender analysis to ongoing activities
- Willingness to allow the activities of the MFI to be open to scrutiny from outsiders on gender specific impacts
- Willingness to discuss reporting of gender relevant lessons learned and subsequent programme activities adaptation
- Hiring and promoting women or gender sensitive male staff at management and leadership levels as well as on the board of the MFI

(adapted from Norem, 2000)

[14] Gender mainstreaming as defined by ECOSOC, 1997

4.3.2 Gender and MFI staffing

A priority issue in 'mainstreaming' gender within MFIs is 'unpacking' the attitudes of staff regarding their clients. Attitudes of financial officers greatly affect service uptake. Clear improvements in service delivery have been illustrated in organisations and programmes where staff are gender aware, and empowerment issues are raised as a routine part of interactions between staff and clients (Mayoux, 1999). Conversely, while the staff of many NGOs involved in microfinance may have a comparative advantage regarding knowledge of gender issues, the lack of business skills among staff within the NGO sector may also limit their ability to sustainably deliver microfinance services to poorer clients (Gibson, 1993).

Gender mainstreaming is not resolved by women-only focused microfinance programmes, as these do not challenge gender inequality (Mayoux, 1999). There are significant benefits for microfinance programmes where gender mainstreaming is not just left to 'women' in the MFI , i.e. where male staff are also working on gender issues. However, a major question often remains whether suitable female staff can actually be recruited if that is what is required, i.e. in communities or cultures where women do not often meet outsiders particularly men. It should be clarified before programme initiation, whether special arrangements need to be made for female staff.

Where staff incentive schemes are in operation they should be subject to gender and socio-economic auditing for any undesirable consequences in service delivery that may result. For instance, many MFIs have set new rules to increase staff productivity, such as promotions and higher salaries, which depend upon how many and how quickly, loans are disbursed and recovered. Such incentive schemes can inadvertently lead to the exclusion of poorer clients, especially in rural areas (Marr, 1999).

It is also necessary to determine staff attitudes towards low-income clients. Attitudes range from people thinking that poor people do not have enough opportunities for saving and investment to those that believe poor people are lazy and 'know no better'. A useful way of 'unpacking' staff attitudes and bringing issues up is to raise gender sensitive issues at regular staff meetings. This can be done by writing a list of **controversial statements** in advance and circulating them to people individually, giving them time to reflect on the questions. Later the issues can be brought up at the staff meeting. **Appendix A4.3** below outlines the types of questions that could be used as a basis of such a discussion.

A gender sensitive policy in a MFI helps provide a framework to support gender aware implementation of microfinance programmes. In conjunction with MFI staff, drawing a **gender mainstreaming checklist** as outlined in **Appendix A4.4** will help in ensuring that gender mainstreaming is really put into practice in the MFI.

4.4 Resources (financial and non-financial)

The control of resources within the MFI may either create constraints to gender mainstreaming or support such an approach. For example, a budget may need to be allocated for eliciting views of both women and men stakeholders prior to the introduction of a MFI programme. Different donors will have different approaches to gender mainstreaming, and hence depending on the MFIs source of funds, the weight given to gender mainstreaming is likely to vary. Later when a MFI programme has been accepted and implemented, donors often advocate constant monitoring and evaluation at client and MFI level. However if MFIs are to be sustainable they do not have the time to carry out detailed monitoring and evaluation themselves. They generally do not have the expertise either for such assessments. Impact studies should be funded and organised by donors. Coordination between donors on methodologies for impact assessment of MFI activities is required.

However, if or when information on gender roles and the 'gendered' impact of such programmes is available, MFIs need to have the resources available to adapt their services to such circumstances. MFIs must be dynamic because they exist within and have to react to an environment that is constantly changing internally and externally. A 'learning organisation' seeks to understand those dynamics in order to maximize progress toward goals and objectives (Norem 2000). For example changing gender roles in business transactions will imply that MFIs have to also change their way of implementing their activities to different groups. A learning organisation requires resources to develop and train its board, staff, and stakeholders.

Human resources of any organisation are its' most valuable asset. Human resource management includes creating a work environment that meets people's needs so that they can be as productive as possible. The best people available should be recruited and hired. If investment in training for staff has been realised, staff are a very expensive resource to lose. The assessment system should tangibly reward people and help to keep them in the organisation with opportunities for ongoing learning, career development and advancement (Norem, 2000). On the one hand, employees of microfinance institutions are often expected to pursue conventional profit-oriented aims when dealing with the majority of their clients. On the other hand the same staff are expected to adopt a different attitude when dealing with poverty-alleviation projects, without any differential internal incentives to reward achievements in dealing with or lending to the poor (Kabeer, 1995). It is clear that a different attitude and approach is required when dealing with poorer clients. **Appendix A4.4** lists issues and statements that can be used to determine staff attitudes to socio-economic and gender issues.

An efficient ***gender- sensitive Management Information System (MIS)*** is a useful resource for an MFI. The nature and type of MIS vary between programmes, with some programmes having very limited information, others have comprehensive computerised information on financial performance and others special impact and evaluation procedures. Relevant information can be collected relatively easily and cheaply through rewording of loan applications forms, data collection for loan monitoring and programme exit forms and /or addition of specific questions based on the criteria and indicators identified. Gender sensitive MIS systems can be developed. This would enable statistical information on clients disaggregated by sex (or other variables) to be collected on an ongoing basis. Furthermore, as there is now increasing experience of integrating poverty impact assessment into programme monitoring, it should prove relatively easy to conduct gender analysis of financial data (Mayoux, 1999). However as mentioned above, to maintain financial sustainability impact assessment and studies should ideally not be carried out by the MFI itself, but delegated to those who specialise in socio-economic and gender impact assessment.

Background information as a resource: Both qualitative information and quantitative variables on socio-economic factors in the MFI catchment area is a very useful resource for MFIs. Some categories of information are critical for understanding gender-linked differences and differences due to age, ethnicity, socio-economic status, place of residence, region and educational level of potential clients.

Caution is necessary because collecting and analysing information is expensive, and it can be time consuming to wade through large amounts of information.

MFIs will typically collect the same types of information regarding clients that larger commercial banks do. This entails the collection of market information on clients that segments client groups by factors such as geography, demography, business size, income, debt capacity, financing need and behavioural attributes. A wider range of indicators can be used to further dissagregate poorer or marginalized groups involved in food and agriculture, including:

- Type and size of landholding
- Sex
- Nutritional status
- Disability
- Household size

The first step is for the MFI to define what information they are lacking and why? Is it already available? Can they easily gain access to such information? How can information on clients and markets be systematically integrated in the MFI? How will client information be kept confidential and who will have access to such information on clients? In order to categorise which types of information might be useful, **Appendix A4.5** provides a checklist of information categories and why such information in each category would be useful (adapted from Norem, 2000).

4.5 Constraints to MFI operations

4.5.1 Financial constraints

Both the establishment and operation of microfinance activities is costly. After an inception period, usually 3-5 years, experience shows that microfinance intermediaries can become operationally and financially sustainable. In order to become sustainable, transaction costs will tend to be high initially for the borrowers so that the MFI's operation costs tend to be covered by the profits generated (FAO, 1999). Because MFIs deal with different clients than other banks and utilise different banking methodologies, they face unique risks that can constrain their operations. For instance MFIs face:

- Loan default risk, high costs per unit lent,
- Liquidity risk, when the MFI is not able to meet its cash requirements including lending needs
- Interest rate risk, loan will decline in value as interest rates change
- Foreign exchange risk, affecting international borrowings
- Inflation risks

Rural MFIs also face additional repayment risks when they lend to entrepreneurs engaged in farming (FAO, 1999). These include:

- Yield uncertainty due to weather, pests or diseases
- Price uncertainty due to market fluctuations where developing country markets are imperfect
- Distorted credit markets with competitors offering subsidised interest rates
- They also face risks due to changes in domestic and international policies. For example changes in prices of internationally traded cash crops such as coffee price fluctuations, preferential trade agreements for products such as bananas as part of international conventions such as the Lome Convention or as part of a single European market.

Many MFIs have developed solutions for the high risks and costs associated with lending to low-income clients and farmers. Some of the means through which MFIs have overcome constraints they face and reduced their costs include:

- Developing standardised operation systems, including streamlined approval systems for loan disbursement
- Mobilising savings and funds
- Building efficient Management Information Systems
- Ensuring they have an optimal portfolio mix
- Attracting repeat clients
- Having clear supervisory and reporting procedures with mechanisms in place for monitoring and evaluating as well as a good system for repayment collection, including immediate action when payments became overdue.

4.5.2 Costs of MFIs providing additional services

Whether MFIs should follow a minimalist approach (finance only) or a credit-plus approach (offering additional services) is much debated. Some MFIs have offered business support services in addition to finance (such as business training, technical assistance, and gender awareness training), many of which have proven to be expensive yet have had minimal impact on clients. This was often because the MFI was not specialised in the area, or specialised in training. In order to overcome these drawbacks, particularly when the MFI does not have the special expertise for offering such support, it may be possible to link with other organisations providing such services rather than attempt to provide them directly through the MFI. Indeed, linking with specialised training agencies that offer skills development courses has proven effective. Hence, as a general rule training should be run separately (in a different organisation altogether) since training requires continued grants while MFIs should seek to generate income to become sustainable. However in some countries, training agencies may not exist and the MFI may feel obliged to provide the support service itself.

4.5.3 Costs of ensuring client participation

Successful businesses listen to their customers. Successful MFIs continually try to respond to perceived client needs and adapt their services to better fit changing demands of their clients. One important dimension of empowerment for low-income clients is the ability, or power to put something on the agenda of MFI board and management meetings (Lukes, 1974). MFIs that choose to involve the borrower in the loan-funded activity can contribute to the empowerment of clients (Ackerly, 1995).

Structures that are set up for client representation in institutions are often referred to as adapting a 'participatory approach' (Chambers, 1994). The level of participation of clients in decision making varies greatly with different MFIs. The cost of setting up a participatory process so that clients have a greater say in decision making can be high. Although initial costs are high, a participatory approach is more effective in the longer term because it will help to establish a more effective relationship between clients and service delivery (Ashby and Sperling, 1994).

However a broader question should be asked (regardless of the level of 'participation') about whether self-selection of MFI clients can lead to the exclusion of poorer clients. If an MFI proposes to have a poverty reduction focus, then a mixture of selection strategies (e.g. self-selection, incentive mechanisms, quotas, targeting) may be necessary to ensure that poorer social groups are catered for (Marr, 1999).

It is important to realise that MFIs will not be able to solve all issues that clients raise through a participatory approach (for instance those related to the macro level as outlined in Chapter 3). However, a process for client participation might mean that the MFI acts as a linkage to other agencies that address such issues.

4.5.4 Constraints imposed from 'donors'

Often MFIs are under pressure to report to donors, governments or private sector investors on all aspects of their operations including increasing scale and outreach. MFIs, under pressure from their 'funders' to become financially self-sustaining in a short period of time are automatically driven towards less poor borrowers who can take out larger loans. Mechanisms for clarifying 'donors' needs and negotiating between these and the demands of grassroots groups should be clarified from the outset.

4.6 Moving towards gender sensitive MFIs: Seizing Opportunities

An important consideration for MFI planning should be whether gender sensitive information can be included in order to increase the MFIs responsiveness to gender differences among microfinance clients. Microfinance planners set goals for the activities of the MFI and develop strategies to pursue these goals, such as setting credit rates, developing criteria for loan applications, and setting rates of savings returns. Most importantly for identifying opportunities is to assess whether microfinance planners are aware of the differing priorities of different client groups, (such differences can be based on gender, age, ethnicity, race and other socio-economic factors), and how best to respond to them via microfinance delivery.

4.6.1 Gender sensitivity: planning in the microfinance sector

Setting of gender sensitive objectives for the microfinance programme. This is the first step. It is important not to overload the objectives, thereby expecting them to resolve all the problems identified by the communities. In particular it is important to recognise that some problems would be better tackled by other measures. Each objective should be checked to see if is: related to client needs (the needs expressed by men and women potential clients); time limited; clearly stated; action oriented; precise about end results; and possible to achieve. It is necessary to consider the support services required to achieve the objectives, ensuring women can participate and importantly, who should provide such non-formal services (e.g. literacy, skills training).

Microfinance programme implementation: Once gender sensitive objectives have been identified, a critical issue is MFI staffing. Gender sensitive implementation of activities requires gender sensitive MFI staff. Gender sensitive project staff development implies that both male and female staff clearly understand how gender relates to the objectives of the MFI, agree with those objectives, and can identify indicators in order to continuously assess how objectives are being achieved.

Monitoring microfinance activities. This will help to determine how the MFI is meeting the needs of low-income clients. Data that relates to the volume, composition and performance of loan portfolios, as well as savings deposits can assess the effectiveness of the MFI programme. However, collecting information on clients is costly, and it is important that only the most relevant information required is collected. Because of the transaction costs involved, lenders should not become bogged down with monitoring the exact uses of loans, especially when the loans are small and many. It is important to establish whether borrowers can afford to repay their loans and to ensure that incentives to repay (e.g. peer pressure, repeat loans, collateral, social sanctions) are in-built to the microfinance process.

In order to reduce the costly collection of primary data, one level of monitoring can be done by microfinance clients themselves, another level can be done by microfinance intermediary staff through field visits and routine reports to the programme. Several MFIs have client impact monitoring questions built into their MIS (e.g. Kamurj in Armenia). A further level of monitoring and overall evaluation of the impact of the microfinance programme should be done by 'outsiders' for example 'funders' and the results should be shared with the MFI staff. This will assist in performance measurement.

To determine which information should be monitored by MFI staff and why, a monitoring chart can be drawn up and the person(s) responsible for collecting which data should be designated in advance. Developing a chart similar to the one in **Appendix A4.6** is a useful exercise to ensure that the focus of monitoring is clear to all involved.

It is important to question whether the borrower is the also the primary beneficiary. Several researchers have observed that even though loans are predominantly made to females, control over how loans would be spent remained with the male members of the household. Nevertheless the payment obligations remain with the borrower. Thus, whether the distribution of loans by sex is a reliable indicator to the distribution of benefits can be (and should be) questioned (Remenyi, 1997).

MFI impacts typically differ between women, so caution should be exercised when identifying one set of indicators that are equally relevant for all women. Another method for monitoring is to compare changes in incomes of families involved in the microfinance programme with families not involved. Such as system can also be set up for individuals. A matrix similar to the one in **Appendix A4.7** could be developed for this purpose.

Evaluation is the process of gathering and analysing information to determine: (1) whether the microfinance programme is carrying out its planned activities, and (2) the extent to which the microfinance programme is achieving its stated objectives through these activities. Apart from evaluating the routine financial matters such as operational sustainability and financial sustainability, specific concerns in terms of socio-economic and gender issues also need to be evaluated. However, the MFI itself will probably not be in a position to adequately determine the impact of its activities on different stakeholders, and as previously mentioned, it is more efficient if 'outsiders' or 'delegated independent authorities' evaluate the impact of the microfinance programme.

Some questions for evaluating a microfinance programme in terms of socio-economic and gender issues are:

- Have the gender aspects of the programme's design been supported in the course of implementation
- How have women responded to the microfinance services on offer?
- Have women and targeted disadvantaged groups benefited?
- Who have the benefits been for? Women themselves? Households and families? Particular social groups?
- Which women have been reached, not reached?
- Which socio-economic groups have been reached, not reached?
- To what extent have expected positive and negative effects on women occurred in practice, have there been any unexpected impacts on women and on gender relations more widely (both positive and negative)

Appendix A4.8 outlines some examples of quantitative and qualitative indicators that can be used. It is recommended that an MFI chose those indicators most relevant to its activities.

4.6.2 Networking and lobbying

MFIs are often in a position to lobby for enabling legislation and regulations that govern their activities. Due to their closeness to, and knowledge of, their clients, MFIs may know what policy is lacking or required, and could also be in a position to lobby for gender issues to be considered in financial policy. One successful approach for lobbying is to present a report to the government or other potential sponsors highlighting

> ***Box 4.2: An example of networks playing a major role in policy change.***
>
> *At the end of 1999, the Upper House of the Russian Parliament reviewed the final draft of a law proposing changes that were positive towards microfinance institutions. Women's World Banking, Opportunity International (two international organisations that run MF programmes in the region) and the Russian Women's Microfinance Network succeeded in influencing the Russian authorities to come up with the national legislation favourable to MFIs and their clients. Their efforts resulted in supporting legislation for Russian MFIs as foundations that do not need to obtain a banking license to conduct micro-lending activities. They also lobbied for exemptions from value added tax.*

successful programmes of the past, while emphasising the high repayment rates achieved even from poorer clients. Microfinance intermediaries and other stakeholders can participate in meetings in order to meet with policy makers with the purpose of discussing policy. Policy makers in this sense is broad, including top managers of banks, government ministers, development agency officers, and other senior government officials. Stakeholders can group together and form alliances with like-minded organisations to influence policies.

MFIs can have an impact on national policy if their representatives are asked to participate in national advisory committees. Opportunities are also often provided to grassroots organisations when their inputs and contributions are required in the preparation of national reports for international conferences. This occurred during governmental preparations for the Fourth World Conference on Women (1995) and for the Microcredit Summit (1997). The preparatory process for such conferences can act as a catalyst for many types of policy changes. **Appendix A4.9** provides some suggestions on how MFIs can influence the policy arena to incorporate gender issues.

Apart from sharing information that is useful for lobbying for more effective gender sensitive policy that facilitates microfinance. An MFI can support women who take micro-enterprise risks by linking them to mutual support networks among women that may provide adequate skills training and other forms of technical backup. MFIs can also attempt to encourage male support for activities that women entrepreneurs are involved in.

Microfinance networks have played an important role in promoting the sector. The Secretariat of the Consultative Group to Assist the Poorest (CGAP) provides funds for MFIs networks, in parallel to its direct support to MFIs. Networks offer the advantage of economies of scale, and a thorough knowledge of their affiliates. Based on CGAP's experience, efforts to build capacity through networks should include: a human element (strong professional network leadership); an ability to capitalise on outside resources; an excellent relationship with network members; a focused member-driven agenda, demand driven services as evidenced through cost recovery. Any capacity-building proposal must be owned by network members rather than by the headquarters or network head (Brandsma and Sapcanin, 1999).

4.6.3 Learn from 'best practices' of other MFIs

There are a multitude of examples of increases in client's well-being as a result of the services offered by MFIs. Even though few detailed impact studies are available, in many parts of the world there are examples of sustainable 'successful' MFIs. Successful MFIs tend to have low costs per unit lent, low operating costs, high return on investments, high repayment rates and large numbers of loans per officer. Access to financial resources as a result of mobilising savings and investing savings for their clients rather than relying on outside sources of funds is another measure of sustainability within MFIs. Additionally, for MFIs to be financially sustainable, and have a long-term presence in a given area, their scale and outreach have to be maximised. **Appendix A4.10** lists some 'best practices' for MFI service delivery,

4.6.4 Providing non-financial services

Cost effective techniques to provide non-financial services such as the improvement of management and technical skills among entrepreneurs are currently not well elaborated. As mentioned in **Appendix A4.10** it is difficult to effectively provide both financial and non-financial services concurrently. Rhyne and Holt (1994) suggest the following approaches to non-financial services :

1. Incorporate the 'sound' principles of financial services delivery into the design of any non-financial training and technical assistance.

2. Apply sector specific approaches. e.g. focus on interventions that can make a difference to a large number of entrepreneurs from the same sector.

3. Lobby for a better emphasis on self-employment in local or regional vocational and training institutions, if you have access to such institutions.

4. For the poorest clients, try to integrate social development functions into financial service methodologies, e.g. through working with specialised organisations for those clients.

Other experiences suggest that working with clusters and networks of enterprises can be an efficient way to provide business development services. Some microfinance practitioners suggest that a demand-driven approach (i.e. focused on the needs of buyers of products and services) can mostly motivate entrepreneurs to improve the products and services they are selling (Humphrey and Schmitz, 1995). Some recent attempts to apply this approach to microentrepreneurs are pointing to the potential success of this approach. In other cases it was shown that by taking a demand focused approach, i.e. by looking at the buyers' needs, non-financial services might have a more effective impact on improving the performance of microenterprises.

MFIs have the power to bring gender issues onto the policy agenda. In particular, MFIs can improve their gender sensitivity through various practices (e.g. management practices, changing objectives, encouraging clients). The Appendices provide summaries and suggestions of a range of actions that can be taken to improve MFI performance and to increase gender awareness within the MFI institutions themselves.

Chapter 5 - Microfinance: The Macro Level

5.1 Introduction

The macro level concerns national policy governing microfinance activities in any particular country. This includes legislation and regulations that influence activities of microfinance institutions (MFIs) as well as legislation and regulations that affect individuals as entrepreneurs or as borrowers. In the context of food and agriculture, microfinance programmes are often located in or targeted towards rural areas. National agricultural policies, along with financial sector policy, can determine agricultural and rural finance policy.

Many national policies are shaped by the global macro economic environment. Issues surrounding the globalisation of the world economy and the economic integration that is taking place worldwide create a new operational environment for production, distribution, trade and commerce. Trade and financial service treaties at the global level lead to major changes in the domestic economic environment, which have impacts at the local level.

The ability of a person to function as an economic individual, that is to be able to enter into voluntary contracts to exchange goods and services, is often determined by the state. In this context, gender is a central variable in production, resource allocation, and decision-making in household, community and societal spheres (Coelho & Coffey, 1996). Equal treatment for men and women often means that governments will specifically have to design targeted legislation that facilitates women's economic participation.

If policy on microfinance explicitly recognises the limitations of the sustainable microfinance approach for poverty reduction (Hulme and Mosley, 1996; Marr, 1999), then microfinance policy can be integrated and supportive of other policies and activities that are directly targeted at the poorest. For instance, in countries with National Poverty Action plans (e.g. Uganda, Ghana, Mozambique) where input from microfinance stakeholders will be important to highlight what microfinance can and cannot do regarding poverty alleviation (Healey *et al.*, 2000).

Although many low-income women are economically active, and may be self-employed micro entrepreneurs, to date most laws and financial institutions ignore them. Small-scale women entrepreneurs are often not considered to be an important client group by policy makers. While women are over-represented in the informal business sector, policy makers often disregard both women and men in the informal sector and focus on formal sector development strategies.

Low-income or micro-entrepreneurial women or men can face formidable barriers to financial services. In some cases the definition of target entrepreneurs implies they have at least one employee. Certain financial schemes require clients to be operating full time in an small to medium enterprises SME to be eligible for loans offered through the scheme, or to be in manufacturing rather than services. The loan may be for fixed-capital investment rather than working capital. Women are rarely able to dedicate all their time to their SME because of their multiple roles, and women tend to be concentrated in the services and informal sectors and hence require more working capital rather than fixed capital.

Overall it can be said that micro-enterprises and SMEs constitute the emerging private sector in most countries and thus form the foundation for the growth of the private sector (Hallberg, 1999). Governments are interested in policies that strengthen micro-enterprises because of the scale potential inherent in their numbers and the numbers of workers they employ. However, it is crucial that policy makers and stakeholders consulted during the policymaking process can promote the needs of both formal and informal micro-entrepreneurs and both women and men.

In this Chapter, we look at how socio-economic and gender issues regarding microfinance can be examined at the macro policy level and how they affect microfinance intermediaries and the ability of women and men to operate as micro-entrepreneurs. In addition, strategies to identify a key group of stakeholders involved in policy making, or a key group that could have influence on policy in the microfinance sector, are described. The resources and constraints related to gender sensitive policy-making for microfinance intermediaries are also covered in this chapter.

5.2 Gender issues and socio-economic factors in the policy process

Gender can no longer be treated as an 'add on' area of policy and intervention. There is sufficient evidence now available to argue that gender is a central organising principle around which not just social and cultural, but also economic processes, are structured (Elson, 1995). This chapter does not reiterate in detail the valid arguments that have been put forward regarding the relevance of gender and macro economic policy (for a detailed account of gender issues in macro economic policy the reader is referred to Van Staveren and Elson (1995)[15]). In sum, treating men and women as perfect substitutes when assessing labour availability, or the character of production or consumption units produces false estimates and can render women invisible in economic planning (Coelho & Coffey, 1996).

A gender-aware perspective is much more likely to be concerned with the economic woman, as well as the economic man, how they think in terms of entrepreneurial activities and how they interact. The ability of women to enter into economic contracts is constrained when state legislations treat women as less than full citizens. A key example of this in some countries is the restriction of the ability of women to enter into credit contracts by their lack of rights to family assets. Often women cannot sign contracts in their own right and require a male guarantor (father, brother, husband) (Elson, 1995). The special constraints that low-income women entrepreneurs face controlled by macro level policy are outlined in **Section 5.5.1** below, while more general details on constraints faced by women entrepreneurs, (i.e. not just those under the control of macro level policy) are outlined in Chapter 3 of this Guide.

A range of socio-economic issues also affect and influence macro level policymaking. Demographic trends, terms of trade, national educational policy, unemployment figures and trends, public sector spending all have differential impacts on women and men's ability to operate as entrepreneurs. In order to assess the impact of socio-economic factors in terms of policy on microfinance intermediaries, a number of questions have been formulated. These are presented in Box 5.1, and they act as an aid, for policy makers or for those attempting to influence policy making, to obtain a wider picture of the environment under which they operate.

[15] See also SEAGA Macro Handbook

Box 5.1: Socio-economic factors that may influence policy making

- *What is the* ***political ideology*** *of the current government, regime or bureaucracy, for instance is the ideology state centred, free market oriented or in transition? Does it seek to promote women?*
- *Is the* ***level of state intervention*** *in the banking and financial services sector an opportunity or a constraint?*
- *What* ***interest groups have power and authority*** *and can affect decisions around the operation of microfinance institutions? Are there any incentives for such groups to include socio-economic and gender issues?*
- *Who are the* ***technical experts*** *who have access to specialised knowledge on microfinance operations? Can any of these exert influence on policy making? For instance are there individuals or groups from the business community? Can such technical experts who may be part of a policy-making 'think tank' become champions of gender sensitive enabling microfinance policy?*
- *Are there any* ***development narratives*** *(stories that simplify complex situations and that eventually become accepted as generalised and uncontested depictions of reality), regarding gender and/or microfinance that influence the policy making process? e.g. women's loan repayment rates are much higher than men's, or the national agricultural banks staff are unmotivated etc Are such development narratives useful or do they hinder gender sensitive policy?*
- *When policy makers are looking at* ***options for facilitating micro-enterprises*** *and microfinance, how* ***radically different*** *are the options that they consider compared to policies that were in place before? In general, most new policies are only marginally different from the existing policy. This is an important point to remember if one is lobbying for something radically new.*
- *Are policies sometimes* ***'inherited' rather than developed from scratch*** *e.g. policies that have been adapted because of national membership to a group (the Commonwealth or the OECD). Can policies that favour disadvantaged groups and gender equality be easily transferred from elsewhere?*
- *How* ***influenced are national policies by international organisations*** *such as the WTO, the IMF, the World Bank, the EU, the FAO, the ILO, OECD? Are there any arguments, political positions or agreements that could be highlighted to influence national policy? For example gender was an important consideration at various international summits (The World Summit on Social Development in Copenhagen, 1995, The Fourth World Conference on Women in Beijing, 1995, The Beijing +5 Conference, 2000).*
- *What are the* ***demographic trends****? Is there a high incidence of rural to urban migration that implies rural finance services are no longer a high priority? Can microfinance activities contribute to curb migration and emigration?, enhance welfare in post-conflict situations?, or facilitate the integration of new immigrants in their new country?*

Adapted from Sutton, 1999

5.3 Stakeholders involved in policy making

Clearly an important first step in ensuring that socio-economic and gender issues are integrated in microfinance policy and in policy concerning the operation of microfinance intermediaries is to systematically identify the key stakeholders involved in policy making at the macro level and then depending on the context, solicit their participation or ask their advice. A **stakeholder checklist** is useful for ensuring that a broad range of stakeholders are considered (See **Appendix A5.1**).

Government policy that deals with finance is usually concentrated in the Ministry of Finance, the Bank Supervisory Authority, and/or the Securities and Exchange Agency, hence these are major stakeholders for any policy change related to microfinance. Government policy relating to rural finance will also be under the remit of the Ministry of Agriculture.

Policy that deals with financial services and microfinance intermediaries for the poor cannot develop in isolation from a broader social perspective. Pro-poor, anti-poverty and microfinance policies can only be considered in conjunction with existing policies that deal with agriculture, health, education, infrastructure and investments. For example, long term investments in women's and disadvantaged groups' literacy and numeracy are required for the development of effective accounting and management skills. Cuts in education services may affect girls more than boys.

In some cases the government of a country may also have a definite action plan for gender issues, spread across different governmental ministries. However, in many cases, this plan may be instead concentrated in the ministry of women's affairs or the ministry of social affairs, with gender desks (if they exist) or focal points in other ministries, such as agriculture, labour, industry and trade. Gender concerns are typically not very evident in the ministry of finance.

Apart from the government, (particularly the ministry of finance) there will be different financial intermediary stakeholders involved in one way or another with influencing and implementing microfinance policy, such as banks, credit unions, multinational organisations, co-operatives, workers unions, and NGOs. Hence, a range of stakeholders could include; various government ministries (agriculture, labour, trade and commerce, education, central banks, etc.), special interest groups (farmers organisations, agricultural co-operatives), banks and other financial institutions, credit unions, NGOs; the private sector; specialised 'think tanks', steering committees, technical experts and the academic sector.

Identifying stakeholders with respect to policy making as well as identifying those who could possibly influence policy can initially be achieved by drawing up a list of those who have direct or indirect policy interests in, and influence over the operations of microfinance intermediaries. It is crucial to ensure that those that a representative voice of the opinion of poor women and men entrepreneurs are also involved in policy design. The greatest synergy can be achieved by facilitating dialogue between microfinance stakeholders and 'gender' advocates in the country to identify common objectives, build coalitions and mediate conflict. An additional way to encourage the design of gender sensitive microfinance policies is to encourage gender-sensitised women to occupy key positions in institutions.

5.3.1 Stakeholders' perception of microfinance and gender issues

Once stakeholders have been identified, their expectations and opinions on the microfinance sector and the role of microfinance intermediaries should be transparently determined. The likely benefits for each group of stakeholders can be identified; as well as what resources each stakeholder group may be able and willing to mobilise. Critically, it should be transparent which groups' interests may be in conflict with the establishment of microfinance services in the particular country.

A useful way of analysing stakeholder groups is to conduct an exercise to examine their motives, positions and resources. A matrix with four columns can be outlined (FAO, 1997). One column would list the stakeholders, the second would list their motives for MFIs, the third their motives against; the fourth column would list their resources. A matrix similar to the one in **Appendix A5.2** could be constructed.

5.3.2 Stakeholders' perception of microfinance regulations

Ultimately the cost for regulation and supervision is often borne by the client stakeholders, the lower-income women, and men clients who may have reduced access to financial intermediaries as a result of over regulation and costly financial services being out of their reach.

Hence, different stakeholders will have differing perceptions on issues such as regulation and supervision of microfinance activities. **Regulation** means that the government or other bodies (the Central Bank) define rules for financial service providers, for instance, controlling the safety standards they must meet. Regulation is necessary to ensure that depositors' funds are safe. **Supervision** implies that certain bodies systematically oversee financial service providers to ensure that they comply with the rules defined by regulation. Should they not comply, they are forced to modify their practices or close down. Effective supervision usually exists in concert with an enforcement mechanism. **Self-supervision** refers to the situation where microfinance organisations themselves create an entity whose responsibility is to regulate them. Several other options to direct supervision exist. They are delegated supervision, apexes, informal rating agencies, deposit insurance and bank guarantees (Adapted from CGAP, Occasional Paper No 4, 2000).

Major questions at the policy level include; (a) why regulation is necessary for MFIs? and (2) who will regulate best and why? Stakeholders' views on this will differ according to their needs and interests. A third key question is what types of regulation and supervision systems are suitable for the microfinance sector in a particular country or for a particular group of clients? Because the microfinance sector is relatively new, governments may not have established appropriate regulation and supervision systems, and suitable models may not exist from other countries.

Opinions also vary among stakeholders regarding which type of MFIs should be regulated: credit only MFIs or member-based organisations. Attitudes toward the size of the MFI to be regulated will also vary. One body of thought advocates that credit only MFIs should not be subject to regulation and supervision and that small deposit taking institutions in remote areas should not be prohibited from taking deposits because they are too small or too remote and thus not easy/cheap to supervise.

It appears that some MFIs were often successful, simply because as NGOs, they were unregulated and thus free to innovate. Consequently, regulation can sometimes act as a barrier to experimentation and innovation, (although conversely, it can also lead to unscrupulous practices). Hence, some MFI NGO stakeholder groups believe that regulation should not apply to MFIs that operate micro-credit programmes, but regulations and supervision should be in place for MFIs that mobilise savings.

Other stakeholder groups advocate that special regulatory windows for credit-only MFIs would be appropriate in some countries while in others it may be premature and thus may have adverse impact on the development of the nascent microfinance sector (Peck-Christen and Rosenberg, 1999). Given that the microfinance sector is still a growing sector, much depends on the country context, sector, and client group where it is evolving. Overall, more experimentation, and 'best practices' are still required to adopt and develop new modules.

Box 5.2: Rural Banks in the Philippines

Rural banks represent the smallest licensed intermediaries in the Philippines. Their operations include savings and credit and they are supervised by the Central Bank. Deposits in rural banks are protected under the national deposit insurance scheme. At the end of 1997 over 820 rural banks were serving a half a million low income clients from a country population of 65 million. With only 2% of the entire banking system assets, they made up for 83% of the institutions the Central Bank had to supervise. As a result the resources of the Central Bank's supervisory department were severely over stretched. In 1996, 200 inspectors were assigned to the rural banks, and this was still viewed as an inadequate number of inspectors.

In order to limit the number of rural banks and thus lighten the burden of the supervisory effort, the minimum capitalisation for a rural bank was increased ten fold, from $100,000 to $1million.

This experience shows from a governmental 'regulatory' perspective that a high minimum capital needs to be set to limit the demands on the regulatory authorities. However, the question remains as to the impact of the decision to raise the minimum capital requirement on the low-income rural clients. It is likely to have decreased the numbers of existing village banks and thus made it more costly for low-income clients to bank with them.

Adapted from CGAP, Occasional Paper No 4, 2000

Another argument is that regulation and supervision of MFIs can be very time consuming and expensive, as the example from the Philippines in **Box 5.2** illustrates. Regulation and supervision can be even more costly in countries that lack resources to support elaborate regulatory and supervisory channels.

MFIs and the government are key stakeholder groups in terms of devising regulation. Their possible motivations in favour of regulation, supervision and enforcement models should be examined by all stakeholders, especially the client groups. One method is to develop a table such as the one in **Appendix A5.3** below to try to determine motivations for or against regulation.

In conjunction with a sound regulatory environment for microfinance operations, a microfinance policy framework is needed. It should be favourable towards those disadvantaged in society and should also recognise the need to include clients from the informal sector. A critical question for policy makers is: what policies are required to facilitate the entry of poorer women into rural/urban finance and hence into market participation. The overall policy framework should promote <u>efficient</u> financial intermediation. This includes financial market policies that encourage rural markets to be competitive yet distribute social benefits.

A range of possible elements for a favourable macro economic climate are outlined in **Box 5.3**.

Box 5.3: A favourable macro economic climate

Below are elements that may contribute to a favourable macro economic climate. The key question is do these elements affect women and men clients differently?

- *Recognition that markets require a policy intervention to lay ground rules.*
- *Some financial sector deregulation - an essential prerequisite for expanded microfinance outreach in many poor economies (Remenyi 1997).*
- *Guidelines, procedural arrangements and documentation standards have to be agreed upon for both the formal and informal microfinance sectors.*
- *Enterprise and MFI registration procedures are required. In some countries the procedures for registration of MFIs are overly complicated, bureaucratic, time consuming and expensive. For example in Croatia, the steps needed for registration of a cooperative are numerous and do not guarantee approval, a waiting time of no less than 60 days before approval is required (Tsilikounas, 2000).*
- *A policy defining the size of micro, small, medium and larger companies and appropriate measures to promote each category should be designed.*
- *A policy with respect to enterprise registration should ensure that market opportunities are not lost. In the Republic a Macedonia there are 49 points of contact with the authorities to be made prior to registering a company (ESA, 2000). In Armenia most companies have to register in Yerevan, the capital, making it a time consuming and expensive exercise for provincial ones (USAID, 2000).*
- *Pricing polices that reflect market determined interest rates and charges should be encouraged by the government. This will allow MFIs to set the level of interest rate that they need in order to become sustainable over time.*
- *Stressing the importance of mobilising local deposits, and efficiently intermediating between savers and borrowers is emphasised so that a microfinance system does not become borrower dominated (FAO, 1998). In many countries, banking institutions have faced serious problems including bankruptcy, and the issue of safeguarding savings deposits becomes complicated. Safeguarding saving deposits may depend on the extent to which public authorities can intervene. (This may be limited with respect to the less formal or unregulated types of savings).*
- *Ensuring microfinance institutions are not operating in a legal limbo making it difficult to present themselves as legally able to guarantee the security of deposits. (Remenyi 1997). For example in Croatia, NGOs have been precluded from performing microfinance activities (Tsilikounas, 2000).*
- *Allow microfinance institutions to offer affordable insurance products in the areas of health, pension, life insurance, crop protection etc.*
- *Tax incentives that encourage microentrepreneurial activities. In Croatia for example, taxes on profit and taxes paid by staff for insurance for savings and loan cooperatives do not encourage the setting up of such cooperatives. Employees pay 50% of their salaries in taxes and the cooperative itself must also pay staff salaries resulting to between 70% to 100% of gross salary being paid in taxes. Furthermore taxes on profit are examined yearly by the ministry of finance and range between 15 to 35% (Tsilikounas, 2000).*

5.3.3 Implications of a regulation process for different stakeholders

One challenge is to regulate microfinance operations in a gender sensitive manner and how to do this will vary given the different contexts at the national level. As previously mentioned facilitating a dialogue between microfinance ‘regulators’ at the policy level and those who can advocate what the effects on clients (women and men) will be, is an effective strategy. The provision of a regulatory framework has different implications for different groups of stakeholders. **Box 5.4** outlines what a favourable gender sensitive regulatory framework implies at the macro, intermediate and client levels and what could possibly be aimed for in a gender-sensitive national microfinance policy.

Box 5.4: Implications of a favourable gender sensitive regulatory framework for microfinance at the macro, intermediate and field levels

Governments will:	For MFIs a regulatory framework implies:	For MFI clients a regulatory framework means:
▪ Design enabling policies for both MFIs and MFIs' clients ▪ Design legislation that encourages women's economic participation ▪ Work cross-sectorally with ministries that deal with gender issues by collaboration in designing regulations that are sensitive to particular categories of low-income women and men ▪ Encourage the support of the private sector, donors, of other intermediaries ▪ Sometimes fund relevant programmes until they become financially independent and sustainable ▪ Facilitate, not provide services	▪ Transparent and predictable supervisory and regulatory rules will be provided stressing adherence to performance standards ▪ That low entry thresholds have been defined for MFIs and minimum capital requirements to become part of the formal system have been outlined ▪ Different types and sizes of MFIs are encouraged due to the existence of a range of legal structures ▪ MFIs are allowed sufficient room to manoeuvre so they can continue experimentation with new products for both women and men clients ▪ Incentives may be offered for MFIs	▪ Clients may have access to microfinance services including credit, insurance policies and business development services ▪ Equal treatment for men and women might now be legislated for ▪ There may be a recognition of non-formal economic activities ▪ Income generation activities for some stakeholder groups are examined in terms of their linkage to the household economy ▪ There may be easier and less costly enterprise registration procedures ▪ Tax incentives will exist for entrepreneurial activities

5.3.4 Analysing policy changes affecting microfinance provision

Sometimes policies can change in a way that hinders the development of the microfinance sector. It is important to analyse the reasons behind why such policy change occurred, and see if further change is still possible. In Croatia, for example NGOs are unable to perform microfinance activities. Banks, and savings and loans cooperatives are the only institutions now allowed to provide financial services. All are under the control of the ministry of finance and regulated under a 1998 law 'Savings and Loan Cooperatives'. The 1998 law replaces a more flexible law from 1989 in order to avoid fraud. **Box 5.5** outlines a framework for examining policy changes and the implications for MFIs as a result of such change.

Box 5.5: Policy change in Croatia which affected the microfinance sector

Articles in law	1989 law	1998 law	Implications for women and men
Registration requirements for savings and loan cooperatives	10 founders or 20 physical persons	30 physical persons	Difficult and costly to register the organisation
Share capital for registration	no minimum stated	minimum capital required is 100,000 Kuna	The required capital is too high;
Registration approval given by:	commercial Court only	ministry of Finance then Commercial Court	Too strict procedure
Managers skills required	no specification	specified by law. Ministry's approval for manager selection.	Process is too cumbersome; also encourages nepotism; women have less of a chance as they men are perceived as the logical choice for managers of a finance institution
Accounting procedures required	can be sub-contracted	must take place within the Savings and Loan Institution. Annual reports are sent to the ministry of finance and can be checked by the financial police.	It can invite dishonest practices and abuse It is an added cost of running the business.
Entities within the Cooperative	assembly only specified	assembly made of members and supervisory board	Women occupy rarely the top position
Requirements for total share amount in the Cooperative	none	maintain 100,000 Kuna at all times to ensure solvency and avoid bankruptcy	It is inefficient to tie up this amount

5.4 Resources for gender-sensitive policy making

In this section we examine resources and constraints in terms of policy making for microfinance operations. Favourable national policies governing MFIs are an important resource. Sex disaggregated data is often required before such policies governing MFIs can be developed. Resources are also required in order to implement favourable national policies. Apart from the government, resources for policy implementation are often available from the private sector or donors.

5.4.1 Sex-disaggregated data

Data disaggregated by sex is a useful resource for gender sensitive policy decision making and a starting point for ensuring that socio-economic and gender issues are included at the policy level. Government officials often state that in order to reshape their policies and budgets, they first require such data. The level of statistics already available by sex will widely vary between countries and areas within countries[16]. At the macro level the major questions are: Who would use the data and in what ways? Is such information and data already collected? Who will collect such information if it is not already available? Who will compile it? Who will pay for the compilation and analysis of such data? How can it be ensured that only timely and relevant data is collected? How to disseminate this information effectively?

5.4.2 Mobilisation of resources for policy implementation

Developing policy is generally easier than implementing it. With the development of a favourable policy towards microfinance intermediaries, one of the major questions that policy makers must ask is what resources need to be mobilised to actually implement the policy. The resources that major stakeholder groups bring towards ensuring gender equality in policy that affects microfinance operation can be ascertained when conducting a stakeholder analysis as outlined in **Appendix A5.2** regarding stakeholders' motives, positions and resources.

5.4.3 Resources from the private sector

The top five corporations[17] ranked globally had in 1998, combined revenue of US$708.9 billion, that is more than double the 100 poorest countries combined GDP (Utting, 2000). Having realised that they represent some of the most powerful and resourceful institutions in the world, many corporations are in the process of changing their relationship with their stakeholders and promoting a socially responsible attitude vis-à-vis their stakeholders. This attitude was prevalent at the first Microcredit Summit held in Washington DC in 1997. Several corporations – industrial and financial corporations – are actively supporting the microfinance sector. This support includes interventions at the macro level.

5.4.4 Resources from donors

Donors often provide grants, concessional funds, loan guarantees, including capital in order to set up microfinance intermediaries[18]. In terms of policy, in many cases donors influence legislation and

[16] Guides to aid in the collection of gender sensitive data are available from FAO.
[17] General Motors, DaimlerChrysler, Ford Motors, Wal-Mart Stores and Mitsui
[18] Resources from donors for MFIs operations are outlined in Chapter 4, Section 4.1.4.

regulations and this can prove positive, especially if donors have a favourable policy towards gender integration in the microfinance sector.

Many multilateral and bi-lateral donors such as UNDP, The World Bank/CGAP, the Swiss Development and Cooperation Agency (SDC), USAID and GTZ now promote 'best practices' in microfinance. 'Best practices' are principles or procedures that have proved to work successfully in many contexts and are necessary for ensuring that MFIs operate in a sustainable way. 'Best practices' are an important resource that can be used for policy making.

In some countries donors meet regularly to exchange information about their programmes supporting the development of the SME sector, including microfinance. These forums can sometimes become effective avenues for lobbying the macro level for an enabling legislation.

5.5 Constraints to gender-sensitive policy making

In general, a coherent governmental plan for gender sensitive poverty reduction where microfinance has a part to play can help MFIs operate effectively. Sectoral aspects of policy such as government budgets can be looked at more systematically through a gender sensitive lens, as the work that is being done in many countries on government budgets demonstrates. A gender-sensitive budget analysis is an assessment of the gendered impacts of a governmental budget. It is an attempt to further break down (disaggregate) the mainstream budget according to its impact on women and men, and different groups of women and men (Buelender & Sharp 1998).

Obviously, it is easier to advocate a gender sensitive poverty reduction strategy than implement it, many constraints exist. Governments face constraints in terms of how much they can and should spend on different sectors. They also face constraints due to the economic situation in which they currently hold office. Economic constraints in many countries have led to cuts in budgetary allocations for rural finance institutions leading to greater reliance on market related structures. The government's role in microfinance is now increasingly that of facilitating and catalysing, while at the same time enlisting the support of the private sector. Yet governments need to be aware of overall gender related constraints that affect market access, entry and participation of different social groups in an economy and the constraints that MFIs face as a result of their policies.

5.5.1 Constraints faced by low-income women due to gender-insensitive policy

Constraints that low-income women and men face, have to be examined carefully to determine which can be dealt with through the government and which should be left to the private sector. For instance, entrepreneurs may have little control over prices, markets and raw materials. A study of the small scale weaving and hammock industry in Brazil found that many small skilled producers lacked access to raw materials and that was a more significant constraint for them than access to training (Mayoux, 1995).

If planners know the constraints for both women and men entrepreneurs, then it is easier to facilitate gender responsive microfinance policies. Some of the constraints that macro planners should be aware of, and which particularly affect women or poorer entrepreneurs, are controlled at the macro level and are outlined below[19]. However, it is not sufficient to just be aware of these constraints, action is required.

[19] Constraints affecting women in their day-to-day activities are outlined in Chapter 5, Section 5.5.2.

- ***Access to markets:*** Depending on women's social mobility, distance to markets can be a constraint. Because of household and childcare responsibilities the convenience of market timings may affect women's ability to sell. The availability of competitively priced transportation to markets affects both women and men, as does access to market information. Women's exclusion from markets in some countries such as Bangladesh is a constraint to their productivity. Inclusive strategies to overcome constraints to women's access to rural markets might be the single most effective way of enhancing their control over financial services as well as expanding their public presence and self-confidence.

Who controls access to markets? (source: IIRR 1998)

- ***Entry and participation in micro-entrepreneurial activities:*** The terms on which a supplier can market his/her goods can be a constraining factor for small scale entrepreneurs. For example, buyers may accept only consignments of a certain minimum size, or accept smaller quantities at lower unit prices. Small producers with irregular and small quantities of surplus to market, or without the means to go to the market regularly face a transaction cost compared to other producers. From a macro policy perspective, many of the goods targeted for increased production are made by women, but due to high transaction costs, price incentives fail to reach workers, and the profits go instead to middle-people.

- ***Wage constraints:*** Wage disparities between men and women cannot always be explained by their different tasks or productive activities. Women's wages often reflect lower socio-cultural valuation attributed to women's work *per se* and is a constraint for women. On the other hand women have an additional constraint on their labour participation in the form of their additional household responsibilities. This is significant in terms of 'official' labour force participation rates.

- ***Ownership of assets and capital:*** As stated in other chapters, many countries have policies that require collateral for lending by government agencies, usually preferring land as collateral. This may pose a special constraint for women in countries where they are restricted from inheriting or owning land. This is especially the case in Africa and Asia. Even when women inherit land they may have difficulties obtaining the legal proof of ownership in their own name, as required by banks. Low income women may find it difficult to clear documents through the land registry agency. Typically they are unfamiliar with legal procedures and uncomfortable dealing with male bureaucrats. More women than men are illiterate and unable to fill forms on their own. They may lack the cash to pay fees or make payments to corrupt officials. Often they are unable to take time off to make repeated trips to the agency. Such bureaucratic bottlenecks represent a major problems for microfinance clients, especially women (Women's World Banking, 1994)

- ***Disparities in education levels:*** Some 565 million women worldwide are illiterate, mainly in poor rural areas. These women cannot sign their names or fill out an application form. Their lack of education in many cases constrains their ability to earn money and gain access to financial services. The failure to educate these women when they were younger is the result of a range of factors, including the need for girls' labour in the home, attitudes that devalue education for girls, fears about girls' security outside the home, and lack of resources to pay for education. Research has shown that educating girls offers a multitude of benefits (Haddad and Smith, 1999). It is the government's role to design an effective enabling policy to overcome constraints to women's education.

5.5.2 Constraints faced by MFIs as a result of policy

Microfinance intermediaries can face a number of constraints from the policy level. For example they may often be unable to scale-up their operations as a result of unfavourable policies. Macro economic policy applies to issues such as monetary, exchange rate and fiscal policy. Such policies can have a differential gendered impact because of the way the economy is structured and women and men's roles in the economy. Government policy related to microfinance cannot be examined in isolation, because in terms of it's impact on women and men policy related issues such as literacy and numeracy education is required to avail of opportunities offered. For instance access to training in money management and business planning should be available and more importantly perceived to be accessible for both women and men. Policy also links with legal reforms (land tenure and contractual) that may be required if women and men are to have the same opportunities, and regulatory issues around loan collateral substitutes.

MFI face other constraints in terms their operations because of issues controlled at the government level, for example rural infrastructure improvements may be required if clients are to have access to markets and it has been illustrated in many countries that women and men have different infrastructure and transport requirements.

More general constraints MFIs face in terms of expansion and due to the overall macroeconomic environment are outlined below:

- ***Macroeconomic constraints:*** High rate of inflation undermines the real value of capital funds and reduces the real value of interest payments on loans and is a constraint controlled at the macro level. As a result MFIs have to pass on the inflation rate to clients by charging very high interest rates or reduce their lending to very short-term loans. Furthermore, clients are unwilling to save in times of high inflation. During periods of high inflation MFIs sometimes limit their services only to business-related training.

- ***Constraints on NGOs engaged in microfinance operations:*** Regulations that prohibit the mobilisation of savings and government imposed ceilings on the size of loans that NGOs may make to low-income clients, ceilings on the interest rate they may charge the borrowers, and the amount of fund raising they may receive from outside sources.

Women's World Banking compiled a list of policy related constraints based on a survey they conducted with their affiliate MFI members (Women's World Banking, 1994). Some of the constraints they listed with respect to government policy are outlined below and it is necessary to consider how such constraints may have a differential gendered impact.

- Government regulations prohibiting NGO mobilisation of savings
- Government perception that NGOs compete with their programmes
- Government ceiling on the size of NGO loans
- Government ceilings on interest rates that NGOs may charge

- Government restrictions on funding that NGOs may receive from outside agencies
- High rate of inflation
- Tight money policy restricting funds for on-lending by banks

5.6 Moving towards gender sensitive policy: Seizing opportunities

A number of actions can be taken in order to increase the opportunities for gender sensitive microfinance policy. A range of tools and resources are provided in the Appendices to analyse the opportunities for gender sensitive policy making. These include:

- **Analyse policy linkages to increase gender sensitivity**: Wider policy frameworks should be analysed in terms of leading to a more level playing field. For instance questions should be asked about how gendered differences in inheritance laws, divorce laws and property rights affect women's ability to develop small enterprises. How can legal frameworks facilitate street traders is another issue, particularly in countries where the majority of street traders are female. A useful way to look at resources and constraints from the point of view of how policy links to the MFI and ultimately to the client (field) level is to consider how issues are linked. Placing emphasis on the interdependence between issues at different levels makes it possible to diagnose where problems in policy implementation are likely to occur and at what level problems should be tackled. **Appendix A5.4** can be used to examine how policy links to MFIs and ultimately to the client level. The links should be examined in conjunction with the particular constraints low-income women face with respect to financial services in Chapter 3.

- **Encourage gender-sensitive budget analysis**
  Learn from the experiences of developing gender sensitive governmental budgets that exist from several countries (for example Australia, South Africa, Mozambique, Tanzania, Sri Lanka and Barbados). Elson (in Buelender & Sharp 1998) has suggested a range of different tools[20] can be utilised for a gender-sensitive analysis of budgets for governments. Her suggestions include:
  - Gender-aware policy appraisal
  - Gender-disaggregated beneficiary assessments
  - Gender-disaggregated public expenditure incidence analysis
  - Gender-disaggregated tax incidence analysis
  - Gender-disaggregated analysis of the impact of the budget on time use
  - Gender-aware medium term economic policy framework
  - Gender-aware budget statements

- **Encourage gender-sensitive policy implementation:** Policies governing gender sensitive entrepreneurial activities and microfinance operations can change emphasis as they move through bureaucracies. In general, it is through intermediaries that policies are implemented, such as: banks; microfinance institutions; NGOs; local governments; lower courts; the police; welfare departments and legal offices. Policy makers may avoid the responsibility of practical implementation 'on the ground'. They can blame administrative factors rather than political

[20] For more details on how to actually gender disaggregate budgets and examples of such analyses link with: http://www.thecommonwealth.org/gender/ or http://www.unctad.org/en/docs/poldcm74.en.pdf

motivations if the policy is not successful. **Appendix A5.5** lists some issues that could be taken into account with respect to gender sensitive microfinance policy implementation

- **Ensure policy implementation is linked to entrepreneurial activities at the field level:** At the client level, apart from an overall gender sensitive microfinance policy, particular policies are required from the government to ensure that there is an entrepreneurial spirit generated amongst women and men and this provides governments with an opportunity to encourage growth. The questions in **Appendix A5.6** can be used as a starting point for considering the types of actions and policies that will influence micro entrepreneurial activities 'on the ground'. Policies should be developed that facilitate <u>both</u> women and men clients.

- **Explicitly link policy implementation to the operation of MFIs:** In Chapter 4, we examine microfinance intermediaries in detail. Policy makers however, can use the questions in **Appendix A5.7** as a starting point for evaluating how microfinance intermediaries are implementing their policies, which policies they use and whether they are operating within the overall national development plan. It is important to explicitly link policy implementation to the operation of MFIs.

- **Facilitate networking on policy issues:** Should gender sensitive microfinance policy be lacking in a country, there are various networking measures that can be taken in order to search for examples of effective policy. **Appendix A5.8** outlines some methods to facilitate networking on microfinance policy issues. In Chapter 4, Section 4.6.2 also has some suggestions for how MFIs themselves can lobby for policy change.

FAO Socio-economic and Gender Analysis (SEAGA) Programme

Tools for socio-economic and gender analysis of microfinance activities

APPENDICES

This set of appendices provides a range of tools and resources for conducting a socio-economic and gender analysis of microfinance activities at the Field (Chapter 3), Intermediate (Chapter 4) and Macro Levels (Chapter 5). Each of the Appendices is referred to in the text of the appropriate Chapter, which provides background, further suggestions and context regarding the use of each tool or resource.

FIELD LEVEL TOOLS (CHAPTER 3)

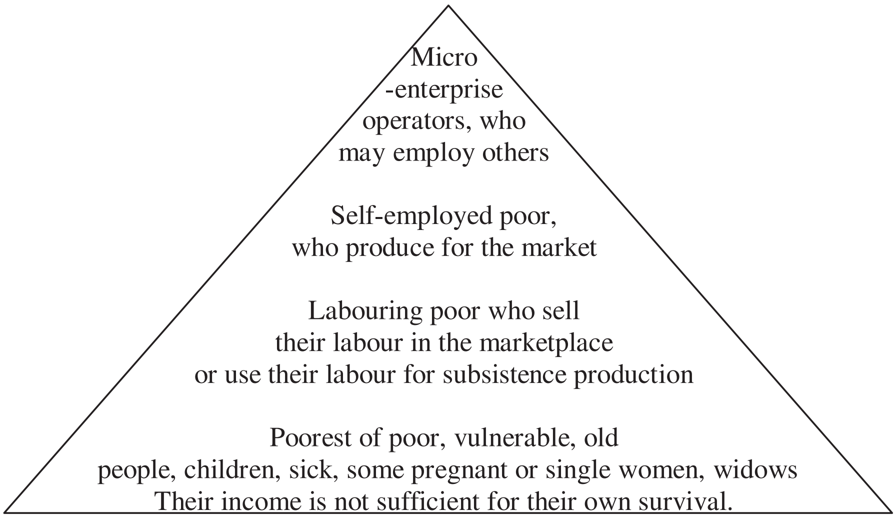
Appendix A3.1: Stakeholder identification

A3.1: Questions for stakeholder identification

- *Ask participants to list the local groups and organisations that are organised around credit or savings and any banks in the area (RoSCAS/Tontines/Susu).*
- *Ask who participates in each credit or savings group, and who uses which banks.*
- *Are the poor excluded from any of the local groups? Which ones? Why?*
- *Are some institutions mainly for men? If so, what do men gain from them? What do they lose due to their lack of participation?*
- *Are there groups exclusively for women? If so, what do women gain from them? What do they lose due to their lack of participation?*
- *What are the links between local groups or organisations and outside institutions?*
- *What are the credit, savings and investment needs of each client stakeholder group?*

Appendix A3.2 Categories of stakeholders

A3.21: Pyramid of categories of client stakeholders (Remenyi, 1997)



Appendix A3.3: Framework for categorising financial services from villagers points of view

A3.3: Financial services – Examples from villagers points of view[21]				
Financial service	**Foundation and goals**	**Management**	**Strengths**	**Problems in using this financial service**
Money lenders	2 Families with a long history of lending money	Direct Intimidation Peer pressure	Easy access, in the community Know everyone	High interest rate If you default, you will not be able to borrow again
Suppliers of seed	Unknown - Large company from the capital with sub office in nearest town	Sales reps from the city who wear fancy suits - they speak different dialect and often refer to their bosses for decisions	Can buy seeds on credit, and pay back after harvest when crop is sold	Can only buy one variety of crops, If there is crop disease or droughts, all will fail (monocultures)
National Women's Union (NGO)	Government organised credit scheme started in 1991, through the National Women's Union	Each village has a National Women's Union representative, who is often the village chief's wife. The representative is in charge of this scheme	Credit and savings women's groups started to purchase sewing machines and make garments for sale in town	Only women that didn't have to work hard in the field had time for sewing, tendency to invite richer women to attend Everyone made the same types of garments which lowered the price
Agricultural Bank	State run – 20 years old. Provides credit and advice to farmers	Hierarchical	Is available for local people. Credit lower rate than moneylenders Can put surplus from crop sales in deposit account	It's male dominated, male staff. Women don't really use it (unless widowed). Need to borrow a large amount or be a big farmer to open an account
Microcredit Institution	Started by an international NGO two years ago with bilateral donor funds. It has just become a local NGO.	Operated autonomously as a MFI. Uses women solidarity group methodology and voluntary savings.	Professional, committed staff and management. Benefits from 'best practices' and exposure to other microfinance programmes ran by the international NGO that started it. Has already achieved operational sustainability. Friendly staff willing to meet clients at convenient places for them.	Portfolio is growing faster than its loan capital. Has applied for a new grant but is not sure of getting it. Clients can not take as many credits as frequently as they would like (long waiting list)

[21] Framework for institutional profiles adapted from SEAGA Field Handbook (Wilde, 1997). Opinions came from authors work in Albania, Armenia, the Dominican Republic, Thailand, LAO PDR, The Philippines, Russia, etc..

Appendix A3.4: Initial questions for targeted client stakeholders

A3.4: Initial questions for client stakeholders

- *Do people save, and in what ways?*
- *How and where do they save cash?*
- *What are their relationships with local indigenous financial systems (RoSCAS/Tontines/Susa's deposit collectors, money-lenders) and how do they perceive them?*
- *How can financial services help them?*
- *Do the services that they would like to receive differ from what they think their husband/wife or the rest of their families would like to receive?*
- *What range of financial services do they know of that are on offer? Do they have access to these?*
- *Who delivers these services, what sort of structures?*
- *Are there support services available for them such as providers of entrepreneurial training?*
- *What are men's perceptions of women's roles and women's perceptions of men's roles in financial and economic areas?*

Appendix A3.5: Income and expenditure matrices

Appendix A3.5: Setting up income and expenditure matrices (Wilde, 1997)

1. In the target area, organise two or three focus groups, mixing up socio-economic groups, men and women, young and old. Work with each group separately. Explain that you want to learn about from where they make money and on what they spend it.

2. Begin by asking the group to list their sources of income. Start drawing a matrix on the ground, or on a large piece of paper, by indicating each source of income across the horizontal axis. The group may want to select pictures or symbols to represent each category.

3. Collect 50 stones. Explain that these stones represent the total income for the whole community for the year. Ask the participants to divide the stones according to their wealth/income, with one person representing each socio-economic group having a part of the 50 stones, as discussed and agreed upon by the group as a whole.

4. The representative for each socio-economic group is asked to stand along the vertical axis with his or her proportion of stones. In other words, the vertical axis may include a representative for rich women, poor women, rich men, poor men. Each in turn is asked to distribute their stones in the matrix to indicate their sources of income -- putting a lot of stones under major sources of income, few stones under minor sources of income, and no stones at all if they make no money from that particular source. This is carried out, in discussion with their fellow participants, until all the stones are distributed.

5. Record the matrix - counting all the stones for each source of income for each socio-economic group.

6. Now ask the participants to list all their expenditures, including savings. Change the horizontal axis of the matrix to represent each category of expense. Again pictures or symbols may be desirable.

7. Ask the representatives for each socio-economic group to collect back all their stones (the same number each used for the income matrix) and to distribute them to show how they spend their money.

8. Record the matrix - counting all the stones for each expenditure for each socio-economic group.

9. Finally, create a relevant crisis (army worm, drought) and ask each representative to remove several stones from the matrix to show where they would find the money to cope. Discuss the impact of crisis and the coping strategies of the different participants.

10. Record from where the stones were taken to cope with crisis.

Note: The most sensitive moment is when you ask participants to agree on how many stones each representative for each socio-economic group should have. But this too usually goes well because individual incomes are not revealed - just relative amounts between one group and another.

Throughout the process, the following questions can also be asked:

- Are there many or few sources of income in the community? Which are the most important?
- How vulnerable are these sources of income to crisis? E.g. drought or disease?
- Do certain socio-economic groups have more vulnerable livelihoods than others? In other words, do certain people depend on only one or two sources of income, while others have diversified sources?
- Are there sources of income available to certain groups, e.g. older men, richer, high caste groups, that are not available to others - young women, poorer, low caste groups?
- How do women's income sources compare with men's?

Savings

- Where do people put excess money? In livestock, jewellery, banks?
- What sort of system of savings would people like?

- How important is it to be able to access savings?

Expenditures Matrix

- Are expenditures few and concentrated or spread out over several kinds of expenses?
- Which expenditures are common to most people?
- For each social group, what proportion of income goes to meeting basic needs - food, water, shelter, clothing, health care and education?
- For each social group, what proportion of income goes to savings, and for productive investments? e.g. inputs, equipment, livestock?
- How do women's expenditures compare with men's?
- How do different social groups in the village compare to other groups in terms of expenditure
- To cope with crisis, on what would people spend less? - leisure activities, clothing, school fees, meat, other food?

Appendix A3.6: Resource picture cards

Appendix A3.6: Exercise for use with clients (using resource picture cards) to determine access to resources relevant to proposed entrepreneurial activities
▪ *Draw pictures on cards of the relevant resources required for a specific income generation activity that has been proposed. For example: cash; raw materials, a specific technology that will add value to a raw material, techniques or knowledge on how to add value to a resource, knowledge about market, transport to market, access to a stall at market,*
▪ *Place three large drawings, one of a man, one of a woman, and one of a man and woman together, on the ground in a row with adequate room between them. Underneath these drawings scatter the cards with the pictures of resources. Include some blank cards so that people can add resources if they think of additional ones.*
▪ *Ask those present to sort the cards by placing them under the three large drawings, depending on who <u>uses</u> the resource, whether women, men or both. Facilitate the discussion among the participants about why they made the choices they did. Specify that only the resources used or controlled 50-50% by women and men are put under the drawing of both; otherwise they should put the pictures under either the woman or the man to indicate who has majority use or control.*
▪ *Then put the second set of drawings and cards on the ground, close by to the first set. Repeat the exercise but this time focus on who has <u>control</u>, ownership or decision-making power concerning each resource. Again, facilitate the discussion among the participants about why they made the choices they did.*
▪ *Ask those present to compare the way they have arranged the two sets of Resources Picture Cards.*
▪ *Repeat with other groups, as necessary, and compare.*
▪ *There will be some variation among the different socio-economic groups and these should be noted.*

Appendix A3.7: Features of agricultural lending

(Adapted from FAO, 1999)

Appendix A3.7: Unique features of agricultural lending How many of the issues below relate to your clients?			
Constraints in relation to agriculture & rural finance	**At the individual & household level**	**At the intermediary level**	**Because of the national context**
Economic	- High additional costs for borrowers and high opportunity costs (e.g. lost working time), transport costs, bribes, fees - Land labourers have few physical assets	- Low repayment discipline in externally funded credit schemes - Reduced turnover of agricultural loan portfolio over the year	- State interventions often occur in rural financial markets - State interventions in terms of wavering of loans may have created 'wrong' attitude toward financial services
Political	- Particular crops are grown because of export promotion potential	- Subsidies for particular crops in the form of seeds, loans, and advice fluctuate depending on what crop is currently promoted	- Agriculture is a politically sensitive sector
Institutional	- Farmers have difficulties in clearly demonstrating their legal ownership of assets - Legal contract enforcement problems	- Expensive management and supervision of rural bank branch networks	- Agriculture lending is dependent on relationship between Ministry of Agriculture & Finance
Environmental	- Seasonality of agriculture – too busy with crops at some times of the year and only require finance at other times	- Seasonality of loans and of repayments affect intermediary	- Poorly developed transportation and communication infrastructure in rural areas
Demographic	- long distances for farmers to reach financial intermediaries	- High financial transaction costs because of geographical dispersion of clients	- Intensive farming encouraged in new resettlement zones
Sociocultural	- Farm households are integrated production and consumption units and money borrowed can be used for consumption, education, social insurance, production & investment purposes	- Farm households are heterogeneous and often there is little knowledge about their makeup	- Farming is perceived as 'a way of life' rather than a business

Appendix A3.8: Constraints women face in relation to financial services

Appendix A3.8: General constraints facing women in relation to financial services[22] Do your female clients face similar constrains?			
Constraints women may face	**At the individual & household level**	**At the intermediary level**	**At the national context**
Economic	- Women tend to work in the invisible sectors of the economy; that is casual work, piecework, seasonal work, home-based work - Some groups undertake activities which produce low returns - Women have a heavy domestic work load that is unpaid – their multiple roles are not recognised	- The invisible sectors of the economy are subject to super-exploitation - Women may lack access to banks/financial services in their own right	- Women underpaid for equal work - Women locked into low paid jobs - Lack of access to markets if mobility is constrained - Perception of men as controllers of money/loans
Political	- Women lack confidence to claim political and legal rights - Women lack leadership and lobbying skills - Women tend to have a weak bargaining position and because of this they often work in invisible sectors. They tend to be isolated and unorganised	- Women and men do not equally share power and authority in institutions - The overall business environment is hostile towards women	- Women may have no legal rights to household assets hence they can not use them as collateral - Women lack political positions to establish/influence appropriate laws - Women lack legal rights to land both traditional and formal
Institutional	- Apart from access to credit, women lack facilities for training, health counselling. - Women tend to have problems accessing education Girls education not prioritised, hence women are often deficient in accounting and managerial skills and have limited time available for training	- Trade unions may not recognise people that work in the invisible sectors of the economy as potential members. For example casual work, piecework, seasonal work, home-based work - Many technically competent implementing agencies have little or no experiences of increasing women's level of participation in their work	- Religious institutions are opposed to women's empowerment - National institutional procedures require bureaucratic delays for loan approval
Environmental	- Natural resources used for income generating activities (such as wood	- Lending from some intermediaries has a clause that the activity	- Governments are beginning to realise that it is impossible to

[22] Adapted from Johnson, 1999

	and bamboo) are dwindling - Water scarcities mean women have to travel further to get water and hence have less time for income generating activities.	should not harm the environment. - Some income generating activities have lost favour with retail outlets because of environmental issues	separate development issues from environmental issues. Because of this interdependence, natural resource management is forming part of the economic decision-making
Sociocultural	- Women's mobility constrained by social norms - Women have low self esteem and may have difficulties valuing their own work - Women have to balance multiple roles, mothers, economic producers and community workers - Women view bankers as powerful and important - The language of commerce can be confusing - Women may not want to take risks - Women may be too modest and not good at marketing their abilities	- Banks and financial institutions do not view women as a potential market, women's entrepreneurial activities considered to be hobbies - Advertisement about sources of credit and application procedures might not reach women	- Women's issues and constraints not viewed as priority at the national policy level
Demographical	- Women take a greater responsibility for raising children	- Not enough banks per capita, not enough banks in remote or poor areas, therefore women have to travel to reach banks	- Large rural to urban migration, hence less people to serve in rural areas; policy makers do not think rural areas require financial services

Appendix A3.9: Guidelines for preparing and facilitating a stakeholder meeting

Appendix A3.9: Further suggestions for preparing and facilitating a stakeholder meeting

- *Invitations should be organised well in advance. Representatives of stakeholders could be pre-visited and meeting objectives and procedures explained, with possible follow-up discussed*
- *In order to have villagers (including women) participating, the village community head must be consulted in advance. Clearly explain who should attend so that specific groups are not excluded*
- *Potential donors for funding of microfinance initiatives should also be consulted and invited*
- *Key note contributions from a representative of each stakeholder group on their views should be asked for in advance*
- *Preliminary action plans for follow-up should be drafted during the meeting*
- *Draft proposals for microfinance operations should be formulated*
- *Small implementation task forces could possibly be created*

(Kienzle, 1999)

Stakeholder meeting (source: IIRR 1998)

INTERMEDIATE LEVEL TOOLS (CHAPTER 4)

Appendix A4.1: Characterising stakeholders at the intermediate level – A Venn diagram approach.

A4.1 Venn Diagram of stakeholders

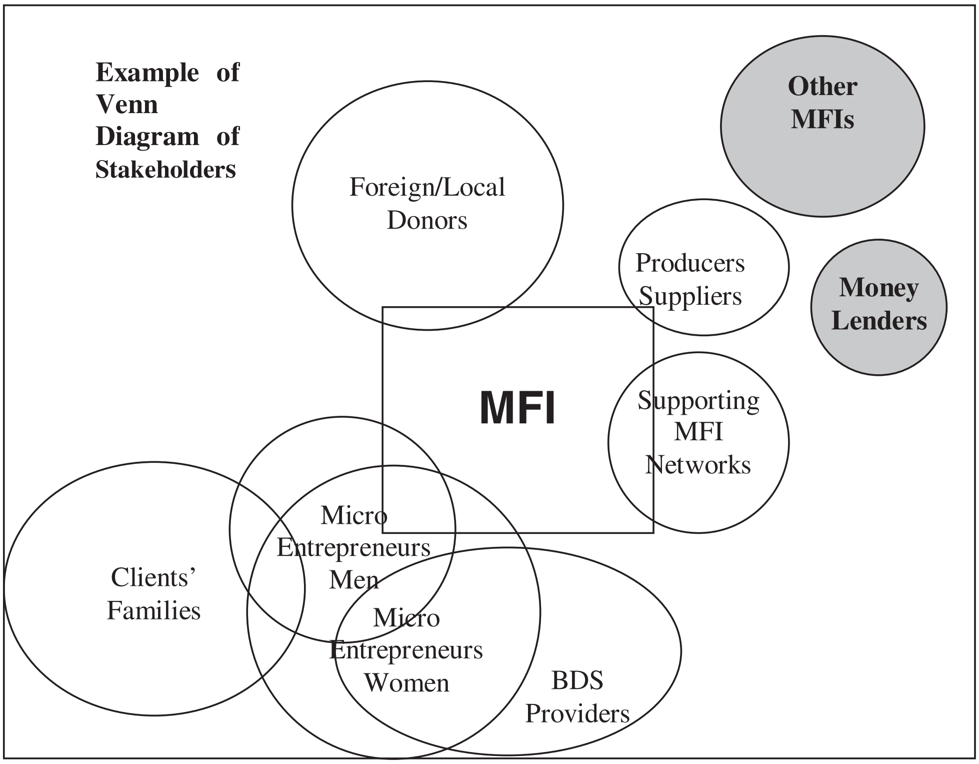
1. List all those that might be directly or indirectly affected by microfinance operations. Inquire about stakeholders expectation of microfinance programmes, what resources stakeholders have that they could mobilize and which stakeholder groups have the most power and status. Ask which stakeholders have the most influence over microfinance activities and why.

Find out how important a particular stakeholder group is for the success of a microfinance operation. Include indirect stakeholders (for instance donors, entrepreneurs' families, etc.). Try to find out if large stakeholder groups can be broken down into smaller groups, and also which groups stand to gain more than other groups.

2. Rank these individual groups, organisations and institutions. Circles will represent each stakeholder group. The size of the circle represents the size (extent) of the stakeholder's interest in the proposed microfinance activities or how important the services provided is for that group:

- *If they have a big stake , use a big circle*
- *If they have a medium stake, draw a medium size circle*
- *If they have a small stake, draw a small circle*

3. Represent the MFI in the centre of a page. Arrange the stakeholder circles in or around the MFI to indicate the linkage to the MFI and the size of the stake. Make the circles touch if information passes from one stakeholder group to another, a small overlap to imply that there is some cooperation and communication, a large overlap could indicate that the groups cooperate and if the circles do not touch there is no contact.


Example of Venn Diagram of Stakeholders
Foreign/Local Donors
Other MFIs
Producers Suppliers
Money Lenders
MFI
Supporting MFI Networks
Micro Entrepreneurs Men
Clients' Families
Micro Entrepreneurs Women
BDS Providers

Appendix A4.2: Matrix for assessing stakeholders stake, influence and importance.

A4.2: Examples of Stakeholders 'stake', influence, and importance				
Stakeholder Groups	**Examples of typical issues related to: 'stake' in relation to microfinance operations**	**Rate the eEffect of new microfinance services on their interests**	**Importance of stakeholder for the success of microfinance operations** U =unknown 1 = little/no importance 2 = some importance 3 = moderate importance 4 = very important 5 = crucial player	**Degree of influence of stakeholder over microfinance operations** U = unknown 1 = little /no influence 2 = some influence 3 = moderate influence 4 = significant influence 5 = very influential
Your intermediary proposing new microfinance activities	• Securing donor funds • Ensuring high repayment rates • Achievement of targets • Control over resources and activities	+ +	5	5
Formal State run agricultural banks	• May impinge on some of their services • Enlisting their support would be useful • Linkages to the state	- +	3 3	4
Traditional Religious Leaders	• Concern over erosion of traditional values and usury	-	5	4
Women micro entrepreneurs and other potential clients	• Don't have access to other financial services	+	5	2
Older women	• Have more time to develop entrepreneurial activities and more confidence	+	5	2
Men micro entrepreneurs and potential clients	• Potential clients themselves or their wives or women relatives	+	5	2
Money lenders	• Concern over poaching their clients	-	4	3
Solidarity group operated through a local NGO	• Solidarity groups • Providing credit service at low interest rate	-	4	4

Appendix A4.3: Examples of questions to precipitate unpacking of staff attitudes regarding gender

A4.3: Unpacking attitudes of staff involved in microfinance activities

Do you agree or disagree? Why or why not?

- *Loans should be disbursed for uses other than income generation (to tide over bleak periods, seasonally, for household repairs, for dept repayment etc..)*
- *The signature of spouse or male relative should not be necessary*
- *Literacy should not be a requirement for accessing services offered by our MFI*
- *Loan officers should assist illiterate/low-educated women and other disadvantaged groups in completing forms*
- *Location of MFI should be convenient and safe for women*
- *The hours of operation of the MFI should be compatible with women's business and domestic obligations*
- *Loan repayment schedules should fit clients business cycles*
- *Special training services should be set up to assist borrowers unfamiliar with the formal financial service*

Appendix A4.4: Preliminary checklist for gender mainstreaming in MFIs

A4.4: Checklist of mechanisms for operationalising gender awareness in MFIs			
	Mechanism	**Chec k**	**Comments**
Awareness	Written gender policy in MFI? Gender sensitive mission statement? MFI Staff awareness of policy? Staff gender sensitisation training? Board gender sensitisation training?		
Commitment	Implementation of policy? Gender action plan for microfinance activities? Compliance tracked/consequences? Administrative structures in place? Responsibility defined?		
Programmes	Sex disaggregated data systematically gathered for MFI activities? Written information and guidance on gender questions available?		
Gender analysis	Capacity for translating sex-disaggregated data into gender analysis? Technical assistance for gender analysis available? Willingness for outsiders to monitor and evaluate microfinance programmes in terms of gender analysis? Reporting of gender relevant data and issues		
Lessons learned	Systematic analysis of lessons learned Feedback shared within the microfinance sector. New knowledge based on lessons learned incorporated into strategy and planning activities (e.g. several MFIs use entry and exit interviews as a tool to monitor the impact of microfinance on clients)		

Adapted from ISNAR, 1997

Appendix A4.5: Information and data categories that can be gender disaggregated.

A4.5: Data categories for MFIs *Discuss with your colleagues how useful each category of information would be if disaggregated*	
Demographic Information	Provides a basis for planning and development of microfinance services. Disaggregation of these data by sex, age, rural-urban and region helps to identify potential target clients in need of microfinance services
Labour force Participation	Data on employment or labour are crucial to an understanding of women's role in production and their income-generating opportunities
Education	Information about both women and mens' educational status is needed – such information is an important determinant of their status, their ability to access financial services, and to run MFIs
Housing and facilities	This will help MFI planners establish the level of poverty within which women, men and their families function
Health and Nutrition	If health status is low, perhaps loans offered by MFI will be for basic needs rather than entrepreneurial activities
GDP per capita	Will help identify realistic loan amounts and interest rates.

Appendix A4.6: Planning monitoring activities

Box 4.5: Monitoring Planning Chart
Develop a similar monitoring chart

	What to monitor	What records to keep?	Who collects the data?	Who uses the data and how?	What decisions can be made?
People involved in microfinance activities	- Number of clients - Membership by sex - Group composition by sex if there are mixed groups - Decision making positions held in MFI by men and women (including the board)				
Performance of MFI	- Transaction costs - Loan recovery - Deposit mobilisation - Financial sustainability				
Activities	- Volume and frequency of savings, deposits, withdrawals and balances (by sex) - Volume and frequency of loan taking (by sex) - Repayment, arrears and default rates (by sex)				
Support services	- Support services (and providers) accessed by sex				
Policy changes	- Changes in laws that relate to MFI operations - Changes in laws that relate to women and disadvantaged groups				
Results or outcomes	- Studies on loan utilisation, whether loans to women are passed on to other members of the household - Ways in which men and women are involved in making deposits, taking loans and making repayments				

Appendix A4.7: Monitoring income changes

A4.7: Relative monitoring of income changes
Increase in family income of borrowers and control groups of non-borrowers

Develop a framework for monitoring income changes similar to the example below

	Change in family income of borrowers %	Change in family income non-borrowers %	Borrowers as a ratio of the control group	Sample size # Borrowers
Village 1 (or family 1)				
Village 2 (or family 2)				
Village 3 (or family 3)				

Adapted from Hulme and Mosley, 1996

Appendix A4.8: Examples of indicators

A4.8: Examples of quantitative and qualitative indicators[23]
Quantitative and qualitative indicators for monitoring microfinance programmes Discuss with colleagues which indicators are useful for your programme
Quantitative indicators
▪ Increased income (amount, cash flow, seasonality) and well-being - gender sensitive wealth ranking can be used to identify indicators of increased income ▪ Paid employment – remembering that jobs for women may be part time, seasonal or temporary based on the types of enterprise that women are more likely to take up ▪ Have work hours increased for particular members of the household or do additional hours worked in an enterprise result in additional workloads for women, if so by how much? ▪ Levels of input of both women/men clients and workers in the microfinance intermediary ▪ Numbers of MFI meetings held with client stakeholders. ▪ Attendance by client stakeholders at MFI meetings by sex, age, ethnicity and socio-economic background. ▪ Levels of contribution/participation by client stakeholders to such meetings. ▪ Levels of participation by client stakeholders in data collection efforts. ▪ Number of women and men in key decision-making positions in the MFI and on its board
Qualitative indicators
▪ Impact of microfinance on gender relations, have expenditure responsibilities shifted in the household in response to increases in income of individual members? Role plays can be used for establishing indicators for changes in gender or power relations and to explore the range of potential impacts and interlinkages as well as expose some of the most contentious issues, Decision making matrices could form the basis of indicators of control in the household (Mayoux, 1999) ▪ How has access and control of resources related to the enterprise changed? ▪ Client's perceptions of the MFI. This could be on a scale of one to five or measured through participatory techniques such as ranking. ▪ The degree of mutual support among any savings and credit groups and between men and women. This could be measured through open-ended responses of stakeholders. ▪ The ability of the group to moderate conflict resolution and to prevent conflict. ▪ The participation of all stakeholder groups, including women and men, in the decision-making process. This can be measured through observation and by stakeholder responses.

[23] Adapted from the SEAGA Intermediate Handbook from Beck, Tony. "Can the uncounted count? Qualitative indicators and their uses." Paper prepared for the Socio-economic and Gender Analysis Inter-agency Review Meeting Organized by UNDP, 5-9 March 1997, Pearl River, New York.

Appendix A4.9: Influencing the policy agenda

A4.9: Suggestions for how MFIs could influence the microfinance policy agenda	
Entry point for influencing economic policy	⋆ Be clear about the message you want to convey ⋆ To make contact with ministries, use connections ⋆ Use international events, study tours, ⋆ Target women already in positions of power, such as those working in the government those on women's councils. However, gender should not just focus on women, and each country is different, requiring an individual approach based on its gender context. Furthermore having women as policy makers is not enough to ensure that policy will be gender sensitive.
How to keep the attention of policy makers	⋆ Develop short snappy presentations ⋆ Use the media for awareness raising on positive aspects of microfinance operations, such as high loan repayment rates ⋆ Use 'outside' microfinance experts ⋆ Seeing is believing, illustrate with examples ⋆ Show the full reality of situation using data, general trends and statistics ⋆ Try to include governments members in any international workshops on microfinance, networking or meetings ⋆ Involve VIPs
Build networks and contacts	⋆ Make use of electronic conferences ⋆ Ask international organisations to promote network building amongst those working in the area of microfinance and gender issues ⋆ Participate at key events ⋆ Send microfinance brochures and materials (widely) ⋆ Create exchange programmes and informal communication channels between MFIs in the country/region/worldwide
Learn about lobbying techniques	⋆ Training may be needed in how to lobby ⋆ Lobby positively ⋆ Remember that some groups may lose their position if they contest people in higher position ⋆ Use all opportunities to get your point across: parties; celebrations; personal meetings; dinners; church ⋆ Experience sharing, knowledge of best practices can give ideas to lobbyists and also can provide arguments to convince decision makers to adopt enabling legislation and policies
Use outcomes from International Conferences	⋆ International Conferences are useful for spreading the word about gender issues. Use the vocabulary from international conferences ⋆ Sometimes international conferences call for national papers or action plans that include civil society group contributors – ensure that your MFI is included in such activities[24].
Role of information	⋆ Remember that information is 'power' ⋆ Ensure that the information you have is valid and not exaggerated, check information sources ⋆ Co-ordinate and organise information ⋆ Use all types of media, be creative in use of media ⋆ Make sure that you exchange information with colleagues and with other levels as they may be tomorrows policy makers or have different contacts

[24] The Fourth UN Conference on Women held in Beijing in 1995 was decisive in putting gender issues on the agenda, both in microfinance but also in other context, e.g. in several transition economies for the first time a gender issues focal point in the Ministry of Labour was created.

Appendix A4.10: Examples of 'best practices'

A4.10: Examples of 'best practices' for MFI service delivery

1. *Offer services that fit the preferences of poor entrepreneurs. Loan amounts can go from $25 up to several hundreds of dollars, keep loans short-term, generally three months to a year, and ensure that loans are available repeatedly. Ensure that clients face a minimum of loan processing time and that lending outlets are located close to the clients' homes or work places. This will implicitly help women clients' access microfinance services.*

2. *Stream-line operations to reduce unit costs. Standard loan application and approval procedures allow promoters with relatively simple training to handle a high volume of clients and thus cover the costs of salaries and administration. Loan approval should be based on easily verifiable data, such as compliance with group requirements and confidence that the client's business is a commercially viable concern.*

3. *Provide motivation to repay rather than relying on pre-disbursal detailed analysis of loan uses and formal collateral. Motivation could include joint liability groups, access to future often larger loans for disciplined payers and monetary incentives. Such motivations are supplemented by immediate follow-up if delinquency exists. In general, women have shown to be good at repayment and to respond well to peer group lending.*

4. *Recognise the value of savings services, especially for women. Through savings entrepreneurs can accomplish the same financial management tasks as they can through credit without becoming indebted. The characteristics of successful savings instruments include ready access to deposits when needed (liquidity), confidence with regard to procedures, regularity with respect to the collection of savings and the place where savings are to be collected, and finally maintenance of the value of the assets.*

5. *Charge full-cost interest rates and fees. Full cost pricing provides the basis for financially viable MFI operations. Such pricing covers administrative costs, loan losses, the cost of funds and any needed inflation premium. Full-cost interest rates may exceed commercial bank rates but poor entrepreneurs have shown their willingness to pay high rates in return for access to services that fit their needs. The required rates are generally well below the price of informal sector alternatives.*

6. *Concentrate on financial services. Institutions which have tried to combine financial services with training and technical assistance have found it difficult to successfully do both. Cost effective techniques for improving management and technical skills among entrepreneurs are scarce and difficult to implement. The institutional competence required to offer financial services is very different from that needed in the training area such that different types of institutions are needed.*

Rhyne and Holt, 1994

MACRO LEVEL TOOLS (CHAPTER 5)

Appendix A5.1: A checklist for a comprehensive identification of the key stakeholders involved in microfinance-related policy making.

A5.1: Stakeholder checklist

Ask the following questions to ensure that you include a broad range of stakeholders and perspectives in the development of policies that affect gender sensitive financial policy in relation to microfinance services:

⇒ *Who are the **key people** in the different government ministries that are involved in policy making on microfinance and on gender issues? Are there any women in key positions?*

⇒ *Who are the **international organisations, multi and bi-lateral donors, private sector, NGOs**, who have a vested interest in supporting gender development and the microfinance sector?*

⇒ *Who are the people or organisations, including NGOs, local governments and macro-level staff who **participated in relevant national and international conferences**? For instance the Microcredit Summit held in Washington, (1997) and its subsequent annual follow-up meetings; the OECD Conferences on women in SMEs (1997 and 2000); regional conferences on microfinance for example annual conferences organised by the Warsaw based Central and Eastern European Centre for Microfinance etc.*

⇒ *Who are the people, the organisations, and the networks who have the knowledge and technical skills related to **gender sensitising policy that affects microfinance**?*

⇒ *Are there people or organisations in-country that have already set up **microfinance intermediaries**?*

⇒ *Is there an **organisational chart** that might be useful in identifying decision makers, technical units, other key players in the different ministries and large organisations?*

⇒ *What **resources (for e.g. directories) might serve as a guide** to identify in-country women's organisations, non-governmental units, business and industry, technical personnel donor organisations?*

⇒ *Are representatives of the **labour force and trade unions** included?*

⇒ *Which **governmental, non-governmental or private sector** staff are and will be working with microfinance intermediaries?*

⇒ *Are appropriately designated **representatives of the power structure** represented or interested? (transnational corporations, large national companies, the army (if relevant), donor agencies, powerful INGOs)*

⇒ *Are those who are capable of **representing women's interests** represented? Are there any organisations in-country that focus on strategies to improve the situation of women, such as providing assistance on projects to lighten women's traditional workload, enhancing their education, technical and managerial skills?*

⇒ *Have existing **potential opponents** of MFIs been identified?*

⇒ *Are there **constraints regarding the involvement of particular stakeholder groups** that could be dealt with to ensure their participation?*

Adapted from the SEAGA Macro Handbook (FAO, 1997)

Appendix A5.2: A matrix to disaggregate the motives, positions and resources of different stakeholder groups.

A5.2: Identifying Stakeholders in a microfinance process Develop a similar chart. (adapted from SEAGA Macro Handbook, FAO 1997			
	Motives and positions in terms of establishing a gender sensitive policy allowing MFIs to operate in-country		
Stakeholders	**For MFIs**	**Against MFIs**	**Resources**
Ministry of Finance	A strategy likely to alleviate poverty, seemingly innovative May contribute to increased income for poor people and to the development of the private sector. In the long-term this will result in increased revenues for the government	Unfamiliar with operation of MFIs in practice Worried about their lack of prudential regulation and supervision (especially for MFIs that mobilise savings) Worried about high costs for regulation and supervision	Well-funded Administrative and material infrastructure, personnel
Other ministries and departments (each ministry can be done individually, for example ministry of rural development etc..)	The approach suggests better coordination and outreach for the field level	Unwilling to share resources	Have resources, but under no obligation to share such resources Have mandate for gender sensitive development Statistics unit has some sex disaggregated data
Commercial Banks	As MFIs extend loans, they are pleased not to have to lend to small borrowers (which is an expensive exercise) Not really sure about women clients as not 'visible'	Services MFIs provide will be in competition with some services they already offer	Have: - Useful infrastructures in many areas - Available funds - Knowledge about rural clients
Donors	Regulated MFIs will be more efficient and transparent Gender sensitivity falls in line with their overall policies	Regulation may entail too strict rules, such as a ceiling on interest rates charged; might have unintended consequences such as a lack of freedom to innovate which is likely to jeopardise MFIs sustainability prospects	Have: - Funds available - A pool of knowledgeable technical people able to disseminate 'best practices' - Power sometimes to influence the macro level decision-making process
Umbrella organisation for women's NGO	Perceive microfinance as a good sector servicing their constituencies Believe that it may result in their constituents being encouraged to work in non-traditional activities	Feel the proposed loan amounts are small Not fully clear which category of women will benefit from the policy Fear of losing power vis-a-vis their members who might become too close to the MFIs May not like the high interest rates used by MFIs	Experience in organising village women Large international funding base

Appendix A5.3: Identifying attitudes of stakeholder to regulation and supervision of MFIs

A5.3: Examples of possible motivations in favour of regulation and supervision

Review and discuss how can regulation/ supervision could affect women more than men clients?

MFIs	Governments
▪ To be able to attract savings and thus have access to cheap funds for on-lending ▪ If their country lacks the legal framework for allowing NGOs to engage in lending, NGOs risk prosecution, especially when say they were part of an international NGO and are trying to become an autonomous local NGO ▪ Regulation could eliminate the weaker MFIs in a saturated market and thus reduce competition ▪ The belief that regulations will force them to improve operations	▪ To steer financial services towards targeting social groups (e.g. poorer women and men) ▪ To facilitate entrepreneurship and promote non-state supported financial safety nets (savings) for citizens ▪ To protect depositors from unlicensed NGOs and private sector groups that are already mobilising savings ▪ Because the government considers that NGOs and private banks charge too high interest rates and through regulation interest rates will be lowered ▪ Because microfinance has a high profile on the international arena, governments feel obliged to take action to support the sector

Adapted from Peck-Christen and Rosenberg, 1999

Appendix A5.4: Policy linkages

A5.4 : Policy linkages		
Typical examples of linkages between policy that affects microfinance intermediaries and ultimately women and men. How many affect your operations?		
Macro	**Intermediate**	**Field**
State controls over lending institutions (e.g. loans only available to clients with fixed capital)	Lending institutions do not have the authority to lend to those who do not have capital	Men generally own land and other fixed capital. Many microfinance clients men and women do possess land which can be used as collateral
The legal code does not make provision for women to own land or other property, thus women may be considered 'minors'	Lending institutions cannot legally lend to women Loans require the signature of a male head of household	Small scale women entrepreneurs are not considered to be suitable borrowers Not easy for female heads of households to apply for finance Women may control money for particular items
Policy on credit and lending and other services available is channelled through complicated formal circulars and in the financial pages of the national newspapers	Information about financial services available is through the newspaper and word of mouth	Certain groups of people do not know about their 'rights' to use microfinance services or apply for loans
Although governmental policy is to increase private enterprise, extending small scale loans for start-up businesses is really complicated	Minimum sizes of loans that financial institutions can extend are not small enough for some people. Small loans carry high per-unit administrative costs	Loan size requests from disadvantaged people are very small Private enterprise initiatives are not yet favourably viewed by potential clients as people are not used to non-welfare state Loan terms do not respond to the specific needs of the business of poor women and men
Government is very hierarchical – business structures are rigid	The structure of the formal financial system is very hierarchical and does not appear 'user friendly'. It takes a long time for loan approval. There are no mobile bank units for rural areas	Women and men needing rapid access to credit face temporary crises It's mainly men that work in the formal financial services institutions. It is considered not appropriate for women to deal with banks Women have low self esteem and view men in lending institutions as 'big and important' Opening hours of banks not suitable for people who have to travel to banks
Governments view the development of microfinance as a solution to unemployment	NGOs can only extend loans to groups of clients, and not to individuals. NGOs policy for microfinance is to promote solidarity groups as a way to avoid guarantees, most of the time inaccessible to low income borrowers	Unrecognised that more women than men unemployed Women's unpaid work not accounted for Loan size requests are for individual borrowers. Women and men have different credit needs Practice has shown that women

		sometimes need smaller loans than men
Education policy in the country is not adequate. Overall there is a high percentage of illiterate people	There is lots of paper work involved in financial service delivery which discourages potential borrowers from applying Sometimes there are high costs associated with access to credit To benefit from bank services one has to be able to read and write	Higher percentage of illiterate women than men. Both men and women are confused by all the symbols, logos etc. that formal lending institutions have

Appendix A5.5: Issues to take into account with respect to gender sensitive microfinance policy implementation.

A5.5: Questions you should consider in terms of policy implementation

- *How are governmental policies regarded? (If governmental policies are held in low esteem then, there will be low commitment to implement policies coming from the government)*
- *How do people react to the new policy that affects microfinance programmes and operations?*
- *Who are the winners and who are the losers?*
- *How was information about policy changes with respect to financial institutions channelled?*
- *Who is leading the change in policy implementation?*
- *What will make the policies actually take place?*
- *Does the policy require that banks or other intermediaries to restructure or reform?*
- *What skills are necessary within existing financial institutions for managing policy change?*
- *If the policy is gender sensitive in terms of equal opportunities legislation, education to combat prejudice, how can gender issues be included in microfinance institutions that deliver services to women?*
- *If new policies redefine roles, structures and incentives with respect to taxes, regulations, access to services, gender stereotypes then, how can implementation difficulties be overcome?*
- *If new policies bring new costs and benefits to implementers, will there be a fear of business failure?*
- *Do implementers have a lack of information on how to implement a policy with respect to new regulations?*
- *Does the new policy bring a threat to the status of institutions or people? (Particularly if the policy gives power to information MFIs, maybe formal banks will lose their status)*
- *How do women's opportunities for micro-entrepreneurial activities compare to men's since a new policy has been formed?*
- *Are there time constraints or bureaucratic procedures at the local level that will slow down processes? If this is the case, opportunities may be lost.*
- *Will those working in NGOs or in informal financial service organisations exercise too much flexibility in implementing instructions from higher up?*

Appendix A5.6: Checklist to ensure policy implementation is linked to entrepreneurial activities at the field level

A5.6: Checklist for encouraging entrepreneurial activities at the field level

- → *Are there specific policies to encourage start up companies? (e.g. tax incentives), if not what kinds of overall policies are needed to encourage start up enterprises?*
- → *How easy is it to start a company? How much does it cost to start a company?*
- → *How does the government facilitate the registration of companies?*
- → *Are the taxation rates for small enterprises encouraging people to begin businesses? Are there enticing tax concessions?*
- → *What disaggregated data are required on rural/urban groups in order to plan microfinance activities?*
- → *How can policy makers ensure they take into account low income women as economic actors?*
- → *What is the legislation regarding women's position in society? can women own/inherit?*
- → *Are women discriminated against in terms of setting up a company? (e.g. lack of maternity provision)*
- → *What social welfare laws are there? Do they encourage people to engage in entrepreneurial activities?*
- → *What are male and female wage rates?*
- → *Should the government provide training for potential low income entrepreneurs? If so what kind of training could they provide? If not, who will provide it? Are there private training organisations?*
- → *What are the potential impacts of policy changes (related to entrepreneurship) on different groups? (e.g. rural, urban, male, female, different ethnic groups)*
- → *Are there any networks of enterprises by sector? Are there any clusters of related businesses getting together to negotiate better raw materials costs or to ensure better marketing?*

Appendix A5.7: Questions to determine if policy implementation is effectively linked to the operation of MFIs.

A5.7: Microfinance intermediaries implementing policy

→ *Which regulations are governing the activities of MFIs, can NGOs operate effectively as financial intermediaries i.e. extend loans?*

→ *What prudential standards (minimum capital requirements) do MFIs have to meet as stipulated by policy? Can they meet these through mobilising savings?*

→ *Can MFIs set market interest rates?*

→ *Within the current regulations that govern the activities of MFIs, can NGOs engage in MF activities?*

→ *What is the minimum capital required to start a bank of a financial NGO?*

→ *Under which conditions can credit unions function in the country?*

→ *How regularly does the government (via the central bank) monitor the activities of MFIs?*

→ *What services does the government currently provide to MFIs? (e.g. conferences, reports, linkages etc.)*

→ *Is government policy ensuring that women have access to MFI services?*

→ *Is there a central registration source or information on credit history of potential borrowers?*

Appendix A5.8: Networking approaches towards policy change.

A5.8: Methods for networking on policy include:

- *Launching research projects on issues of particular interest. Alternatively existing studies on microfinance in a region by UN agencies or bi-lateral agencies can be used.*
- *Disseminate and collect information via seminars, publications, distance learning. The World Bank has an recent initiative in the area of microfinance and distance learning.*
- *Use existing networks to determine how they can influence policy. A Microfinance Centre for Central and Eastern Europe now exists and the theme of it's annual conference in May 2000 was the legal and regulatory environment for microfinance in the region.*
- *Use existing companies or projects that are tracking policy and publishing information. A project on Microbanking Standards funded by C-GAP and managed by Calmeadow tracks the performance of over 100 MFIs worldwide. Its objectives include establishing industry standards, enhancing transparency of financial reporting and improving performance of MFIs.*
- *Sectoral newsletters can also be a useful way of networking on policy issues. The Microbanking Bulletin is a semi-annual publication with detailed information on performance standards*
- *The World Wide Web also provides an opportunity for the exchange of 'best practices' in policy approaches for MFIs. Issues around socio-economic and gender concerns in microfinance can also be aired on the web, and successful examples of policies that are sensitive to the needs of women and other social disadvantaged groups can be sought.*

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