

PN-ABF-054  
2007

# AGENCY FOR INTERNATIONAL DEVELOPMENT PPC/CDIE/DI REPORT PROCESSING FORM

ENTER INFORMATION ONLY IF NOT INCLUDED ON COVER OR TITLE PAGE OF DOCUMENT

1. Project/Subproject Number 936-5315	2. Contract/Grant Number DAN-5315-A-00-2070-00	3. Publication Date 10/89
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4. Document Title/Translated Title  
Meeting Women's Needs: Lessons for Formal Financial Institutions

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The Ohio State University

7. Pagination 18	8. Report Number	9. Sponsoring A.I.D. Office STT/RD and AFR/MDI
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10. Abstract (optional - 250 word limit)

11. Subject Keywords (optional)

1.	4.
2.	5.
3.	6.

12. Supplementary Notes

13. Submitting Official Melissa Pommerhoff	14. Telephone Number 875-4491	15. Today's Date 4/14/90
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16. DOCID	17. Document Disposition DOCRD [] INV [] DUPLICATE []
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**SEMINAR ON INFORMAL FINANCIAL MARKETS  
IN DEVELOPMENT**

**MEETING WOMEN'S FINANCIAL NEEDS:  
LESSONS FOR FORMAL FINANCIAL INSTITUTIONS**

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Sponsored by

The Ohio State University

The Agency for International Development

The World Bank

October, 18-20, 1989, Washington, D.C.

## **ABSTRACT**

In many countries women have a more difficult time getting access to formal financial services than do men. Authors review the reasons for this and then go on to discuss how several innovative credit programs have reached women who operate small businesses.

## **MEETING WOMEN'S FINANCIAL NEEDS: LESSONS FOR FORMAL FINANCIAL INSTITUTIONS**

by

Maria Otero and Jeanne Downing

Women's high participation rates in informal financial systems is as widely acknowledged as their limited participation in formal finance. The formal banking system has had little success in reaching the poor, especially women, because of the cost of administering many small loans, the expense of expanding the network of banks to lower borrower transaction costs, and the perceived risk involved in lending to borrowers with little or no collateral. On the other hand, women's high loan repayment rates --as demonstrated by such programs as the Grameen Bank, ACCION International, FINCA, and others--attests to their creditworthiness.

A number of studies in Africa have shown that because of their low opportunity costs, women's willingness to respond to improved economic incentives is very high, often exceeding that of men's (Henn, 1983; finding of MSU's Food Security Project in Somalia, 1989). Women's limited access to capital in the face of their creditworthiness and their willingness to respond to economic opportunities underscores the importance of addressing women's financial needs--not just for reasons of equity but even more importantly for economic reasons.

Women make major labor contributions to economic development. Estimates based on censuses, national surveys, and UN data indicate that women provide most of the labor required for food and cash crop production in the Third World, producing as much as 90 percent of all food grown in rural areas of Africa. Their participation rates in small and microenterprises is also widely recognized in Africa, Latin America, and Asia. Moreover, because of continued male out-migration in rural areas of Latin America and Africa, high divorce and abandonment rates, and increased costs of living, more and more women are farm managers and/or self-employed microentrepreneurs. And yet the returns to their labor have been small. Women's limited access to financial services is one of the barriers to their income mobility.

Women's financial needs are largely met by the informal sector. However, the small amounts of credit they are able to borrow, the high rates they pay for these funds, as well as their limited access to other productive resources keep many in poverty. Berger (1989) argues that as long as women depend on informal financial markets, they will continue to be marginalized. The aim of this paper is to explore ways of meeting women's financial needs by drawing from current studies as well as credit and savings programs that reach women. These programs provide lessons that may assist formal financial institutions to integrate women more effectively into development.

We begin by exploring women's financial needs in order to understand the types of financial instruments needed to reach rural farm and nonfarm and urban female entrepreneurs. This is followed by an analysis of women's constraints to their participation in the formal financial sector; a description of programs that have been successful at reaching women; and suggestions for integrating formal and informal financial intermediation.

## **WOMEN'S FINANCIAL NEEDS**

Women's financial needs tend to correspond with their dual domestic and income generating roles. Women almost universally have primary provider responsibilities that can include producing food for the family, housekeeping, gathering fuelwood, fetching water, caring for children, processing food, cooking, and more (Staudt, 1985; Safilios-Rothschild, 1980; Blumberg, 1988).

### **Women's Domestic Responsibilities and Economic Behavior**

In economic terms, women's domestic responsibilities generally include activities that are income-saving and those which constitute human capital investment. Women's subsistence production, food processing, fuelwood gathering, and other unpaid work are income-saving activities for the household. The time and money women devote to their children's health and education represent human capital investment. Guyer's (1988) research in Cameroon documented the extent to which women and their husbands contributed to the support of the household; women spent about 75 percent and men 25 percent of their respective incomes on the household. With increases in income, the proportion of the husband's income devoted to the household fell even further. These findings show the primary responsibility women assume for human capital formation. In order to meet women's financial needs, instruments are needed that help women make these important human investments.

Many women in rural areas of developing countries perform their domestic responsibilities while, at the same time, engaging in a diversity of farm and nonfarm income generating activities. Many poor women attempt to generate income from both farm and nonfarm enterprises in an attempt to spread the risks of any one venture, and to take advantage of seasonal changes and market variations. Berger (1989), who has recently completed an important work on women's financial needs, argues that "the frequent shifts among multiple activities may actually strengthen the overall business strategy for stability" by allowing women to seek out those activities at those times that are most remunerative. Research in the Central Province of Kenya revealed that the more farmers diversified out of farming into nonfarm businesses, the higher their incomes, suggesting that diversification is a successful strategy for income mobility (SARSA, 1988). Thus women need financial instruments that allow them the flexibility to diversify their sources of income.

### **Women's Concentration in Low-Profit Enterprises**

Women's dual reproductive and productive roles shape the kinds of income generating activities they are able to engage in and the profit they are able to generate. Because they must assume many of the household responsibilities, produce food for the family, and generate income, many women in developing countries have severe time constraints; data from Sub-Saharan Africa shows women working as many as 16 hours per day (Dixon, 1979). In order to use their limited time and resources most effectively, women engage in income-generating activities that build on and/or can be integrated with necessary subsistence activities. For example, Chipande (1987) found that women in Malawi preferred to cultivate groundnuts as a cash crop rather than tobacco, even though the latter yielded higher returns--since groundnut production could be combined with maize production for family subsistence. Women predominate in food preparation because they can combine it with food preparation for their families (Longhurst, 1982; Watts, 1984). For instance, women may buy maize in the morning, process it in the course of their daily household activities, and sell it in the afternoon (Dixon, 1979).

Research of women marketers in a secondary city in the Kutus region of Kenya showed that women were, for the most part, limited to small-scale retail trade as opposed to long distance trade because of both time and mobility constraints (Downing and Santer, 1989). Because of their domestic responsibilities and their need to stay close to home, women marketers were concentrated in retail as opposed to wholesale trade. The products they sold were generally locally produced, selling at a lower price than the imported goods in which male retailers specialized. Women's monthly sales were, on the average, half those of male marketers who travelled 3 times as far as women to purchase their inputs. Women's dual roles result in constraints that tend to keep them in informal sector businesses that have low profit margins. These low profit margins make women poor credit risks in the eyes of commercial banks.

### **Women's Investment Patterns**

Women's domestic responsibilities have a significant impact on their investment decisions and their willingness to take risks.

The daily demands on poor women to feed and care for family members create strong pressures to dip into business stocks and revenues, rather than keeping them separate and reinvesting in the business (Berger, 1989).

Because women almost universally have primary provider responsibility, they will, more than men, invest their business revenues in human capital, that is their children, when necessary. Rather than punishing women for these decisions, financial institutions need to devise instruments that protect women's interests both in their family and in their income generating enterprises.

Poor women, in general, are oriented toward economic security and stability rather than risk-taking. Maloney and Ahmed (1988) found that women in Bangladesh were financially conservative because of the "economic insecurity of the family, the possibility of death of the male earner or divorce, and concern for the welfare of their children." High rates of divorce and abandonment in Africa and Latin America have only strengthened women's primary responsibility for their children and tendencies toward risk aversion.

A number of studies have shown that women's financial conservatism is also linked to their tendencies to spread the risks of their husbands' investments (Guyer, 1986). Schmink (1984) notes that households in most countries in Latin America engage simultaneously in survival and (income) mobility strategies on a gender basis; women tend to assume survival strategies and men mobility strategies. Women's low but steady income allow men to seek greater absolute returns at heightened risks.

Women's financial conservatism also translates into a propensity to save and high loan repayment rates. Women's sense of responsibility, their concern for their future ability to obtain credit, and their perpetual drive toward financial security make them good savers and creditworthy borrowers.

#### Financial Instruments to Meet Women's Needs

Given women's dual roles and the ways in which these roles shape their economic behavior, what kinds of financial instruments are needed to meet women's needs? Women need financial instruments that will allow them to make good business decisions and, at the same time, meet the needs of their family. As long as women use their business revenues to meet domestic needs, their businesses will continue to be small and unremunerative and income mobility will be largely out of their reach. To meet their domestic financial needs, women need confidential deposit accounts to which family members cannot have access. Research in Bangladesh suggested that farmers needed financial instruments that provided insurance against crop loss. Women in much of the Third World might be interested in financial instruments that provided insurance for their family. The Grameen's Bank emergency fund serves this purpose, providing resources for members in dire need while protecting loaned funds (Hossain, 1988).

Studies of women's propensities to save have been sparse; nonetheless, existing evidence suggests that women are motivated to save as a survival strategy (Maloney and Ahmed, 1988). A study by Maloney and Sharfuddin in Bangladesh showed that women almost universally saved, though in small amounts because of the little income they were able to generate. However, according to banking manuals in Bangladesh, rural banks prohibit illiterates and women in purdah from opening savings accounts (Berger, 1987). This study concluded that because of the small size of their savings (it did not mention the cultural barriers to their saving in a formal institution), it was likely not cost-effective for the banking system to mobilize women's savings. Group savings mechanisms in the Grameen Bank, however, have demonstrated the possibility of capitalizing on women's propensity to save without incurring the transaction costs of the formal banking system.

Evidence also suggests that women will be reluctant to save in a deposit account if they have to travel far to do so. Because of time and mobility constraints, transaction costs associated with traveling to a depository are particularly high for women. Their opportunity costs associated with spending time away from both their reproductive and productive activities tends to be greater than men's. Village level banking has been important to increasing women's participation in savings schemes.

Women need access to credit for their income generating activities, though their need varies by socio-economic status. Berger (1989) writes that the "ultrapoor" are likely not good candidates for lending since their situations force them to use whatever cash they have for consumption. These women might best be served by interest-paying deposit accounts. At a somewhat higher level of income are women whose business objectives are stability and security; in other words, they are not risk-takers. Berger argues that these women need credit for working capital: for purchasing inputs, keeping an inventory, replacing equipment, and selling on credit. A loan to these women would allow them to increase their productivity and incomes while maintaining a constant level of sales. At another level of income are more risk-taking women entrepreneurs who need credit to increase the size of their business.

Women who engage in a diversity of productive activities need the flexibility of untargeted credit. Untargeted credit allows them to invest funds in the highest return activity they are involved in at any given time, and to shift funds depending on seasonal changes and/or market variations (Freeman and Norcliffe, 1985; Berger, 1989).

Women microentrepreneurs need short-term loans because of the nature of the cash flow of their businesses. Women farmers, however, have different needs. According to a Club du Sahel Newsletter (June 1989), producers need longer-term loans because of the seasonality of crops. They also need terms that "take into account the uncertainty of income levels due to climatic variations." This latter need suggests again that instruments that provide farmers and entrepreneurs with insurance for emergencies--due family crises, crop loss, or some other unavoidable loss--may be important for meeting the financial needs of small borrowers.

### **WHY WOMEN ARE RATIONED OUT OF THE FORMAL FINANCE**

The formal financial system, for the most part, has been unable to respond to women's financial needs. Recent studies on women's utilization of loans document the major factors that limit their participation (Berger, 1989; Bruce, 1980; Otero, 1986; Austin and Dulaney, 1985). Some of these factors are related to institutional requirements, others to cultural and social norms, and still others to the type of productive activities in which women predominate.

## **Institutional Issues**

Perhaps the most important impediment to women's participation in formal financial markets emerges from banks' requirements and procedures for lending. These can be outlined as follows:

### **1. Collateral Requirements**

Women face greater problems in meeting the guarantee requirements of banks than poor men because, in most societies, they are more restricted from owning land and other assets that serve as collateral. Land and other property tend to appear in the man's name. In countries where women inherit land, their lack of knowledge regarding their legal rights enables male relatives to assume titlement (Yudelman, 1987). In other cases, when land is not in a woman's name, she may not be able to meet the collateral requirement of a credit program (Palmer, 1985).

Even in cases where women can own land, and therefore can present it as collateral, their participation in credit programs still remains low. In Honduras, the Agrarian Reform Law of 1962 granted women the right to own land. However, decisions made regarding credit provision considered affiliation to a collective organization--a cooperative or other association--as an important criteria. Since most organizations were dominated by men, women still remained outside the formal financial system (Youssef and Lebel, 1981).

### **2. Application and Review Procedure**

The paperwork required by a bank to process a loan assumes a level of knowledge outside a poor women's sphere. Most poor women are illiterate or semi-literate, and are unable to complete applications, formulate investment or cash flow projections, and comply with other documentation that the bank requires.

Even in credit programs designed for small enterprises, women's participation is low. A study of the Development Fund for Small Urban Enterprises of the Industrial Bank of Peru reviewed the activity of three branches to assess women's participation (Buvinic, et.al., 1985). It found that 16 percent of borrowers were women. The reason for this low participation was not the bank's tendency to reject women's application at a greater rate than men's, but resided in the low percentage of women who presented applications and who could afford to spend the required amount to meet all the necessary documentation (Buvinic, et.al., 1985).

### **3. Terms not Appropriate for Need**

Most banks are willing to lend amounts larger than those needed by women, most of whom run very small businesses that require tiny loans for working capital. Even in cases where the bank can consider lending such a small amount, the lengthy time required for loan review and approval becomes the greatest constraint. A recent study of microentrepreneurs in Costa Rica demonstrated that the length of the loan

approval process is the strongest deterrent to seeking credit from a bank (Stearns, draft, 1989). It is noteworthy that interest rates are seldom considered an impediment to borrowing because the alternative source of finance for this population, the moneylenders, charges a much higher price for money (Buvinic, et.al., 1981; Stearns, draft, 1989).

#### **4. Transaction Costs**

For the bank, the unit cost of making small loans is very high and therefore financially unattractive. Especially with a population considered high risk, banks are more likely to make a few large loans in order to keep costs low. Studies have demonstrated that even with subsidized credit lines, lending funds have been concentrated in a few large loans (von Pischke and Adams, 1980; Vogel, 1984). Given this tendency within the formal financial sector and women's need for small loans, it is less likely that women will participate in a credit program.

#### **Gender-Related Issues**

While many of the above constraints apply to men and women, but affect women more adversely, there are factors that affect women's participation in formal financial institutions that are specifically related to gender.

##### **1. Literacy**

Throughout the developing world, the rate of literacy among women is lower than among men. This factor decreases women's capacity to approach financial institutions for services.

##### **2. Transaction Costs**

From the borrower's perspective, interest rates constitute only one component of the costs of loans. Additional costs such as transportation to the bank, the time necessary to travel and negotiate a loan, and costs associated with filling out documents are considered important transaction costs that increase the cost of formal loans (Christen, 1989). For women, these costs are higher than for men because their domestic responsibilities require additional time and provide less flexibility.

##### **3. Cultural Mores and Traditions**

Women face social constraints that also affect their access to credit. In some countries, social norms may restrict women's mobility (Lycette and White, 1988). As alluded to above, their exclusion from local organizations such as cooperatives or social organizations, which serve as a source of information on credit programs, isolates them from the necessary networks.

## WHY MICROENTERPRISE PROGRAMS REACH WOMEN

The experience of the last decade in implementing microenterprise credit programs demonstrates the capacity of these programs to integrate women as program clients. Statistics from a variety of programs, that disaggregate data collection by gender, show that women's participation is seldom lower than 40 percent and has been as high as 70 percent (ACCION, 1988; Hossain, 1988).

ACCION International, a US-based private development organization currently provides technical assistance to its 35 affiliated local development institutions in Latin America and the Caribbean. These local organizations implement microenterprise credit and training programs using a methodology for credit provision developed with ACCION. In the process, the programs are able to reach a significant number of women--about 50 percent of all beneficiaries--who carry out productive activities in the informal sector.

ACCION affiliated programs rely on a group lending mechanism to extend loans and training. Known as solidarity groups, these groups consist of three to five members who are producers or vendors and who organize themselves into a group to participate in the program. Loans are made to each group which operates as a guarantee for all its members (Otero, 1986). The group manages the loan, collects payments, and is responsible for its management. The group also addresses repayment problems by its members, because the whole group must repay its loan before it can solicit another loan.

Within the solidarity group method, six major characteristics underlie the ways in which these organizations provide credit to the urban poor:

### 1. Agility in Loan Application and Review

Because tiny producers require immediate access to small amounts of working capital, these programs establish a system for simple loan application, review, and approval procedures. In most cases, a first loan requires five working days from application to disbursement. Subsequent loans are automatic, requiring no wait.

For women, the quickness of the loan approval procedure lowers the transaction costs of obtaining a loan. Additionally, simple application forms administered by a field worker enable illiterate or semi-literate women to participate. In most programs, a large percentage of women borrowers sign their applications with a thumb print.

### 2. Flexible Loan Terms

The amount lent, the frequency of payments and the duration of the loan are also established to respond to the needs of the borrower. Most microentrepreneurs require very small loans--on the average around US\$ 300, depending on the country and the nature of the operation--as well as payment schedules that are responsive to

their own cash flow situation. Producers in wood, for example, may prefer to make weekly payments, while persons who retail agricultural products may prefer one monthly payment. By adapting these terms to the borrowers' needs, the programs take into account the borrowers' financial ability to repay loans.

This flexibility allows a woman to establish a repayment schedule according to her needs and also decreases the amount of time she must spend making payments. Many women choose to repay their loans in one or two installments.

### **3. Commercial Interest Rates**

This methodology emphasizes that programs should not subsidize credit to the borrower, but charge interest rates that are equivalent to commercial or even higher. The importance of reflecting the real cost of lending is important for two reasons. First, it demonstrates the capacity among the poor to borrow and pay back interest on loans, rather than rely on subsidized credit. Second, it enables the program to generate income to cover its operational costs. Once a program becomes large enough and maintains a good repayment rate, it can become self-sufficient. It is significant that most borrowers consider commercial interest rates adequate for their needs, especially since the alternative informal source of credit charges a much higher interest rate (Buvinic, et.al, 1985; Stearns, draft, 1989).

### **4. Built-in Repayment Incentives**

There are several ways in which these microenterprise programs encourage timely repayment of loans. The solidarity group mechanism described above constitutes an essential feature through which borrowers assist each other through mutual support and peer pressure to repay loans. The group is responsible for collecting the total loan. If one member of the group does not repay a loan, then no one in the group can obtain a second loan.

Additional repayment incentives include access to larger loans once previous ones are repaid; disbursement of a subsequent loan immediately after the previous loans are repaid; ability to renegotiate the repayment schedule and duration of the loan. Finally, the program's field workers visit borrowers prior to the repayment date to encourage timely repayment.

### **5. Training and Technical Assistance**

Training is seen as a catalyst for personal and group development. It contributes to changing attitudes, assists in overcoming limitations in the workplace, and increases the client's knowledge regarding production and marketing. The objective is to improve the quality of life of the program clients by assisting them to improve business practices in their firms, and by exposing them to the advantages of forming representative organizations and other mechanisms for addressing their problems.

In many cases, courses are scheduled when the borrowers are available, a factor particularly important for women whose domestic responsibilities allow them less free time for other activities. Gender-related issues are also often integrated into the training, such as legal advice and numeracy.

The above features in these credit programs seek to resolve those factors existing in the formal financial sector that have become the major constraints to providing financial services to women. The overall results of these programs demonstrate their success in reaching microentrepreneurs. ACCION affiliated programs operating in 12 countries in Latin America and the Caribbean disburse approximately US\$ 1.5 million in loans every month, with loans averaging in size around US \$300 (ACCION, 1989). Repayment rates are very good with the majority of programs, showing less than 2 percent default rates. These programs have reached over 25,000 microentrepreneurs of which about 50 percent are women, and are in the process of expanding operations.

A brief description of the ACCION affiliated program in Bolivia, the Foundation for the Promotion and Development of Microenterprises (PRODEM), is presented in order to illustrate the use of this methodology and its success in reaching women. IFAD's credit program for smallholders in Malawi is also described as another example of credit provision that takes into account gender issues.

### **PRODEM**

Founded in 1986 by Bolivian professionals from the private sector, PRODEM's objective from the outset was to provide resources, especially credit, to the thousands of poor microentrepreneurs in the country. In establishing the program, PRODEM learned from the lessons of earlier efforts and paid particular attention to the following factors:

- o Assurance that the Board of Directors was composed of active and committed local nationals who would provide the necessary backing and leverage for the institution's operations.
- o Establishment of a well integrated computerized management information system that would provide necessary and timely information from the outset. This is particularly important for a program that expands operations quickly and requires efficient monitoring.
- o A system for hiring and training staff prior to program initiation to assure their readiness.
- o A detailed feasibility study to inform the program on level of demand and on the best method to promote the program among the target population.

PRODEM established two separate departments: one worked with producers and another with market vendors, both organized into solidarity groups. Loan review and approval from the outset was conducted by each department, with the field workers playing an important role in the process.

The program applied the major characteristics of the ACCION methodology outlined above. As it evolved, an increasing number of women approached PRODEM, most of them involved in commerce at the many open markets in the capital city. While the program had not set out to target women, its methodology addressed the constraints women face in obtaining credit and enabled them to approach the program. Today, 67 percent of PRODEM's clients are women, receiving loans that average US\$ 170 for their tiny businesses. In the process of reaching women, PRODEM also developed a clearer understanding of gender related issues in credit and assured that these were taken into account in the program. For example, many women spoke only Quechua or Aymara, the indigenous languages in Bolivia. The program, therefore, hired staff proficient in these languages.

In less than three years of operation, PRODEM's accomplishments are worth noting. It has provided about 20,000 loans to over 5,300 microentrepreneurs in the cities of La Paz and El Alto. Of these beneficiaries, about 3,550 are women market vendors and producers with no other source of credit except moneylenders. Each month this program disburses close to US\$ 250,000, and has lent a total of over US\$ 3.3 million. Its credit portfolio of about US\$ 500,000 has grown steadily since program inception.

The level of repayment in this program also deserves mention. Delinquency rates, or late payments are monitored on a monthly basis; this rate has never been higher than .05 percent of the portfolio on any given month. PRODEM's defaults during its first three years have been insignificant (PRODEM, 1989). This finding is particularly important since such a high percentage of borrowers are women, demonstrating their capacity to repay loans.

In 1988, PRODEM also started a savings program, capturing a certain percentage of loaned funds from all potential borrowers. An average of nearly US\$ 10,000 a month has been mobilized in savings; PRODEM currently has approximately US\$ 125,000 in clients' savings.

While there are other important data on the program, from the perspective of gender, the above information yields two lessons. First, a microenterprise program can be designed in a way that facilitates women's participation. Second, the repayment rate of the program as well as its capacity to mobilize savings demonstrates women's ability to manage and use credit once they have access to it.

### **IFAD's Malawi Mudzi Fund**

The Malawi Mudzi Fund is a pilot effort that is part of a larger Smallholder Agricultural Credit Project. The purpose of the Mudzi Fund is to provide credit to the smallest farmers, especially women, who "are able to generate sufficient repayment capacity to service agricultural credit," partly because agricultural credit packages have been too large to suit their needs. Being very poor, they also do not possess collateral resources. Drawing on experience gained in Bangladesh, the project aims to initiate a facility on a pilot scale (IFAD, October 1987).

The Mudzi pilot project will gradually open branches in central rural locations with access to banking facilities and rural markets. Bank workers will live in villages, and within a five year period, be expected to operate 50 groups, each with a membership of five male or female farmers with under one hectare of land. Each beneficiary will receive a loan of MK200 paid in turn to members, each subject to the others demonstrating their regular repayment dues. A system of regular savings and contribution to risk funds also will be introduced. Savings will be made under a Group Fund and will be financed by initial small deposits, regular savings and mandatory subscriptions of 5 percent from the loan amount. Accounts will be maintained at Branch Units and consolidated at Central Units.

Although the Malawi Mudzi Project has not yet been implemented, it represents an important experiment in providing credit to small farmers. Credit schemes for small farmers in the past, as evidence by A.I.D.'s 1973 Spring Review, have been abysmal failures. The Malawi Mudzi Project constitutes an attempt to design a credit scheme to meet the financial needs of small producers, including women, while charging market interest rates and maintaining high loan repayment rates. Its village level approach, small credit packages, emergency fund, and solidarity-group methodology are meant to fulfill the financial needs of women and other small farmers.

### **LINKING INFORMAL AND FORMAL FINANCIAL INTERMEDIATION**

A number of studies have proposed linking informal and formal intermediation as a means of taking advantage of the strengths of each. The Ohio State University's study of the informal financial sector in Niger recommended that the informal savings and loan activity in the rural areas could form the base for cooperatives or credit unions at the village level (Graham, Cuevas, and Negash, 1987). By broadening the financial base of activity to a larger membership than could be handled by tontines or moneykeepers, cooperatives or credit unions could build on the current informal system (Graham et al., 1987). Similarly, Gadway's analysis of credit unions in the Bandundu region of Zaire revealed the strength of these quasi-informal financial institutions and suggested that second-level institutions able to circulate credit unions' liquidity over a greater territory and amongst a larger population might strengthen the nascent viability of the financial system that exists in rural Zaire (Gadway, 1987).

Credit and savings programs have adapted the informal sector's ability to provide financial services to the poor. ACCION International in Latin America has designed a methodology for reaching the poor that borrows from the success of informal financial intermediation. In addition, ACCION programs continue to seek more innovative mechanisms in order to expand the population it serves. PRODEM in Bolivia is exploring financial intermediation initiatives that may lead to the formation of a microenterprise development bank. In Colombia, an ACCION-affiliated program has shown the possibilities of building linkages between different forms of financial intermediation. This program at the lowest level is made up of solidarity groups, consisting of four or five microentrepreneurs. Members of solidarity groups are required to take classes in business management, deposit funds into a savings account, and meet regularly with their group. Once their business is more secure and profitable, they "graduate" from the solidarity group to a cooperative, where they can obtain loans as individuals. The cooperatives have been obtaining lending funds both through donor organizations and, more recently, from commercial banks. Thus the linkages between formal and credit and savings programs emerge.

In order to reach clientele with very different financial needs in developing countries and still build a viable financial system that serves a massive population, different kinds of institutions are needed. Varied layers of institutions like those involved in ACCION's program in Colombia could reach the poor and help them graduate incrementally to a different kind of institution tailored to meet their financial needs. Circulating liquidity among the different levels would allow the system to increase the diversity of its portfolio, the availability of funds for lending, and the allocation of resources to their highest-return use. Most importantly, such a model would integrate financial markets and bring more small savers and borrowers, both female and male, into the development process.

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