CHAPTER 4

Micro-finance and Innovative Financing for Gender Equality: Approaches, Challenges and Strategies

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Introduction

Micro-finance, which is widely recognised as a strategy to fight poverty, evolved and developed in many countries out of the women's/gender equality movements. Yet, as it exists today, micro-finance is more about finance and less about gender. A significant proportion of the billion poor people worldwide who still lack access to financial services are women. The needs of women are different from those of men, and they often face the dual burden of productive and reproductive roles – providing livelihood security for their families and physically looking after their household as well as bearing children. Any attempt to tackle poverty and address the first Millennium Development Goal (MDG) must have a major focus on women. Micro-finance must thus be made to re-discover its original mandate as it moves forward in its journey of empowering the poor, especially women.

Interestingly, the private (corporate) sector appears to have sensed an opportunity in delivering financial services to so-called 'bottom of pyramid' clients. Some of them are already trying to pilot innovative financial services to cater to the special needs of low-income people (including women) in different contexts. While it is very early days, the initial set of results available to date indicate that private sector financing could be a viable alternative mechanism to reach out to low-income women, in ways convenient to them and their needs. It is critical to understand this growing set of stakeholders, who are keen to serve low-income women in a customer-friendly and sustainable manner and who, more importantly, can leverage a lot of resources towards achieving this.

Accordingly, the objectives of this chapter are to provide a brief overview of recent developments in micro-finance; to isolate specific issues (access versus control of resources) that need greater understanding from a gender perspective in micro-finance; to identify some of the gender challenges of micro-finance; to briefly outline some basic strategies to redress these challenges, including private sector financing, with global examples; and to offer pragmatic recommendations so that micro-finance and private sector finance can be incentivised to really empower women.

The Origins of Micro-finance: A Tool for Women's Empowerment

From the early 1970s, women's movements in a number of countries became increasingly interested in the degree to which women were able to access poverty-focused credit programmes and cooperatives. In India, several organisations[1] with their roots in women's and labour movements viewed enhancing access to credit as the key to the success of their work with women workers in the informal sector. What we today call micro-finance suddenly began to be seen as the magic wand that would eradicate poverty and ensure economic empowerment of women through access to credit initially and later financial services.[2] With increasing evidence of the centrality of gender equality to poverty reduction, combined with the higher credit repayment rates achieved by women, a general consensus emerged on the desirability of targeting women, and this became a major plank of donor poverty alleviation and gender strategies in the late 1980s/early 1990s. Not only 'reaching' but also 'empowering' women became the second official goal of the Micro-credit Summit Campaign.

Several characteristics made the early micro-finance programmes/institutions an attractive alternative in serving poor women:

- They provided services to marginalised and vulnerable people – by and large, their typical clients were poor women who did not have a savings bank account, were illiterate or with (at most) some primary education, needed collective bargaining through group mechanisms, mainly belonged to the most economically and socially backward communities and were generally daily wage earners, piece rate workers, etc.
- They were perceived to be less intimidating and more easily accessible than formal financial institutions.
- In many cases they provided doorstep delivery and recovery of loans, which was extremely convenient for the poor and women as they did not have to miss out on their work/household chores. It also meant lower travel and related expenses for them – all of which reduced transaction costs of access.
- They typically did not ask for collateral, margin money and/or loan security – social collateral was substituted for physical collateral.
- Their documentation was simple and informal with speedy loan sanctioning and disbursement. While it took many visits by poor women to formal institutions to get a loan and there was no guarantee, just 1 or 2 visits were required to get a loan from micro-finance programmes/institutions.
- They provided loans with shorter lead times that could be easily accessed at all times, including emergencies. They were really 24-hour banking solutions for the poor.
- They offered credit at affordable interest rates when compared to the local informal sector (money lenders, etc.) as well as formal institutions (which had high transactions and access costs).

Micro-finance today is very different as institutions are being created to meet the twin objectives of expanding outreach (to include greater numbers of poor people) and enhancing the sustainability of micro-finance institutions (MFIs). As micro-finance goes to scale, institutions and programmes are trying to put adequate mechanisms in place with regard to various components – governance, management practices, human resources management, financial resources management, micro-finance programme design (product packaging including services, pricing, delivery mechanisms, etc.) and stakeholder relations. This concern for a professional approach is the biggest focus of institutions and programmes, which perceive having competence in the above areas as essential for scaling up micro-finance activities.

Micro-finance: Growth Trends, Scaling-Up and Performance

Worldwide, micro-finance programmes and MFIs have grown at a burgeoning pace over the period 2001-2004. Their growth in outreach is visible in terms of not just numbers of active borrowers but also gross loan portfolio and total assets.

Not to be left behind, government-sponsored programmes have also tried to enhance their outreach. The role of the National Bank for Agriculture and Rural Development (NABARD) in India in multiplying women's self-help groups (SHGs) is a classic case of how a state-led mainstreaming strategy of linking women to banks has worked, and it offers critical lessons concerning replication and scaling up. As at March 2006, over 33 million women had been linked to banks for financial services through 2.2 million SHGs. The SHGs are a household name, and many stakeholders recognise them as an effective distribution mechanism for delivery of financial services to low-income people.

In all regions, the largest client 'segment' continues to be 'women'. This varies from MFIs having almost 100 per cent women clients in Asia to about 59 per cent in Latin America and Caribbean as well as other regions. There are a number of reasons for this (see Box 4.1). As Cheston (2006) points out,

> the U.S. Agency for International Development (USAID)... targets women at a higher rate than men because of the empirical evidence that 'cash surpluses controlled by women are more likely to be invested in the well-being of children and the household than are surpluses controlled by men,' as well as the 'higher rates of social and economic exclusion' that women experience.

While performance in terms of outreach has indeed been spectacular, the financial performance of micro-finance programmes and MFIs – in terms of parameters like operational sustainability, portfolio at risk and return on assets – has been equally phenomenal. Portfolio quality has improved over the years 2001–2004, as have financial returns and profitability.

Box 4.1. Some reasons why micro-finance focuses on women

- Women have proven to be good clients and borrowers, at least from a micro-finance perspective. Better performance is reported for MFIs with a large proportion of women clients on parameters such as portfolio at risk.
- Women are considered as less of a credit risk. As a client segment, they have generally tended not to wilfully default.
- Women are perceived as an easy client group to handle.
- Women are said to have immense saving potential.
- Working with women is seen as an entry point to work later with the household.
- Various governments and other stakeholders including donors have specified working with women as an important agenda item.
- Providing women with credit is said to have a greater impact on the wellbeing of families through improved nutrition, health and education.

Micro-finance and Increased Access for Women: But for What Services?

It was noted in the above section that the number of low-income clients who have gained access to financial services has gone up. However, two aspects require qualification of this statement.

First, there is still a paucity of accurate data with regard to absolute number of women clients and poor women served. Also, the data are largely self-reported information and hence there are issues of double counting across levels of analysis, lack of confidence in the data provided by individual micro-finance programmes/MFIs and the like. Second, while micro-finance has done well in terms of extending access to financial services to low-income women, its focus has largely been in terms of delivery of credit. And within credit the focus has tended to be on consumption loans and very small production loans. In reality, several critical financial needs are yet to be satisfied. As Mayoux (2007) notes,

> Individual women need a range of different types of savings and loan products for different purposes… larger loans… loans for new activities, health, education, housing… a range of savings facilities which include confidential higher interest deposits with more restricted access to enable them to build assets protected from demands of other family members… and loans to reinforce and strengthen male responsibilities for household well-being, including that of their wives and daughters e.g. loans for daughter's education and for a daughter to take with her on marriage.

The gender gap in terms of access to other financial services like formal/flexible voluntary savings (the most basic insurance product), health, asset, accident and life insurance, larger production and livelihood credit, etc, to name a few, remains to be addressed for a large majority of women.[3] Figure 4.1 illustrates some of the range of financial services required by low-income women to counter the risks and vulnerability that they and their families face in their daily struggle for survival. Indeed, micro-finance has a great business opportunity and social obligation in facilitating on-going delivery of these risk-mitigating financial services at the required scale.

Access to Versus Control of Resources for Women

This then takes us to the most important aspect addressed in this chapter. While it is true that larger numbers of women have gained access to financial services such as credit, the key question is: so what? What has access to a basic credit/savings product done for low-income women?

There are four discernible broad-level impacts of micro-finance:

- It has enabled women to have a collective bargaining mechanism at the local level.
- It has facilitated women to move beyond their households and build relationships with various stakeholders.
- It has given women a platform to combat various social oppressions.
- The self-management that micro-finance has fostered in some models (like the village banks and/or SHGs) has perhaps, more than the money received, led to some empowerment of women.

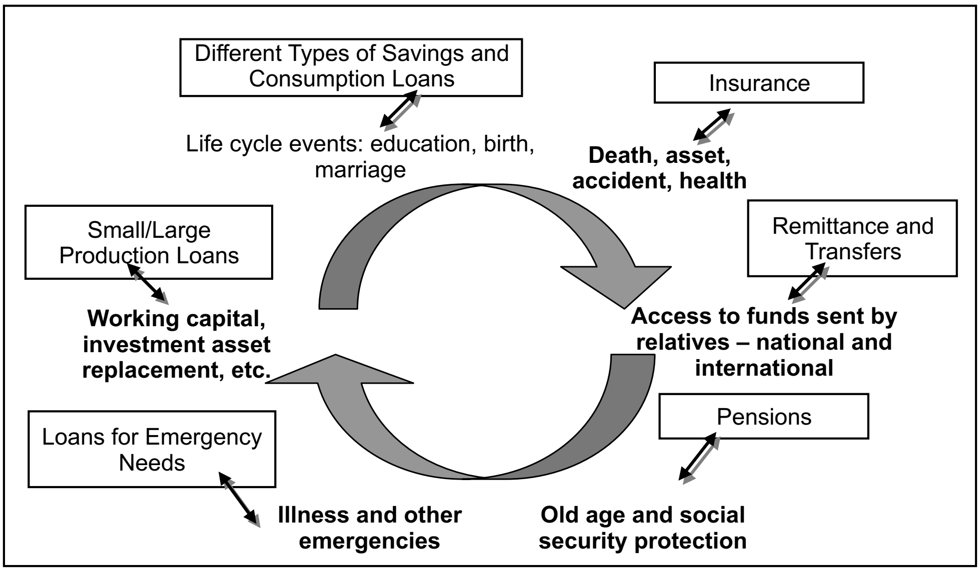

Figure 4.1: Evolving needs for low-income women
Source: Adapted from Helms, 2006.

Thus, while the key point that micro-finance has got women together and also empowered them (in a basic sense) is well taken – enabling them, for example, to set up enterprises, bring about change in gender relations in the household and become leaders in their community – very little[4] is known about what it has achieved in terms of closing the gender gap on aspects such as (but not limited to) women's:

- ownership of and control over assets;
- holding custody of income;
- gaining access to domestic and community economic/other resources;
- productive versus reproductive roles, etc.; and
- indebtedness.

While success stories are touted at every conference or seminar on micro-finance, whether global or local, and incredibly attractive statistics are reeled off, certain critical questions remain. One is with regard to access to resources and finance and the other is with regard to control over these resources and finance – the latter being very critical for true empowerment of women as well as sustained poverty alleviation. While the picture may seem rosy on the surface, it is perhaps not so rosy at a deeper level. Mayoux (2007) notes that:

> An increasing body of evidence suggests that contributions to women's empowerment of micro-finance *per se* cannot be assumed and current complacency in this regard is misplaced... Credit is also debt. Savings, loan interest and insurance premiums are potentially also foregone investment in businesses, children's education and health or necessary consumption. In many cases women continue to earn very low-incomes in increasingly saturated markets. Women's access to even these very small incomes may lead to men withdrawing their contribution to household expenses. Group formation for debt repayment takes up women's precious time and does not necessarily lead to changes in women's status.

As noted earlier, poverty undoubtedly has an important gender dimension and any serious attempt to reduce it must be holistic and address the gender aspects. Mere provision of credit cannot tackle poverty in the absence of ensuring that women really hold custody of the income that they earn. There are too many instances of women earning the money and men using it for alcohol and/or other indulgent expenditure. Consequently, while women have been extremely 'good' to micro-finance and MFIs as clients, borrowers and members, it is unclear whether micro-finance has been really good for women in terms of financial, social and personal empowerment. Some of these aspects have been mapped in Table 4.1 below.

Thus, as suggested in the table, even on the aspect of access, several issues remain unanswered. Two are very relevant and are addressed here. First is whether micro-finance programmes have really provided access to credit and financial services for all of their target clientele. While it cannot be denied that the micro-finance sector has

Table 4.1: Impact of MFIs/micro-finance programmes on women's empowerment: Available evidence[5]

Strong evidence available re impact	*Partial evidence available re impact*
• Women in micro-finance support other women in various ways such as paying for missed loan instalments or compulsory savings • Increased personal savings for women • Increased confidence and assertiveness of poor women • Greater respect at home for women • Greater access to basic savings/credit at an affordable interest rate for women • Experience in dealing with local government officials for women • Enhanced self-confidence for women • Better understanding and dealings with markets for women • Improved knowledge of banking procedures for women • Enhanced women's ability to understand accounts, interest rates, etc. • Emergency coping mechanisms for women and families • Creates pressure on banking institutions to improve services to poor women	• Women participate in community action on various social issues like tackling dowry, alcoholism, etc. • Women learn more about things like going to a bank, dealing with the outside world, etc. • Repayment of old loans by women and families • Release from indebtedness for women and families • Reduced abuse/injustice against women • Pledged articles redeemed by women and families • Political participation of low-income women in local government bodies (e.g. *panchayats)* • More interaction with local or other government officials for women • More interaction with formal financial institutions and banks for women and families • Increased access to timely and affordable credit in sufficient quantity for women • Greater respect/support from husband for women • Greater courage to participate in local politics • Family members are happy because of new support system of micro-finance • Enhanced incomes for women • Enhanced ability to cope with crisis/emergencies at individual and household level • Changes in men's attitudes to women
Clear evidence not yet available re impact	*No serious evidence available re impact*
• Enhanced role for women in community decision-making • Freedom from tied and exclusive transactions with landlords, moneylenders, brokers and traders for women and families • Improved food security for women and families • Increased attendance in schools for girls and children • Investment in education by/for women and families • Investment in housing by/for women and families • Reduced alcoholism and violence against women • Wider access to new resources and arenas, particularly for women	• Reduced workloads for women • Provides women greater control over their income/assets • Women have control over spending patterns • Increased time for self/leisure • Reduced time spent on monotonous/invisible work for women • Increased ownership of other assets like jewellery for women • Increased women's role and influence in financial decision-making (such as personal/household expenditure, investment, borrowing, use of income/profits) • Enhanced women's role and influence in aspects like marriage, education • Reduction in dowry and dowry-related incidents on women

achieved some degree of success in terms of providing access to credit and financial services to a good number of women, including those living in remote areas, one can only say that, at best, a beginning has been made. The number of poor, and women in particular, who are yet covered by micro-finance is still very large. And this question of access will continue to be a matter of debate as long as credible gender and poverty disaggregated data remains unavailable with regard to micro-finance.

Second is the issue of control, which also requires serious attention. Are micro-finance programmes ensuring women's empowerment merely by enabling access to credit and financial services? What checks are in place to ensure that the women who avail the credit actually have control over the use of the funds? Moreover, without a significant change in perception in the minds of the women themselves of their rights and privileges vís-a-vís the men in the household, providing credit and financial services will only provide a veneer of empowerment and not (em)power in the true sense of the word. As Feiner and Barker (2007) point out,

> The evidence on micro credit and women's empowerment is ambiguous. Access to credit is not the sole determinant of women's power and autonomy. Credit may, for example, increase women's dual burden of market and household labor. It may also increase conflict within the household if men, rather than women, control how loan moneys are used. Moreover, the group pressure over repayment... can just as easily create conflict among women as build solidarity.

Gender Challenges and Micro-finance

Several gender challenges for micro-finance therefore need to be addressed if it is to truly empower women:

1. The question of how to enable greater access to the vast majority of unreached women. Even in countries like India with supportive policy frameworks, a large number of women are still excluded from access to a wide range of financial services.
2. Micro-finance primarily targets women who already have very little access to assets. So, from a financial standpoint, by increasing debts for women, it may perhaps be contributing to making women's net worth negative, at least at a basic level.
3. Micro-finance pushes the debt and poverty burden almost exclusively on women, as it considers women more credit worthy and less of a credit risk.
4. Micro-finance has traditionally supported women in group settings and has done very little to enhance women's access to larger individual loans required for establishing and running small and medium-sized enterprises (SMEs).
5. Most MFIs deliver financial services through field workers/loan officers, who generally tend to be men rather than women. There are several issues that arise in such a situation that requires urgent attention from a consumer protection and

gender standpoint. Added to this is the fact that there are fewer women chief executive officers/heads of MFIs as well as women in senior management of MFIs (see Box 4.2).

6. Most micro-finance programmes work through group-based delivery mechanisms. There is a challenge that such mechanisms place an extra burden on women to make them bankable in terms of attending weekly meetings (loss of livelihood and related aspects), record-keeping and compliance on all aspects required by the MFI/SHG. The net result is a significant increase in transaction costs. The real question here is how women really feel about activities that the micro-finance sector has generally assumed them to be happy about. Operationally, it can be seen that women are perhaps hassled and sometimes actually skip meetings and/or do not stay for the full time. Also, there is an instrumentalist approach to micro-finance delivery in the group setting. The women in groups (especially, SHGs) are used for routing a wide range of government-sponsored development messages and schemes, and the burden of work, saving and repayment is on the women alone.
7. Members belonging to marginalised groups, such as tribal communities or migrant workers, as well as women-headed households are often unable to save or repay regularly – a precondition for most micro-finance programmes. As a result there is perhaps an exclusion of the poorest.

It is critical that micro-finance address these gender challenges and re-discover its original mandate of empowering women. This is possible only if various stakeholders participate holistically and firmly resolve to quickly address these challenges.

Box 4.2: WAM women in leadership survey 2005

Women Advancing Micro-finance (WAM) carried out a survey in 2005 of 198 institutions in 65 countries – of which 163 were MFIs and the remainder made up of micro-finance networks, service providers, funders and others in the industry – in an attempt to obtain data on the numbers of women board members, managers, field officers and clients. In terms of the MFIs (including those practicing in Northern countries), women made up an average of 36 per cent of board members, 44 per cent of managers and 49 per cent of field officers. Women on boards ranged from a high of 40 per cent in sub-Saharan Africa to a low of 27 per cent in Asia. The United States had the highest number of women managers (62 per cent) and Western Europe had the lowest (34 per cent). Asia had the highest percentage of women clients (86 per cent) followed closely by sub-Saharan Africa (83 per cent) and Latin America (80 per cent). However, female field officers did not generally reflect the customer base, hovering between 41 and 49 per cent, except in Latin America (64 per cent) and the US/Canada (76 per cent).

Source: Cheston, 2006.

Private Sector Financing: An Alternative Route to Serving Low-Income Women

It is opportune that the private sector appears to have sensed a great business opportunity in servicing bottom of pyramid markets, especially those pertaining to women. Some of them are already trying to cater to the special needs of low-income women in different contexts. While it is very early days for many of these projects, they nonetheless promise to deliver a lot, at least in terms of being client-oriented and gender-sensitive.

Engaging with the private sector: The challenge fund approach

Challenge funds as a mechanism to route money for social and economic development projects have attracted increasing attention over the last few years. The Department for International Development (DFID), UK – which pioneered the design of challenge funds through the Financial Deepening Challenge Fund (FDCF), Business Linkages Challenge Fund (BLCF), Civil Society Challenge Fund (CSCF) and others – has used this approach to support development projects in collaboration with the private sector in a competitive manner. Several others have also used the challenge fund approach for making competitive awards in financial services, including the Consultative Group to Assist the Poor (CGAP), the Ford Foundation, USAID and the World Bank.

> ...[The] FDCF demonstrated a strong value proposition for using the challenge fund in bringing financial services to rural areas and banking the un-banked. It also proved effective in catalysing financial deepening in countries with relatively weak enabling environments and where little previous work has been done.... The FDCF provided incentives to the financial sector to try new ways of extending financial services to the poor. The grant funding provided helped to pilot projects with assured social impact but uncertain financial returns to test their commercial viability. Of the 29 projects funded, 9 achieved high social impact combined with high financial returns whilst the majority achieved a combination of reasonable social and financial returns. The £15m spent leveraged £72m in private sector finance. (DFID, 2007)

There are several such private sector financing projects worldwide through the FDCF and other donor funds mainly for low-income people (women included) in different sectors. Although many of these projects are in their pilot phase or have just completed this, they offer alternative solutions to some of the traditional problems associated with micro-finance – they are innovative, ready to take risks and walk uncharted terrain and, most importantly, are commercially oriented but have a strong client (woman) focus. As good commercial organisations, they believe in serving their customers well and recognise the value and importance of being market-led – which they see as a very critical criterion to serve low-income clients in the long run.

According to DFID (2007), the comparative advantage of challenge funds is 'their ability to be a powerful, lean, light-touch instrument that stimulates the private sector to test new ways of working where the returns and risks are unknown.' In addition:

> (1) They respond to innovations by the private sector and do not pick winners; (2) They capture the strengths of the private sector – the ability to generate and test new ideas, and rapidly abandon them if they do not work; (3) When well managed, they can catalyse systemic change in markets; and (4) Lastly, they help prove the viability of new business models and enhance the ability of such projects to be replicated and access commercial finance. (ibid.)

Examples of some innovative private sector projects[6]

There are several projects from the FDCF that have had high market/social impact and high financial viability. Some of these innovative projects are briefly described below. Some of these are already being commercialised, which, as noted above, is perhaps the greatest advantage of engaging and working with the private sector. Companies' strengths and interests need to be strongly leveraged through appropriate public-private partnerships.

Commercial micro-finance facility: Deutsche Bank

A $1.5 million grant from the FDCF helped Deutsche Bank raise upwards of $75 million from leading institutional investors. The Deutsche Bank wholesale micro-finance facility seeks to graduate investors and commercial banks away from perceiving the micro-finance sector either as an object for philanthropic assistance or as a high-risk investment, and toward recognising it as a viable target for commercial investment. The facility, which is offering its investors a commercial rate return, provides domestic commercial banks in Africa, Asia, Eastern Europe and Latin America with back-to-back arrangements to underwrite advances to local MFIs. This transaction had a strong demonstration effect and helped in creating a commercial market for micro-finance-based instruments with managed risks as shown by JP Morgan with their micro-finance bond issuance of $40 million.

Vodafone: M-PESA, Kenya

An FDCF grant helped Vodafone develop a mobile telephony-based commercial platform known as 'M-PESA' in partnership with a Kenyan mobile phone operator, Safaricom. This project has helped provide connectivity for retail financial institutions like MFIs to enable disbursement and collection of loans in more cost-effective forms. The number of poor people with mobile phones is much higher than the unbanked population in Kenya and with technological innovation it is possible to bring financial services to many more people. Large multinationals like Vodafone may not have made the investment in absence of a challenge fund grant. These are early days, but a success of this project should have a demonstration effect on increased use of new technology for market access in remote areas that were not considered commercially viable. Vodafone has now established a new department to invest in providing new services through mobile telephony and an internal challenge fund to replicate what FDCF assistance enabled it to achieve in Kenya.

The Great Lakes Cotton Company, Malawi: Catalysing supply chains

BLCF funding (£290K) helped the company defray the initial cost of establishing a partnership between a consortium of large ginners and associations of smallholders in Malawi to provide pre-treated seeds, technical assistance and other inputs to registered farmers and to buy back the cotton produced. Results achieved: over 200,000 farmers increased cotton production 265 per cent and obtained better prices for their cotton; the number of casual labourers employed increased by about 25,000 in just one year; and Malawi tripled its cotton exports.

Café Direct, East Africa: Improving market access

In response to a demanding new private standard introduced by the British Retail Consortium, the company is working with seven supplier's organisations to implement hazard analysis and critical control points (HACCP) and train and appoint three local inspectors to assure product quality providing access to an attractive market for 40,000 farmers. The BLCF grant helped reduce the cost of technology transfer and training and allowed Café Direct to test the financial viability of a project with high social impact.

Unilever, Tanzania: Creating new product markets

The BLCF grant provided the incentive for Unilever's research department to implement a pilot scheme for smallholders to gather and cultivate Allanblackia nuts, a low cost source of vegetable fat, for export from the United Republic of Tanzania. The nuts occur naturally in tropical countries but have yet to find commercial use. The pilot aims to establish an international market for the nuts open to all prospective buyers and suppliers. To date 4,000 smallholders have benefited.

Tata-AIG, India: Delivering life and related insurance

The FDCF grant has enabled provision of life, credit term and children's education insurance products (that act as long-term savings facilities that can be realised either on maturity or death) to about 25,000 landless daily wage labourers in Andhra Pradesh in India, using an innovative gender-sensitive delivery mechanism called CRIGs (community rural insurance groups). TATA-AIG was awarded additional FDCF funding of £48,767 in January 2006 to scale up operations (under new, more flexible micro insurance regulations), enhance controls and improve front-end processes (cash collection and receipting).

Megatop, India: Delivering financial services through a technology platform

The FDCF grant has facilitated delivery of a range of insurance products such as endowment, term and pension policies to afford protection and provide avenues for savings to farmers (including marginal, small and medium farmers) from 9,000 villages in Andhra Pradesh and Madhya Pradesh with a primary focus on remote villages. Megatop was awarded additional FDCF funding of £122,925 in January 2006 to offer credit and investment products, in addition to insurance products, through the e-Choupal[7] network to various target clients including SHG women living in remote areas of Bundelkand, Madhya Pradesh.

Recommendations

There are five generic recommendations, keeping in view the various challenges.

1. Establish a Global Gender Innovation Challenge Fund

It is critical to establish a Global/Commonwealth Gender Innovation Challenge Fund to help the micro-finance industry and private sector innovate and develop models, methodologies, products, processes, procedures and performance measures for financial intermediation specially tailored to the needs of low-income women in several contexts. It is suggested that this fund be established with contributions from respective governments, multilateral and bilateral donors and other stakeholders. The Commonwealth Secretariat would be uniquely placed as the global coordinator.

The Challenge Fund will catalyse the micro-finance industry and private sector to find profitable ways of enhancing access for women – especially need-based products and delivery mechanisms. It will deepen access to financial services for women, using a gender-sensitive methodology for design, piloting and implementation. In generic terms, the following types of assistance could be available from this fund:

- *Outright grants* to, for example, support model, product and process development, technical assistance and capacity building, market research, systems development with regard to innovation in gender-oriented micro-finance, etc.
- *Risk fund capital* to absorb loan and other losses and mitigate risk arising from some new form of financial intermediation especially for women.
- *Soft loans* (at 1–3 per cent) for enabling investments in infrastructure etc. as dictated by the context/project, with a medium- to long-term horizon (5–10 years).
- *Quasi-equity investment* in special purpose vehicles for the innovative gender micro-finance projects in question with provisions for return on investment as well as exit routes for the fund in terms of its equity over the years – the purposes for use could be flexible here but with the mandate of facilitating entry of women into larger and SME type enterprises.
- *Guarantees* could also be provided in certain cases, especially to provide incentives to the existing financial sector and/or investors to invest in gender-sensitive micro-finance models, products, practices etc, and the terms could be decided on a case-by-case basis.

A detailed design exercise to establish the first Global Gender Innovation Challenge Fund would have to be undertaken.

2. Create an enabling environment for supporting financing for gender equality

While governments, commercial banks, micro-finance industry and other stakeholders also need to be involved in this, the key action is required by the central banks and regulators.

- *Ensuring a minimum number of women directors in MFIs and intermediaries*: Appropriate strategies are needed to transform the governance structure of MFIs/micro-finance programmes/intermediaries from an informal type of governance to a more formal, transparent and accountable governance structure that is, most of all, gender-sensitive. A certain minimum number of women independent directors (at least 30 per cent) should be mandated. Governments and other concerned stakeholders such as donors can support training, research and implementation mechanisms that will help to improve governance across the board and also make it gender-sensitive. Governments should also enact laws to provide incentives/disincentives for good/bad governance practices with regulatory and industry association support, especially with regard to gender issues and closing gender gaps.
- *Establishing an integrated and comprehensive database on micro-finance and gender*: Credit history is the only immediate collateral that a low-income woman client builds through her prompt repayments of small loans over the loan cycles. It is important to capture this credit history and make it available to the client/financiers. There is a critical need for a credit bureau for micro-finance disaggregated by gender and poverty data. This is an aspect that governments need to focus on to enable integration into the financial system mainstream.
- *Sensitising central bankers and regulators on the special needs of low-income women and related technology*: There is a need to invest in sensitising the regulators, especially with regard to building regulatory/supervisory mechanisms tailored to the financial and livelihood needs of the strategic context – i.e. of low-income women. Internet kiosk banking, e-Choupal, mobile/SMS banking, various types of electronic cards and other such applications of technology to reduce transaction and operational costs will require special regulatory expertise in not only the finance domain but also the technology domain. Hence, there is a need to invest in technology training for regulators, especially in areas that are likely to have an impact on low-income women.
- *Encourage standards for gender in regulatory reporting of performance*: Standards need to be established for MFIs/micro-finance programmes in terms of adapting system requirements for MIS, risk management, internal controls, internal audits and portfolio management to ensure data on gender as well as be sensitive to gender issues. Further, regulators should encourage MFIs to establish country-specific standards incorporating gender aspects such as (but not limited to) the number of active women senior managers and women field staff. Qualitative aspects that need to be focused on are whether women staff have real authority and responsibility. Measures of financial sustainability for MFIs must be integrated with gender measures to get a holistic picture.

3. Support demonstration pilots on financing for gender equality[8]

Governments and donors could initiate action pilots to test out new models, new methodologies and new products like micro-pensions, alternative savings products, technology-based delivery systems (including SMS banking and use of e-money – see the huge success of Vodafone with the poor in Africa), special products for women, flexible versus fixed repayment, individual lending models, cash flow based financing, etc. These could be supported through the Global Challenge Fund as well as locally supported, in country, by national governments and donors.

- *Special financial products for women*: In many situations, participatory rural appraisals conducted in India suggest the largest source of stress for low-income women appeared to be loan repayments. Institutions like MicroSave have repeatedly pointed out the same in East Africa and Asia.[9] Therefore pilots that promote understanding on how to create products specifically for women, with loan terms and conditions convenient to their needs, are required. These action pilots need to be carefully structured and evaluated over time so that appropriate information is obtained with regard to the entire gamut of risks and vulnerability that women face in their daily struggle for survival in several contexts, their coping mechanisms and strategies and also on how these risks and vulnerability could be mitigated by micro-finance products. This information could be collated to serve as a guide to promoting innovative and gender-oriented micro-finance in various contexts including type of products, processes, delivery mechanisms and the like.
- *Delivery of risk management products tailored to the needs of low-income women*: While the design of specific and innovative micro-insurance products tailored to the needs of low-income women has received significant attention in several contexts, a more crucial aspect concerns the delivery and distribution of these micro-insurance and risk mitigation products. There is a need for an action research pilot that would throw light on aspects related to distribution of micro-insurance for low-income women.
- *Reducing transactions costs for retailing*: The search for a low-cost retail model for delivering financial services to yet unreached poor women is another aspect that is worthy of attention. The use of mobile phones and other such mechanisms needs to be explored in a manner in which they can be scaled up. Too often, pilots are conducted in such a way that their success cannot be replicated or controlled during a large-scale rollout. Investing in public-private partnerships that use a variety of stakeholders to provide efficient scaleable retail models that are efficient, effective and adaptive from the perspective of low-income women is required.
- *Encouraging public-private partnerships to overcome market imperfections*: This is a key aspect, and pilots to enhance urban and rural livelihoods for women in several subsectors where low-income women can be found in large numbers, are required. Such pilots should (i) attempt to spark (sustainable) growth with regard to micro-enterprises and micro-livelihoods systems in these sub-sectors; and (ii) facilitate development of strong and vibrant micro-enterprises and micro-livelihoods systems

by investing in them and related infrastructure. In doing this, they should ensure a fair, equitable and value-added distribution of revenue from the supply chain for various products/services in different sub-sectors where low-income women have a natural advantage.

- *Enabling livelihood financing for women through larger loans/individual lending*: There is a great window of opportunity for MFIs to get into 'livelihoods financing', in partnership with bankers/corporations and others through public-private partnerships. MFIs could certainly play a important role in several sub-sectors through livelihoods financing with one or a mixture of several products, tailored to the needs of low-income women: warehouse receipt financing; contract farming (various types); cash flow-based financing; and other innovative products including leasing. All of these need to be piloted in different contexts, with a view to further build and upscale financing for gender equality.

4. Facilitate the global micro-finance industry to adopt gender-sensitive practices

This recommendation is for the global micro-finance industry and essentially pertains to specific focus areas in micro-finance that require gender inputs and sensitisation, based on which systems and practices would have to be adapted and changed. The key stakeholders here are industry associations, technical support bodies like CGAP, MFIs and other stakeholders like central banks and regulators in various countries.

For micro-finance to re-discover its original mandate of empowering women would entail aspects such as (but not limited to) the following:

- Establishing gender-sensitive governance mechanisms, including greater and real representation for women as directors and senior managers in MFIs/intermediaries;
- Instituting gender-sensitive management systems and processes at MFIs/intermediaries, including real transfer of authority along with responsibility;
- Facilitating more women to become a part of the micro-finance human resource pool and providing special incentives to institutions that support this;
- Allocating financial resources required for gender sensitisation of various stakeholders including MFIs, regulators, rating agencies and others;
- Designing, testing and rolling out special micro-finance products and delivery mechanisms suited to the unique needs of women, particularly in terms of reducing women's risk and vulnerability;
- Evaluating micro-finance programmes not just on the basis of financial parameters but also using social performance indicators that focus on women's empowerment and their access to and control over resources and making these as important as prudent financial management in evaluating, rating and supporting MFIs/micro-finance programmes/intermediaries;

- Ensuring protection of women, who form the largest client segment for micro-finance, by instituting appropriate 'client protection' and 'client literacy' measures through incorporation of these aspects in various laws that govern micro-finance.

A comprehensive mapping of changes (in micro-finance methodology and practices) is required across several focus areas to enable MFIs/intermediaries to adopt gender-sensitive practices and thereby enhance the impact of micro-finance with regard to empowerment aspects.

5. Undertake research to support financing for gender equality

The final recommendation is for gender-oriented research with regard to the impact and convenience of micro-finance, with a focus on women's special needs and aspirations. Without this research, which needs to be conducted on an ongoing objective and country-wide/global basis, it would be very difficult to understand various aspects pertaining to the impact of micro-finance on women's empowerment and the convenience of micro-finance for women clients. There are three major components suggested here as a starter's research agenda, and this could be expanded later as per contextual needs: (i) objective civil society gender audits across Commonwealth countries[10] to understand the real impact of micro-finance; (ii) examining trade-offs between financial sustainability of MFIs and their focus on gender; and (iii) country-wide gender-oriented market research.

Conclusion

In order for micro-finance to become gender-responsive, the nature of the products being offered and the institutions that deliver them will have to change fundamentally. The micro-finance industry has to move beyond providing standard credit for small-scale enterprise and other basic financial services (some savings and insurance) and offer a wide range of tailor-made financial services (including credit, savings, health insurance, pensions, remittances, etc.) that can really empower women and also enable them to reduce their risk and vulnerability. A new set of institutions (corporations, postal/commercial banks, insurance companies, pension funds, telecom companies, etc.) are keen to enter this market, and they need to be given the incentives to deliver gender-responsive financial services to bottom of pyramid clients.

Together, the diversity of institutions, products and service providers should be very welcome as all of them have great scope to broaden and deepen the outreach of financial services to low-income women in a cost-effective and gender-sensitive manner and thereby contribute to the achievement of the MDGs. All of this calls for various stakeholders – including governments, bilateral and multilateral donors, MFIs, NGOs, civil society and the private sector – to join hands to enable delivery of sound, responsive, affordable and market-oriented (gender-sensitive) financial services tailored to the special and unique needs of low-income women clients, in ways that are advantageous to both the women as well as the institutions. This alone will help the low-income financial services sector rediscover its original and laudable mission of truly empowering women – the most vulnerable among the poor.

Notes

1. The major ones are the Self-Employed Women's Association (SEWA) and the Working Women's Forum (WWF)/Indian Cooperative Network for Women (ICNW).
2. In the 1980s and the 1990s, there was the development of a large number of specialised institutions that catered to women's need for financial access in the shape of organisations like the Grameen Bank, ACCION International, FINCA and others globally.
3. While innovative MFIs/micro-finance programmes have delivered the same to select clients, the larger and wider penetration of these services is still quite minimal.
4. While there have been some studies at essentially local and country levels, these aspects need to be consistently explored and measured in an objective manner (over time) and analysed. This author sees a clear imperative for integrating gender and impact data in management information systems of micro-finance programmes/MFIs. This is currently lacking.
5. Based on several sources and discussions with experts.
6. The bulk of this section is taken from DFID, 2007; the last two examples are adapted from www.financialdeepening.org.
7. The e-Choupal initiative is the single largest information technology-based intervention by a corporate entity in rural India and aims to deliver information and knowledge to increase the decision-making ability of farmers.
8. Adapted from Arunachalam et al, 2007.
9. MicroSave website and public documents.
10. In 2004, HIVOS, a Dutch aid organisation, commissioned gender audits with two micro-finance institutions in Zambia: Christian Enterprise Trust of Zambia (CETZAM) and PRIDE Zambia.

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