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GENDER AND ECONOMIC POLICY MANAGEMENT INITIATIVE
Asia and the Pacific

11

GENDER AND FINANCE

GENDER AND ECONOMIC POLICY MANAGEMENT INITIATIVE – ASIA AND THE PACIFIC: GENDER AND FINANCE

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Front cover: Tsaatan woman is taking a rest after milking reindeer in Tsagaan Nuur, Khovsgol, Mongolia (Hakbong Kwon)

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INTRODUCTION

This module provides an overview of the role of finance, and particularly monetary policy, in development from a gender perspective. The module introduces the theoretical, institutional and policy frameworks for the financial sector in Asia and the Pacific. It discusses monetary policy and looks at remittances and financial inclusion. Finally it examines the idea and practice of microfinance, highlighting the consensus and contestations around its potential to reduce poverty and empower women.

LEARNING OBJECTIVES

At the conclusion of this module participants will have:

1. Been enabled to understand the key aspects of the operation of the financial sector and monetary policy in Asia and the Pacific.
2. Developed a critical understanding of the relation between monetary policy and inflation, and the gender effects of monetary policy.
3. Developed a capacity to unpack the gender dimensions of exchange rate policies, remittances, and financial inclusion.
4. Recognized the strengths and limitations of microfinance as a tool to improve women's access to financial services in Asia and the Pacific.

OUTLINE

I. The Financial Economy.
   - A. Finance and economics.
   - B. Financial sector institutions and monetary policy.

II. Monetary Policy in Asia and the Pacific.
   - A. The conduct of monetary policy in Asia and the Pacific.
   - B. What are the main tools of monetary policy in Asia and the Pacific?
   - C. Monetary policy of Asia and the Pacific.
   - D. Inflation dynamics and inflation targets: Implications from a gender perspective.

III. Exchange Rate Policies: A Few Issues.
   - A. Types of exchange rate regimes in Asia and the Pacific.
   - B. Exchange rate issues in Asia and the Pacific.

C. The effects of exchange rates from a gender perspective.

D. Women's access to financial markets and services in Asia and the Pacific.

E. Remittances and financial inclusion.

IV. Microfinance in Asia and the Pacific.

A. Conceptual framework.

B. Institutional and policy frameworks.

C. Approaches to microfinance.

V. Gender, Finance and Economic Empowerment.

A. Gender issues in microfinance.

B. The debate on microfinance and women's economic empowerment.

C. Potential impacts of the financial crisis on microfinance from a gender perspective.

DURATION

One day.

I. THE FINANCIAL ECONOMY

Objective: to enable participants to understand the key aspects of the operation of the financial sector in Asia and the Pacific.

A. FINANCE AND ECONOMICS

A. Finance is the branch of economics that studies the management of money and other financial assets that can be bought, sold, lent or borrowed through financial markets or institutions, called the financial economy (see Module 7 on Gender and Macroeconomics).

B. There is, in every country, a set of institutions that facilitate the buying, selling, lending or borrowing of money and other financial assets, known as the financial system.

C. In theory, the buying and selling of financial assets should follow the laws of demand and supply (see Module 1 on Gender and Economics). In practice, supply and demand explain the buying and selling of financial assets, but the explanation of the supply and demand for financial assets is complicated by the intricacy of the financial assets created in the financial system.

D. Much of the buying and selling of financial assets in modern financial systems is of assets that have not yet been produced, or which the seller does not yet own, but which another seller lends in exchange for payment.

E. In the circular flow of income and product, discussed in Module 7, the financial system receives deposits from households, called savings, which it channels to firms seeking to obtain money to invest.

F. More generally, savers are individuals or institutions that supply monies, in the form of deposits, to a financial institution. The saver does this in return for an income flow, in the form of interest payments on the savings, from the financial institution.

G. The financial institution uses the money that savers deposit as the basis for advancing credit, which is the transfer of an amount of money from a lender in the financial system to a borrower inside or outside the financial system.

H. Borrowers borrow to pay for current consumption (e.g., food or a car), working capital requirements (e.g., seeds) or to make productive investments (e.g., fertilizer, tools, or a tractor). Credit thus allows a borrower to buy today what would otherwise not have been bought until a later date.

I. To obtain a loan, the borrower usually must provide collateral, an asset transferred to the lender in the event of default (e.g., a title deed to a piece of land).

J. In obtaining the credit the borrower acquires a debt that must be repaid in full. In addition, the lender charges a price for the loan: the rate of interest, an amount of money that the borrower must repay above that which was borrowed.

K. Thus, one way in which financial institutions make money is by lending money to borrowers at a higher rate of interest than they pay to savers who deposit their savings in the financial institutions. Financial profits are thus, in this light, a redistribution of resources away from a borrower and toward a lender. However, financial institutions also make money by buying and selling financial assets e.g. currencies, bonds, derivatives, shares and the like. In the past two decades modern financial institutions in developed countries have come to make far more money by buying and selling assets that they own or have borrowed than they do from lending money.

So the financial system involves a cycle of saving, depositing, lending, borrowing, buying and selling, with financial institutions acting as intermediaries between those that save and those that borrow.

B. FINANCIAL SECTOR INSTITUTIONS AND MONETARY POLICY

A. In Asia and the Pacific the banking sector is the most well-established set of financial institutions. Banks are involved in the cycle of saving, depositing, lending, borrowing, and, to a lesser degree, the buying and selling of financial assets. Stock markets, in which equity in companies is bought and sold, and bond markets, where non-monetary financial assets of companies and countries are bought, are very important in parts of Asia, as are non-bank financial institutions engaged in the buying and selling of financial instruments. This module will, however, focus on banks, as these are the financial institutions that people who have money most commonly engage with.

B. Commercial banking in Asia and the Pacific is generally characterized by, first, limited access to credit (particularly for agricultural producers, small-scale enterprises, and women) and, second, high costs of borrowing. There are several reasons for this, including:

- Banks were not set up originally to administer small-scale loans. Therefore, they lack the capacity to extend credit to small producers and informal workers, preferring to lend to large private and public companies.
- Information systems are not well developed. The creditworthiness of borrowers is frequently unknown, particularly in rural areas. Risk assessments are based on impressions of creditworthiness instead of facts.
- The banking sector tends to be highly concentrated; a few large banks dominate the sector – in economic terms, it is an oligopoly – giving the industry significant market power.
- The portfolios of commercial banks in Asia and the Pacific are often weighed in favour of holding low-risk assets with relatively high rates of return, such as government bonds; holding loans tend to be a smaller share of their portfolios.

EXERCISE 1

Objective: to review common problems in the banking sector in Asia and the Pacific.

Participants should divide into groups of four or five, with participants from different countries in each group. Groups are asked to use a flipchart to list answers for each country in the group to the following questions:

1. What are the requirements to obtain a loan from the banking sector in their countries?
2. Are the terms and conditions that are applied to repaying loans from the banking sector in their countries reasonable or unreasonable? Why?
3. What are the three biggest problems facing the banking sector in their countries?
4. What are the three biggest problems facing individuals wanting to use financial services in their countries?
5. Legally, do women and men have equal access to the financial services offered by the banking sector in their countries? Why or why not?
6. In practice, do women and men have equal access to the financial services offered by the banking sector in their countries? Why or why not?
7. How was the banking sector in their countries affected by the 2008 global financial crisis?
8. What actions were taken by the central bank of their countries, if any, to deal with issues that arose as a result of the 2008 global financial crisis?

Groups should take around 20 minutes to answer the questions and then review the answers in plenary by trying to establish the most common problems facing the banking sector in Asia, and then in the Pacific, as identified by group members.

II. MONETARY POLICY IN ASIA AND THE PACIFIC: A GENDER EQUALITY APPROACH

Objective: to enable participants to understand the conduct of monetary policy and inflation targeting, and to unpack the gender implications of monetary policy.

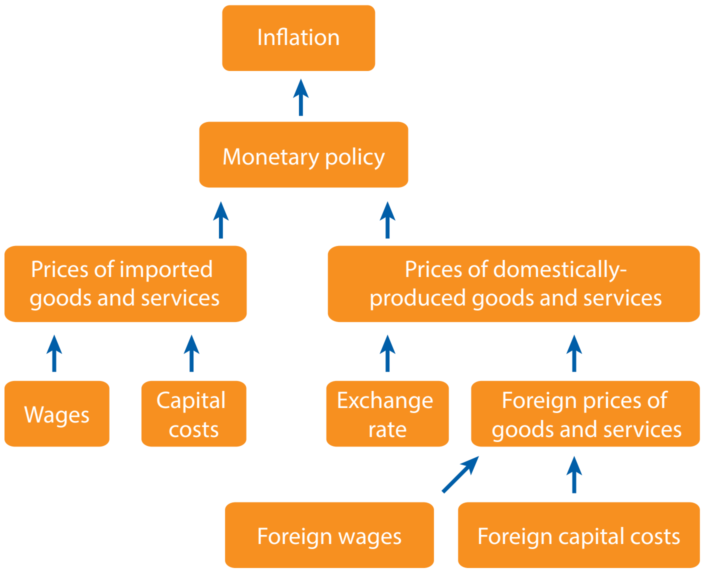
A. THE CONDUCT OF MONETARY POLICY IN ASIA AND THE PACIFIC

- Monetary policy is the process by which the monetary authority of a country controls the supply of money, often targeting a rate of interest for the purpose of promoting economic growth and stability.
- Monetary policy influences the money supply, the supply of credit and interest rates through interventions into money and financial markets.
- Monetary policy is conducted by central banks, which are often independent statutory bodies.
- Central banks conduct monetary policy by targeting the growth rate of the money supply to try to reach an inflation target.
- Monetary policy is a macroeconomic demand-management tool, as discussed in Module 7, influencing the rate of inflation. Tighter control over the money supply reduces the ability of households and firms to borrow, leading to cuts in consumption and investment, and the rate of domestic absorption, which theoretically should help reduce inflation. Expanding the money supply provides credit, which at a certain point may become inflationary.

- Monetary policies affect the real economy by influencing interest rates and, through interest rates, the level of consumption and investment demand as well as economic growth and employment. Central banks often place little substantive emphasis on the effects of monetary policy on the real economy, as the focus of monetary policy is price stability.[1]

Figure 1 provides a simplified presentation of the relationship between the real economy, prices, monetary policy and inflation.

FIGURE 1. EXCHANGE RATE, MONETARY POLICY AND INFLATION LINKAGES



1 As discussed in Module 7, the real economy is the part of the economy that is concerned with actually producing goods and services, as opposed to the part of the economy that is concerned with buying and selling on the financial markets. http://lexicon.ft.com/Term?term=real-economy

In Figure 1, in the real economy wages and capital come together to produce goods and services for a particular price, which cumulatively generates a set of prices for goods and services that are domestically produced. In addition, the prices of imports are a function of foreign wages and foreign capital which together produces goods and services at foreign prices, which through the exchange rate between currencies generates a set of prices for imported goods and services. The prices of domestically produced and imported goods and services are affected by monetary policy, which by affecting interest rates and the supply of money influences consumption and investment demand for goods and services at given prices. By affecting consumption and investment demand monetary policy shapes inflation in a country. Thus, monetary policy, inflation and exchange rates are linked.

EXERCISE 2

The Bank of England's Monetary Policy Balloon gives participants the chance to set interest rates to control inflation. As the pilot, the task of participants is to keep the balloon flying at a steady height of 200 metres. In the same way, the Bank's Monetary Policy Committee tries to keep inflation steady at the Government's 2 per cent target.

There are four different versions of the Monetary Policy Balloon game, each with its own selection of weather events that pushes the balloon up and down. The effect of these events on the height of the balloon varies – just as in the real economy it is hard to predict inflation. Thus, the game equates the weather to the common events that move inflation away from the 2 per cent target.

When the game finishes, participants will see a chart showing the balloon's flight path. This gives participants a percentage score out of 100. Participants' scores are based on movements of the balloon away from the 2 per cent target, so the closer participants keep inflation to 2 per cent the higher is their score.

The Monetary Policy Balloon game is located at:

http://www.bankofengland.co.uk/education/Pages/inflation/balloon/default.aspx

Participants should divide themselves into groups of 4; one member of the group must have an internet-enabled computer. Each group should try to play the Monetary Policy Balloon game at least twice. At the end of two rounds, the groups should discuss why or why not they were or were not able to keep the rate of inflation steady. In plenary, facilitators should use a flip chart to identify a) similarities and b) differences in the results of the game experienced by each group. The discussion should then review why participants believe there were similarities and differences.

B. WHAT ARE THE MAIN TOOLS OF MONETARY POLICY IN ASIA AND THE PACIFIC?

The countries of Asia and the Pacific have a number of monetary tools available to them.

A. The money supply and high-powered money:

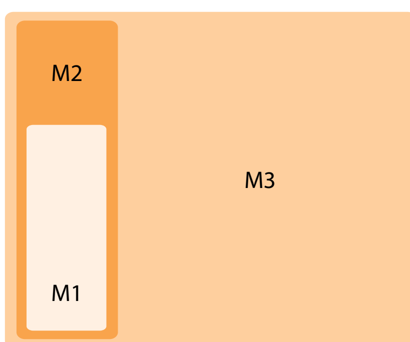
- Money is anything that is widely accepted in exchange for goods or settling debts, not because of its intrinsic worth but because it can be passed on. In this sense, then, money is a means of payment that acts as a medium of exchange. Money also acts as a store of value if it is accepted as a means of payment.
- In the Pacific, shell money, barter, and the gift or exchange of mats are widely accepted as valuable media for exchange, but in monetary policy these elements are ignored.
- The money supply is the amount of money in an economy; but there are various definitions of what constitutes a means of payment that acts as a medium of exchange.
- Money is created by financial institutions in an economy. In Asia and in most instances in the Pacific this is overseen by the central bank, which has the exclusive right to print notes and coins, but this is only one component of money.
- High-powered money, also called M1, is equal to currency in circulation, including balances held in chequeing accounts, plus reserves held in the banking system and demand deposits.

- Central banks can directly influence the growth of M1 through their policies. For example, the buying and selling of government bonds changes the level of reserves held in the banking system and thus alters the amount of high-powered money.
- Theoretically, the growth of high-powered money affects the overall money supply, including any financial assets held in financial institutions that can be used for exchange purposes. However, in reality, the relation between high-powered money and the broader money supply can be weaker.
- M2 is a broader classification of money than M1. Economists use M2 when looking to quantify the amount of money in circulation and trying to explain different economic monetary conditions. This includes M1, and all time-related deposits, savings deposits, and non-institutional money-market funds.

M3 is the broadest measure of money; it is used by economists to estimate the entire supply of money within an economy. This category of the money supply includes M2, and all large time deposits, institutional money-market funds, short-term repurchase agreements, along with other larger liquid assets.[2]

Figure 2 illustrates the relationship between M1, M2 and M3.

FIGURE 2. MONEY



2 www.investopedia.com

B. Targeting interest rates:

- Some central banks do not target the money supply in their efforts to control monetary policy, but instead target short-term interest rates.
- Central banks can do this because they act as lenders of last resort for other institutions (commercial banks) in the financial system that want to borrow money for short periods.
- So the interest rates charged by central banks shape interest rates throughout the financial system.
- Interest rates affect the supply of money by making it more attractive to hold money (low interest rates) or less attractive to hold money (high interest rates).

C. Other monetary tools:

- In the past, monetary policy was often conducted using direct controls. For example, through the central banks, governments instituted limits on the interest rates that could be charged or ceilings on the amount of credit that could be extended. Direct instruments were used to channel resources to priority sectors.
- Development financial institutions often channelled credit to certain activities (e.g., agriculture).
- In the past, central banks often directly funded government spending. This often introduced a risk of high rates of inflation and macroeconomic instability.

C. MONETARY POLICY IN ASIA AND THE PACIFIC

- Some countries in Asia and the Pacific target the growth rate of the money supply rather than interest rates, due to the stipulations of typical IMF conditions placed on governments.
- Monetary policy in Asia and the Pacific can also target limits on the growth rate of domestic credit by the financial system, as well as inflation targets.

EXERCISE 3

Objective: to understand inflation dynamics and inflation targets in Asia and the Pacific.

Participants are to start a discussion on inflation targeting, beginning with the question as to whether their country has adopted an inflation target and, if so, what it is. The range of inflation targets that are mentioned should be listed on a flipchart. A further question for discussion should be how many have been successful in meeting the inflation target, and why they have been successful or why not.

In plenary, facilitators should raise the following points:

- A universal goal of monetary policy is to control inflation and all PRSPs include a section on macroeconomic policies in which the objective of monetary policy is to control inflation.
- What causes inflation in Asia? What causes inflation in the Pacific?
  - A very common cause of inflation is price shocks, in which prices rapidly increase – particularly in terms of food and fuel. This is supply-side inflation, and it originates in the real economy.
  - However, not all inflation is due to supply-side shocks in the real economy. There are clear examples in which inflationary pressures are monetary in origin: Excessive growth of the money supply to finance government spending can lead to inflation, as implied in Figure 1.
- To control inflation, PRSPs often propose a specific inflation target. In some countries in Asia and the Pacific, a target of five per cent or lower inflation is common. A few countries have adopted formal inflation targeting that operates outside the PRSP process.
- Under inflation targeting, the central bank publicly announces a formal target, after which the government is supposed to hold central bankers to account in achieving that target. The argument for inflation targeting is that it provides greater policy transparency and so better informs the inflationary expectations of households and firms.

- There is evidence that very high rates of inflation create macroeconomic instability and slow growth. However, there is no clear evidence that maintaining very low rates of inflation will help growth and employment. This is an area of ongoing debate, as the costs of keeping inflation very low may very well exceed the benefits. Recently, the IMF has accepted that its previous inflation targets may have been too stringent.
- Moreover, using monetary policy tools, which are demand-side policies, to counter supply-side inflation caused by price shocks can worsen the situation. This is because while a supply-side shock negatively affects the real economy, restricting demand through monetary policy can reinforce or exacerbate the negative effect of the supply-side shock.
- For these reasons, countries in Asia may have a pro-cyclical bias to their monetary policy in the face of externally generated supply-side price shocks. This means that when a country, under a PRSP policy regime that targets inflation, experiences an externally generated supply-side shock, monetary policy is tightened to cut demand, worsening the effect of the shock.

D. INFLATION DYNAMICS AND INFLATION TARGETS: IMPLICATIONS FROM A GENDER PERSPECTIVE

A. A gender analysis of monetary policy:

  - As just noted, the effectiveness of monetary policy in controlling inflation at economically and socially acceptable levels depends on whether inflation is a consequence of supply-side shocks in the real economy or demand-side expansion.
  - If monetary policy compresses domestic demand, as discussed in Module 7, a consequence will be a squeeze on household resources that is disproportionately borne by lower-income households. Monetary policy that results in high rates of inflation can have similar effects, as high rates of

inflation reduce the real value of household incomes and thus compress demand. The result in either case may be:

a. Increased reliance on men's and women's unpaid work to partially offset cuts in consumption.

b. Increased reliance on women's participation in paid labour to partially offset cuts in incomes.

c. Increased reliance on both unpaid work and paid labour.

- Under these circumstances, policies that reduce inflation may lead to a reduction in women's labour in both paid and unpaid work.

Research has suggested that when restrictive monetary policy is used to lower inflation, it has negatively affected paid employment. Women's paid employment tends to fall faster than men's in these conditions because of gender biases in segmented labour markets, which results in women being dismissed from paid employment before men.[3]

- If monetary policy lowers the rate of growth of domestic demand, it can negatively affect earnings because of the contraction of paid employment. Women's earnings tend to fall faster than men's in these conditions because gender biases in segmented labour markets (as discussed in Module 5) result in more rapid employment losses by women.
- Fewer paid employment opportunities and lower earnings for women reduce women's independence and economic choices. This may reinforce unequal gender dynamics in households and communities in Asia and the Pacific by sustaining the unequal distribution of resources within households between women and men, which can affect and be affected by the unequal distribution of unpaid work.

3 Braunstein, E., Heintz, J. (2008) "Gender bias and central bank policy: employment and inflation reduction", *International Review of Applied Economics*, 22:2, pp. 173-186.

III. EXCHANGE RATE POLICIES: A FEW ISSUES

Objective: to facilitate the capacity of participants to unpack the gender dimensions of exchange rate policy.

A. TYPES OF EXCHANGE RATE REGIMES IN ASIA AND THE PACIFIC

There are three generic exchange rate regimes available to countries:

A. *Floating exchange rates* are largely market determined because there is no intervention into foreign exchange markets on the part of the central bank. In theory, the exchange rate of a currency is determined through the interaction of supply and demand for that currency, as in any other market. The supply of the currency is the money supply, while the demand for the currency comes from both national and international demand.

B. *Fixed exchange rates* see the nominal exchange rate fixed relative to a major international currency, which in turn requires central bank intervention to maintain the fixed rate. Fixed exchange rates require central banks hold significant stocks of the major international currency to which the domestic currency is fixed. To maintain the fixed exchange rate the supply of the domestic currency must adjust to reflect the stock of the international currency to which the domestic currency is fixed. This means that under fixed exchange rates monetary policy is dictated by the stock of the international currency to which the domestic currency is fixed.

C. *Managed exchange rates* are a combination of market-determined exchange rates along with occasional intervention by the central bank. Managed exchange rates are often pegged to a major international currency, such as the euro or the dollar, which means that the central bank has a target exchange rate for the national currency in terms of a major international currency. As a combination of fixed and floating exchange rates, under managed exchange rates the money supply is determined by both domestic monetary policy and stocks of major international currencies.

B. EXCHANGE RATE ISSUES IN ASIA AND THE PACIFIC

A. In recent years in Asia and the Pacific there has been a strong tendency to move toward more freely floating exchange rate regimes as a consequence of the conditions imposed under structural adjustment and later PRSPs.

B. Fixed exchange rates bring some stability to the macroeconomy by providing certainty regarding the value of the national currency. However, a fixed regime:

- Cannot adjust to global changes in supply and demand, which has implications for domestic production and international competitiveness.
- Can become fixed at the wrong value – that is, so far removed from a possible market rate and current market conditions as to adversely affect the economy. In particular, overvalued exchange rates encourage high levels of imports, harm exports, and can slow economic growth.

C. Floating exchange rates bring both flexibility and the possibility of volatility.

- In their flexibility, floating exchange rates confer greater scope for a country to adjust to changing global supply and demand conditions, though overly rapid exchange rate adjustments can be destabilizing.
- International financial flows of remittances, short-term capital inflows and outflows, and the unrecorded movement of finance across borders influence a floating exchange rate and

can make it more volatile, suggesting that market-determined exchange rates may not tend toward an equilibrium value that reflects conditions in the real economy. Moreover, while a high level of inflows may lead to an overvaluation of the exchange rate, a rapid reversal can trigger an economic crisis.

D. Managed exchange rates retain some flexibility, but also leave room for policy interventions when needed. In practice most countries in Asia and the Pacific practice a form of managed exchange rate because it increases the scope for macroeconomic management.

C. THE EFFECTS OF EXCHANGE RATES FROM A GENDER PERSPECTIVE

A. The effects of exchange rates on the economic positions of women and men depend on the structure of the economy and households.

B. For example, in China and other countries, women have been employed in export-oriented manufacturing. An overvalued exchange rate hurts these employment opportunities, while a competitive exchange rate supports women's waged employment.

- Similar patterns may hold true for a number of countries with labour-intensive export sectors dominated by women workers (e.g., textiles and garments workers in Bangladesh).
- However, in many countries, women's employment is concentrated in forms of self-employment in which they provide services to the domestic market (e.g., informal non-agricultural service employment, such as street trade). Many of these services can be considered to be non-tradable, in the sense that the services themselves are not traded on global markets. A stronger exchange rate favours non-tradable activities over tradable ones and may support these forms of employment. In addition, for street traders that sell imported

goods, a stronger exchange rate lowers the domestic costs of the imported goods that they eventually resell on the local market. The effect of exchange rates on informal employment is an area for future research.

- Women employed in small-scale agricultural activities can see their livelihood undermined if an overvalued exchange rate results in the import of relatively inexpensive agricultural goods from other countries that competes with local agricultural production. For example, rice production in the Philippines must compete with inexpensive imports from Vietnam and Thailand. In these cases a more competitive (i.e., devalued) exchange rate may be more desirable.
- For households, a strong exchange rate makes some imported goods cheaper and can help support living standards. However, if wealthier households consume imported goods disproportionately, these benefits will not be equally distributed.
- Moreover, the benefit to households of higher living standards arising from a strong exchange rate may be more than offset if a strong exchange rate undermines the domestic production of import-competing goods and services, because a lack of price competitiveness in local production results in an erosion of employment opportunities and earnings. This has gender-differentiated effects. Nonetheless, the compression of domestic demand squeezes household resources, and households with lower incomes disproportionately so. As above, the result may be:

    a. Increased reliance on men's and women's unpaid work to partially offset cuts in consumption.

    b. Increased reliance on women's participation in low-paid labour to partially offset cuts in incomes.

    c. Increased reliance on both unpaid work and low-paid labour.

C. Clearly the effects of exchange rate policy will vary across countries, economic activities and different groups of working women and men within a particular country. Nevertheless, a gender analysis of the effects of exchange rate policies must inform policy formulation.

EXERCISE 4

Objective: to facilitate a deeper understanding of the relationship between monetary policy, inflation, growth and gender relations.

Participants should divide into groups of five, with participants from different countries in each group. Each group is given the following information about a hypothetical country:

Low rates of economic growth (i.e., 0.5 %)	Low rates of inflation (i.e., 1 %)	High public sector deficit (i.e., 50 % of GDP)	Relatively weak floating exchange rate	Significant export-oriented manufacturing sector (i.e., 75 % of all exports and 10 % of GDP); 80 % of those employed are female

Each group is to spend 20 minutes formulating a gender-responsive monetary policy that is designed to boost rates of economic growth. Each group will then present their policy mix with respect to interest rates, the money supply and the exchange rate, and explain how and why this policy mix will boost rates of economic growth.

In plenary, the similarities and differences between the policy mix proposals of each group should be identified. The discussion should focus upon how accommodating monetary policy can facilitate increases in economic growth, while austere monetary policy can deepen economic contractions, drawing upon material presented in this Module and in Module 7.

D. WOMEN'S ACCESS TO FINANCIAL MARKETS AND SERVICES IN ASIA AND THE PACIFIC

Women often have higher savings rates than men. However, gender biases in formal financial markets tend to channel these savings away from being deposited in the formal financial system. For example, some bankers only allow a male head of household, or require the approval of a male, to open a savings account. This means that women hold their savings as cash or in a non-cash asset, such as livestock, or deposit it in an informal financial sector institution, discussed below, to which they have access. Women often do not have access to credit from formal banking institutions, because they often lack adequate collateral to enter formal credit markets due to gender inequalities in property rights, or financial markets which contain gender biases. In households with both adult men and women, often credit is extended only to men, or the approval of a male head of household is required before credit is extended to women. Alternatively, when women are provided credit, the money given as a loan may be controlled by the men in the household, if necessary through coercion.

As a consequence, when monetary policy that accommodates an expansion of domestic demand results in an increase in formal lending, most women are shut out of the direct benefits of the policy – an increase in the volume of credit. In these circumstances, the benefits of accommodative monetary policy to women are indirect, through increased domestic demand and improved employment opportunities.

However, the ability to take advantage of improved employment opportunities is in part a function of the distribution of unpaid work and of the intra-household allocation of resources and responsibilities.

For women lacking access to formal credit markets, informal financial institutions offer an alternative. The most common form of informal financial institution, which is still very widely found in Asia and the Pacific, is the moneylender. However, while moneylenders provide credit in a timely manner, the amount of credit advanced may be too little, while the cost of the credit, in terms of the interest rate, can be very high. Moreover, the borrower and lender may be involved in a range of exchange relationships beyond the financial market – for example, the market for land or the market for labour –resulting in personalized credit transactions that reflect mechanisms of social power. In this regard, gender relations can mediate women's access to moneylenders as well as the terms and conditions under which loans can be secured.

More structured informal financial institutions, such as rotating collective savings and credit schemes, are another alternative source of financial services. They may have evolved over time to accommodate the specific requirements of women. However, these institutions have fewer resources at their disposal compared to the formal banking system, offer an implicit interest rate on people's savings that is very low, often operate outside a legal framework, and do not deliver financial services in a timely fashion when needed. New savings clubs in the Pacific have organised to deposit their joint savings in commercial banks, and thereby accrue interest, and this is a very successful model.

Pervasive gender inequalities in property rights, unpaid work and the intra-household allocation of resources and responsibilities mean that women's access to formal financial services in Asia and the Pacific is a significant policy challenge.

Microfinance institutions, discussed later in this module, represent an important effort to fill the institutional gap between formal and informal financial services that purport to address financial needs from a gender-aware perspective.

E. REMITTANCES AND FINANCIAL INCLUSION

Remittances are private financial transactions and can be domestic or international. Although in-country remittances, typically from cities to the countryside, can be very important in sustaining livelihoods and living standards, our focus in this section is on remittances from one country to another. The main purpose for sending money back home is to provide regular basic support. Indeed, the bulk of remittances, an estimated average of 80 per cent, covers essential day-to-day living expenses. Although benefits are concentrated at the individual or household levels, case studies indicate that there are spill over effects into extended families and the local economy, as well as into projects developed at the community level.

A. Since the 1990s, Viet Nam has been experiencing a dramatic growth in remittance flows. There are gender differences in both sending and receiving remittance flows. Important distinctions between men and women include a greater sense of responsibility among women for the inter-generational transfers of remittances (particularly between parents and children), while men tend to take more responsibility for intra-generational transfers. In addition, after controlling for other factors and sharing remittances between spouses who live together, evidence suggests that women have a greater likelihood of both sending and receiving remittances.[4]

B. Nearly a million Sri Lankan women labour overseas as migrant workers, the vast majority in the Gulf Cooperation Council (GCC) countries in West Asia. They are poorly paid and vulnerable to a wide variety of exploitative labour practices at home and abroad. Compared to other destinations, the GCC countries give workers (particularly women) less chance for autonomous activities, are less open to labour organizing, and are less responsive to political protest.[5]

C. The major destinations for labour migrants from rural southern Kyrgyzstan are Russia, Kazakhstan and Bishkek, the capital of Kyrgyzstan. Middle-aged migrating women do experience a devaluation of their education and struggle to handle the multiple roles and expectations of being breadwinner, mother,

4 Pfau, W.D., Long, G.T. (2008) "Gender and remittance flows in Viet Nam during economic transformation", *Asia-Pacific Population Journal* Vol. 23, Issue 2, Pp. 13-32+10.

5 Gamburd, M.R. (2009) "Advocating for Sri Lankan migrant workers: Obstacles and challenges" *Critical Asian Studies* Vol. 41, Issue 1, pp. 61-88.

wife and daughter-in-law, supporting the older and young generation left behind.[6]

D. Migration from the Pacific nations has been extensive for 50 years, and these migrants and their families are responsible for significant remittance payments. Overall outcomes have been unequal, with the principal gains accrued in destinations, in particular Australia and New Zealand, rather than by the migrants or their home islands.[7]

The injection of hard currency through remittances has, through spillovers, a multiplier effect on the local economy, as discussed in Module 7. Moreover, apart from augmenting individual incomes remittances may contribute to the foreign exchange reserves of the recipient countries.

There is an official value of the remittance market, which reflects only the transfer of funds that are recorded in the balance of payments of the recipient countries. These figures do not give a full and accurate representation of the amount being transferred, nor the importance and value of remittances to developing nations. The World Bank's *Global Economic Prospects* report, published in 2006, indicates that funds transferred through unofficial or unrecorded channels could add at least another 50% to the estimate. In addition, the World Bank notes that if the cost of sending remittances could be reduced by 5 percentage points relative to the value sent, remittance recipients in developing countries would receive at least an additional US$13 billion.

EXERCISE 5

Objective: To gauge size of remittances to national economies, and look at possible gender explanations of changes in flows.

6 Thieme, S. (2009) "Living in transition: How Kyrgyz women juggle their different roles in a multi-local setting", *Gender, Technology and Development* Vol. 12, Issue 3, pp. 325-345.

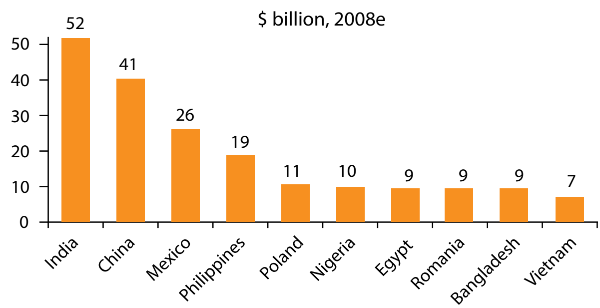
7 Connell, J. (2010) "From blackbirds to guestworkers in the South Pacific. Plus ça change…?" *Economic and Labour Relations Review*, Vol. 20, Issue 2, pp. 111-121.

Participants should divide into groups of 5-6 people and spend 30 minutes to discuss the following questions, using the information from Tables 1 and 2 (which should be provided as a handout):

1. In Table 1, which countries in Asia and the Pacific are most dependent on remittances? Which countries do participants think might be the most vulnerable to changes in flows and why?

2. What happens to remittances to the Asia-Pacific region when the value of the US dollar drops? How does this affect the sender and recipients? What happens when the values of the US dollar rises? How does this affect the sender and recipients?

TABLE 1:[8] TOP RECIPIENTS OF REMITTANCES - FIVE OF THE 10 RECIPIENTS ARE IN ASIA



8 Ahsan, A., Ratha, D. 2009 *Global Financial Crisis and Implications for Migration Remittance East Asian and Pacific Region and Development*. Economics Research Group, World Bank.

3. In Table 2, observe the trend in migrant remittances in countries in the Asia-Pacific region over 8 years. Where are the most extreme changes in the trends?

4. Look in particular at the years 2007-2010. Can participants see any pattern of change dependent on whether the country's migrant workers are mostly women or mostly men?

TABLE 2:

REMITTANCES:

Migrant remittances (USD)	2004	2005	2006	2007	2008	2009	2010	2011e	% GDP 2010
Bangladesh	3,584	4,315	5,428	6,562	8,941	10,521	10,852	11,989	9.6%
Cambodia	177	200	297	353	325	338	369	407	3.0%
China	19,578	23,478	27,440	38,587	48,407	48,852	53,038	57,282	0.8%
Fiji	173	185	185	160	123	154	183	205	5.8%
India	18,750	22,125	28,334	37,217	49,977	49,468	54,035	57,817	3.0%
Indonesia	1,866	5,420	5,722	6,174	6,794	6,793	6,916	7,164	1.0%
Mongolia	203	180	181	178	225	200	277	353	3.2%
Nepal	823	1,212	1,453	1,734	2,727	2,986	3,468	3,951	20.0%
Pakistan	3,945	4,280	5,121	5,998	7,039	8,717	9,690	12,190	4.8%
Philippines	11,471	13,566	15,251	16,302	18,642	19,765	21,423	23,026	10.7%
Samoa	88	110	108	120	135	131	143	151	24.8%
Sri Lanka	1,590	1,991	2,185	2,527	2,947	3,363	4,155	4,542	6.9%
Tajikistan	252	467	1,019	1,691	2,544	1,748	2,254	2,680	31.0%
Tonga	69	69	79	101	94	72	85	78	19.7%
Vietnam	2,310	3,150	3,800	6,180	6,805	6,020	8,260	8,600	5.1%

FINANCIAL INCLUSION

1. Financial inclusion entails financial literacy, but also requires access to appropriate and safe financial products. In other words, financial inclusion requires the ability to act (knowledge, skills, confidence and motivation), the opportunity to act (through access to useful financial products and services), and consumer protection measures that encourage consumers to use financial products. Financial inclusion fosters the emergence of financial capability.

2. For many years the remittance 'market' has been able to siphon off 15-20% of the value of the remittance amount as charges for transferring the remittance. A significant factor in these transactions has been the lack of financial capacity of both the sender and the recipient. In the Pacific region, the response has been the MoneyPACIFIC initiative.

MONEYPACIFIC:

Established in 2007, MoneyPACIFIC is a multi-agency project jointly supported by the Reserve Bank of New Zealand, the Ministry of Pacific Island Affairs, the Ministry of Foreign Affairs, and AusAID, in cooperation with the World Bank.

A key objective of the New Zealand-Pacific Remittance Project was to encourage a New Zealand-based Australian bank to compete effectively in the New Zealand-Pacific remittance corridor through using inexpensive electronic means. A new remittance card facility was launched in 2008. The introduction of the remittance card increased competition in the New Zealand-Pacific corridor, placing pressure on other operators to protect their market share by reducing costs below the seven percent targeted by the New Zealand-Pacific Remittance Project.

The second phase of the project began in 2009 with the goal of providing targeted financial education to Pacific peoples in New Zealand and the Pacific region, better-informed citizens, able to take advantage of increased competition and choice in the financial sector. Studies highlight limited take-up internationally of new remittance products if there is not a direct link to financial education.

Bilingual wall calendars are produced for New Zealand, Samoa, Tonga, Solomon Islands, Vanuatu and Australia. Each month on the calendar a financial / budgeting tip is provided and at the rear of the calendar the comparison of remittance costs by www.sendmoneypacific.org is printed. The financial capability tips are also offered in a public awareness campaign running on New Zealand and Pacific radio stations in local languages.

South Pacific Economic Ministers and Central Bank Governors have agreed that they need to play a leading role in advocating the importance of financial education and to drive collective national actions to achieve financial education, access to basic financial services, and consumer protection.

3. A similar problem has been found in the reviews of domestic public works programmes, and payments to workers in such programmes. The National Rural Employment Guarantee Scheme (NREGS) in India is the world's largest public works programme, and frequently quoted as one of those which fulfill the social protection floor vision. NREGS began in 2005 and is a demand driven programme, where groups request work from local government, who must then provide work within 15 days of the application being made. It aims to provide 100 days of paid work to a member of the poorest households. An evaluator visited Korut Village, Nalanda District, Bihar to assess how the programme was going. This district has some of the worst development indicators in India – a low level of women's literacy, high levels of out-migration, and an extreme caste divide. When asked if they had work, villagers replied that they had work, but did not know if it was through NREGS or a private contractor. Everyone had a bankbook, but no one knew how to read it or had been able to keep track adequately of their earnings.

Formally, the outputs would show many more people, and especially women, in work, as well as a large number of new bank customers. However, the effectiveness of social protection programmes is undermined if people do not have the opportunity and knowledge to make use of financial products and services.

IV. MICROFINANCE IN ASIA AND THE PACIFIC

Objective: to enable participants to have a better understanding of microfinance.

A. CONCEPTUAL FRAMEWORK

A. Microfinance efforts try to fill the institutional gap left by the formal financial system, in particular its inability to provide savings and credit for many potential customers, of whom a great many are women. Microfinance as a strategy for promoting access for the poor to financial services has existed for centuries in developing countries.

B. Microfinance in Asia and the Pacific today provides a variety of financial products for those that the formal financial sector often excludes in its coverage, including savings and insurance products as well as consumption and production loans.

C. The recognition and integration of microfinance as part of the formal financial sector began to gain momentum in the late 1990s, parallel to the increase in poverty levels, which has created a large potential demand for microfinance services among the millions of poor women and men in Asia and the Pacific.

D. In addition to the large demand, the enormous growth in microfinance products and services is partly a result of restrictive monetary policy and financial liberalization in many countries of Asia and the Pacific, as discussed in Module 8. In particular, high interest rates have reduced the availability of credit to the poor and increased biases against small agricultural producers, small-scale enterprises and informal workers in formal credit markets.

E. An important factor that has driven the growth of microfinance products and services is the high interest rates that they typically charge for their lending activities, which has encouraged entry into the market.

F. The mainstream approach to microfinance focuses on the income dimension of poverty (see Module 6) and builds on two interdependent assumptions: first, that access to financial services is the key to poverty reduction and economic empowerment, as poor women and men can effectively use microfinance to lift themselves out of poverty, reduce their vulnerability to external shocks and create wealth; and second, that microfinance recipients use it mainly for income-generating and productive purposes.

B. INSTITUTIONAL AND POLICY FRAMEWORKS

A. The microfinance industry in Asia and the Pacific is heterogeneous and geographically dispersed. The market structure underpinning the supply of microfinance services in Asia and the Pacific varies significantly depending on the stage of financial sector development and the overall policy environment in different countries, including important differences between countries undergoing transitional economic restructuring and the other countries of Asia and the Pacific.

B. Microcredit schemes were initiated from the end of the 1970s by non-governmental organizations, usually with financial support from donors, but governments and commercial banks have become increasingly involved in microfinance since the late 1990s. These microcredit organizations have evolved into microfinance institutions (MFIs) as other financial services, such as savings products and insurance, gradually have supplemented the provision of small loans.

C. With the notable increase in lending from MFIs, and the growing interest of commercial banks and financial investors in the microfinance industry, the microfinance regulatory and policy frameworks in several countries of Asia have been strengthened, most notably in South Asia. However, in parts of Southeast and East Asia the frameworks are still underdeveloped, leading to marked differences in the levels of interest rates and other modalities of service delivery within and between MFIs and countries.

D. Existing regulatory structures tend to focus on MFIs' collection of clients' deposits as repayments and savings, leaving lending activities outside the surveillance of regulatory structures. As a result, some MFIs can push their clients to borrow more than they can afford, hide their balance sheets and venture to invest the borrowed funds into businesses about which they have limited knowledge and expertise. This problem appears to have been particularly important in parts of the Indian microfinance industry.

E. MFIs in parts of Southeast and East Asia also face significant capacity gaps, underlined by promoters of microfinance in Asia. In general, these gaps can be divided into those on the supply side and those on the demand side of the financial system.

F. Gaps on the supply side include the failure of existing MFIs to respond to the financing needs of large sections of the population and the lack of adequate information and knowledge on the differentiated needs of potential clients in terms of financial services and products, based on the assumption that potential clients avail themselves of the one-size-fits-all packages that MFIs offer.

G. On the demand side, MFI activities in Asia typically target self-employed workers who can meet their eligibility criteria. These tend to be the not-poor or the near-poor, excluding low-income wage workers or smallholder farmers who are already categorized as non-bankable by the mainstream financial institutions, as well as the poorest of the poor women and men who, due to unemployment, fall below the eligibility criteria of most MFIs.

While both the demand for microfinance and the intersections between microfinance and formal financial markets are on the increase, the level of participation of local investors in the microfinance sector remains very low in parts of Asia and the Pacific. This implies that in those areas where local investors remain scarce the development of the sector will continue to depend on foreign direct investment or donor subsidies for the foreseeable future.

C. APPROACHES TO MICROFINANCE

A. An array of approaches to the development of MFIs has been used in Asia and the Pacific, ranging from traditional group-based systems to specialised lending by non-governmental organizations (NGOs), non-bank financial institutions, cooperatives, rural banks, and savings and postal financial institutions.

B. Among these approaches, the community-based approach, which relies on local communities to support MFI development, has been widely followed. As MFIs operating outside the formal banking sector had to find their own source of funds, the development of saving vehicles was important. This was supported by involving local communities in the formation of community-based cooperative groups, such as local clubs and village bank associations, which have been central to the savings mobilization effort and expansion of other microfinance services in parts of Asia and the Pacific.

C. The various approaches can be clustered into two main types:

- The *poverty lending approach* involves lending that is generally subsidized by donors targeted at poor women and men, including the extremely poor, as part of a package of other support services. The approach is derived from that of Bangladesh's Grameen Bank and remains the predominant approach in most countries of Asia and the Pacific.
- Subsidies are meant to minimize the cost of services, but not to reduce interest rates, which are generally much higher than those of formal banks but much lower than interest rates from informal moneylenders. The dependency on donor subsidies is a major issue for the autonomy and long-term financial sustainability of this approach.
- Although MFIs use a variety of mechanisms in undertaking the poverty-lending approach, in general it involves poor people having to form themselves into small groups that regularly save small amounts, making deposits to MFI administrators

who visit the group. Small loans are then made to the group after a period of time, based upon how much has been saved, but passed on by the group to a person in the group, resulting in a collective responsibility to repay. Commonly, the first repayment is factored into the loan, in part because repayment, including interest, is in small, regular instalments made to bank administrators that visit the group.

- The *financial systems* approach is commercially oriented and provides a standard package of financial services targeted to the bankable poor. It rejects subsidies, emphasizes financial sustainability and cost recovery, and seeks to promote small and medium enterprises. The very poor are seen as unbankable and better served by subsidized job creation or social assistance.
- MFIs that have adopted this commercially oriented approach pay utmost attention to financial sustainability and risks in particular. Consequently, they must also limit the number of clients they can serve to avoid problems with the repayment of loans and the increase in transaction costs that had been experienced in the past as a result of rapid increases in the number of clients.
- The financial systems approach typically lends to individuals rather than groups, which has been increasing over time as commercial banks establish MFIs.
- The donor community has a clear preference for the financial systems approach to MFIs.

D. Both approaches share a common concern about financial sustainability. The major difference between them pertains to the nature of the performance criteria that they use, the way in which these are prioritized in relation to financial sustainability and their effects on poverty and development.

EXERCISE 6

Objective: to reflect on the gender content of approaches to microfinance.

Participants should take 20 minutes to engage in a plenary discussion about the following questions:

1. Why did MFIs in Asia initially disproportionately target women?
2. What are the possible gender implications of a move from poverty-lending to a financial systems approach to microfinance in Asia and the Pacific?

A BRIEF HISTORY OF MICROFINANCE IN ASIA

Modern microfinance emerged in Bangladesh in the 1970s, when Muhammad Yunus, an economics professor at the University of Chittagong, began an experimental research project providing credit to the rural poor. That experiment, driven by a strong sense of developmental idealism, developed into what is now the world's most famous MFI, the Grameen Bank, and MFIs replicate its methodology worldwide.

MFIs in Asia have distinctive characteristics. Asia has a majority of the MFIs found in the world. MFIs in much of Asia focus on the countryside and in their first two decades adopted poverty alleviation as an explicit objective. Asian MFIs lead the world in terms of the numbers of clients they have, in terms of the relative poverty of their clients, and in terms of volume of savings they accrue and credit they disburse. Asian MFIs are also notable for the fact that savings and loan balances per borrower are low compared to MFIs in other parts of the world.

There are though notable disparities within Asian MFIs. Bank Rakyat Indonesia (BRI), the Bangladesh Rural Advancement Committee (BRAC) and Bangladesh's ASA account for more than 50 per cent of all borrowers worldwide amongst 300 global MFIs, and BRI accounts for 40 per cent of all loans amongst the same group. Thus, in Asia microfinance is a highly concentrated industry.

Moreover, while Bangladesh, Indonesia, Thailand and Vietnam are well-served by the microfinance industry, with the highest number of members and largest share of loans and savings mobilization in the world, India and China – the two most populated countries in Asia – do not demonstrate significant coverage by MFIs, despite having a high concentration of Asia's poor.

In much of Asia non-governmental organizations (NGOs) continue to be the dominant mode of microfinance delivery, and many such providers continue to heavily rely on subsidies and for the most part remain financially unsustainable. However, there is a clear trend towards greater commercialization of microfinance services, involving both the provision of a wider range of financial services by MFIs and a move away from group lending and towards individual loans. In many instances, increased commercialization has been driven by NGOs converting their not-for-profit MFI arms into for-profit MFIs. Thus, Acleda Bank in Cambodia and Xac Bank in Mongolia started as non-profit MFIs, converted into for-profit MFIs, and eventually became commercial banks offering a wider range of financial services.

Moreover, in Asia 'traditional' banks are increasingly becoming involved in microfinance, blurring the distinction between MFIs and the financial sector. Rural banks in the Philippines are the dominant providers of microfinance. Pakistan has a number of commercial banks that provide retail microfinance services, while Malaysia, Nepal and Thailand have programs that encourage commercial bank involvement in microfinance. India created the National Bank for Agriculture and Rural Development as a vehicle by which a number of private banks, such as ICICI Bank, can become involved in providing microfinance services.

As the distinction between MFIs and commercial banking dwindles, it is important that supportive but sound regulatory frameworks be introduced and enforced, and that ample attention is paid to client protection. The Philippines is a global leader in its microfinance regulatory framework and market infrastructure, and this has encouraged NGOs, specialized microfinance banks and small commercial banks to compete in the microfinance market.

V. GENDER, MICROFINANCE AND ECONOMIC EMPOWERMENT

Objective: to enable participants to recognize the strengths and limitations of microfinance as a tool to improve women's access to financial services in Asia and the Pacific.

A. GENDER ISSUES IN MICROFINANCE

A. Women have been disadvantaged in the allocation of formal credit in Asia and the Pacific. They are over-represented within groups that have received disproportionately small shares of allocated formal credit: smallholder agricultural producers and informal workers. In addition, they often face constraints because the prevailing parameters of legal frameworks and gender relations fail to recognize their property rights, meaning that they lack the collateral that guarantees a loan from formal financial institutions. (In the Pacific, communal property rights affect access to credit for men and women).

B. As a result, microfinance and MFIs in Asia – starting with the Grameen Bank – have targeted women as the intended beneficiaries of their activities, and women predominate in the volume of loans acquired. So microfinance favours women, who also constitute the large majority of their clients. However, this has not precluded the emergence of significant gender issues in the allocation of microfinance in Asia. As already noted, MFIs usually fail to obtain adequate information and knowledge on the different needs of potential clients, assuming that the one-size-fits-all type of package that they offer is adequate. The inability of most MFIs to differentiate their potential clients has significant gender implications.

C. Studies on microfinance schemes in Asia point to the segmentation of microcredit along gender lines: While women predominate in terms of the number of loans, men tend to take fewer, but bigger loans.

D. Microfinance targets those defined as poor women and men who are economically active. This can exclude those who need assistance most. It overlooks the basic reality that poor women have heavy workloads that are not adequately captured in the system of national accounts, as discussed in Module 5. MFIs thus reproduce the institutional discrimination and gender biases that have resulted in women's exclusion from formal financial institutions, by ignoring the value of women's unpaid work and the gender-specific constraints facing them, as well as their specific financing needs, which are not limited to economic activities but are also related to their multiple roles and unpaid work in the economy.

E. Financial systems-based MFIs target those that are considered bankable. Many women are not bankable because they lack collateral as a consequence of property rights structures that are mediated by gender relations.

F. Poverty lending uses community-based women's groups as the basis of its lending, and seems to be more attuned to their concerns and needs. However, in many instances the effect of group-based lending on women's lives has been constrained by the underlying gender inequalities in resources and power in their communities. The dynamics of local-level microcredit systems are characterised by the predominant role of "traditional" authorities in both formal and informal community-based institutions as well as community gender norms. Women often have little power in local level decision-making processes, which are shaped by patriarchal values and might not be sensitive to women's concerns and needs. So, for example, women who want a loan to expand their earning activities might see it diverted into consumption by male community authorities or by men in their household. There is evidence of men having women take out loans from MFIs because the men can control the loans that women access and for which women have responsibility. In this way, using community-based groups can reinforce community-based gender norms of inequality.

G. MFI emphasis on group-based lending also means that they will not reach significant elements of the population that are unable or unwilling to join such groups. In this way, MFIs fail to respond to the financing needs of large sections of the population, of whom a significant portion are women.

H. Women have high rates of repayment of their loans, which average 90 percent or more across the region. These high repayment rates reinforce the gender bias of microfinance in favour of women. However, many MFIs are only interested in the rate of repayment, overlooking how it has been achieved. It is unclear whether or not their analysis includes all the costs and benefits of microcredit. For example, many women in Asia who receive loans from an MFI see their total workload increase, as increased employment is not offset by reductions in unpaid work. Increased work responsibilities emerging from the provision of microcredit have been documented to result in women having to repay a loan with other loans from other microcredit providers, thus becoming trapped in increased indebtedness that repayment data fail to reveal.

I. On top of these issues, the organizational culture of many MFIs is gender biased: a 2005 survey by Women Advancing Microfinance of MFIs in 65 countries found that the proportion of women in senior governance or management positions varied between 30 and 40 percent in most cases, even as 70 to 90 percent of their clients were women.

J. These issues demonstrate that the inherent gender biases in many of the formal financial institutions in Asia and the Pacific have been transferred to MFIs, seriously limiting women's abilities to negotiate and voice their differentiated needs to loan providers.

K. In this light, both case studies and quantitative evidence on the outcomes of microfinance suggest that poverty reduction and women's economic empowerment are far from being automatic outcomes of the programmes.

B THE DEBATE ON MICROFINANCE AND WOMEN'S ECONOMIC EMPOWERMENT

A. The debate on the capacity of microfinance to enhance women's economic empowerment has been fuelled by conflicting findings, which might be due to differences in contexts, the research methods and indicators used to measure empowerment, the diversity in the organizational strategies of MFIs, or other matters.

B. Areas of consensus in the debate:

- Positive:
  - For many, microfinance is an effective coping mechanism for poor women and men in times of crisis, helping to smooth fluctuations in incomes and consumption, thereby reducing food insecurity and diversifying livelihood options.
  - Women's access to microfinance positively affects the health, nutritional status and schooling of their children.
  - Microfinance organizations can effectively help to develop new skills and promote new technologies among their members. In southern Vietnam most of the women involved in a major microfinance programme organised by the Vietnam Women`s Union had increased their financial and business skills as access to microcredit was linked to their participation in business management and skills development training.

- Negative:
  - Notwithstanding the positives, MFIs have failed to reach extremely poor women and men, and tended to concentrate on the upper and middle poor as well as the non-poor and near poor in their efforts to achieve financial sustainability.

C. Areas of contention in the debate:

- There is a lot of evidence that the economic gains from microfinance are limited, and thus, that the household and community effects are similarly limited; upscaling income-generating activities into profitable enterprises requires more substantial amounts of financial capital and support than MFIs provide.
- While microfinance has helped to address gender-specific constraints that lead to women's exclusion from formal and informal financial services, most microfinance programmes failed to remove the gender-related constraints that confine women entrepreneurs to small-scale and less profitable forms of businesses.
- The economic empowerment outcomes of microfinance for women are extremely contentious. Some studies found a long list of empowering outcomes in terms of increases in income, asset holdings, social capital, autonomy and decision-making power, alongside a decline in demeaning forms of labour and domestic violence. Other studies underline the lack of control that women have over their loans and the proceeds of their income-generating activities; additional financial burdens due to a reduction in men's contribution to households in light of the receipt of loans by women; an increase in indebtedness; an increase in workloads; an increase in domestic tensions and violence; and the marginalization of men. These differences reflect that microfinance operates through and on household structures, which means that household dynamics have important implications for understanding the effects of microfinance on gender relations.

EXERCISE 7

Participants should divide into three groups: borrowers, the bank, and the MFI. The facilitator then provides the following information only to the individual group, so that each group does not know the characteristics of the other groups:

The borrowers

- occupation: (female) landless rural workers
- objective: a $70 loan that is needed in the next month
- they have no collateral
- they have no one willing to co-sign and thus guarantee the loan

The bank

- lends at an annual percentage rate (APR) of 17%
- repayments are monthly
- requires collateral or a co-signatory who must be male; in some instances both may be required to secure a loan
- must undertake due diligence before agreeing to a loan, in order to assess risk; due diligence can take between six and eight weeks

The MFI

- lends at a 42% APR
- repayments are in fixed monthly amounts
- requires borrowers to include in their loan an extra amount equal to the first 2 repayments, in order to ensure that the first 2 repayments are met
- requires borrowers to form a group of no less than 6 and no more than 10 people who assume joint liability for the loan and who, as a group, create a savings club that makes weekly microdeposits into the MFI

The three groups will then undertake a public role play. The borrowers first seek to meet their objective by negotiating with the bank. If they are unsuccessful, the borrowers try to meet their objective by negotiating with the MFI. As the negotiations take place, the facilitator should identify key aspects of the negotiations that reflect why MFIs have grown so rapidly in the last 30 years as well as the strengths and weaknesses of microfinance as a development intervention.

EXERCISE 8

The facilitator should lead a plenary debate that asks the question: what is the purpose of microfinance? In structuring the debate, the facilitator should ensure that the discussion makes the following points:

- If microfinance is designed to reduce poverty, and especially women's poverty, its success has been, at best, problematic.
- If microfinance is designed to build sustainable financial systems, its inability to foster financial inclusion amongst the poorest means once again that its success has been, at best, problematic.
- If microfinance is designed to unleash female entrepreneurship, it has been, at best, unsuccessful.

C. POTENTIAL IMPACTS OF THE FINANCIAL CRISIS ON MICROFINANCE FROM A GENDER PERSPECTIVE

A. Regardless of these debates, microfinance will continue to be the main source of financing for poor women in Asia. Therefore, it is important to consider the potential effects of the global financial crisis on the microfinance sector, as these also affect women's access to credit and financial services. In this sense, women are more affected than men, who have better access to formal financial institutions.

B. To be economically viable and able to provide financial services and products at affordable costs, MFIs need to get funds at low interest rates and engage in long-term borrowing, while lending in the short term to clients that are poor or near poor.

C. The contraction in the global financial system has led to the withdrawal of many commercial banks that used to provide a significant part of the funding to formal financial institutions and finance ministries in Asia, the cancellation of their foreign credit lines and increased costs of raising funds in international capital markets. This situation might lead to a corresponding fall in the lending resources available to MFIs if they rely on obtaining resources from formal financial institutions or finance ministries.

D. The global financial crisis has also reduced the funding for MFIs that was available from international NGOs, which have seen their budgets cut as governments and the private sector in developed countries reduced their contributions.

E. In parts of Asia that are heavily reliant on remittances reduced remittances from migrants have led to increasing demands on MFIs. This is particularly true in South Asia and the Philippines. In the Pacific reliance on remittances, whether from domestic capital or from off shore, remains the major means of access to finance. Before 2008, these formed 60 per cent of Tonga's export receipts.

F. Demand for the services of MFIs has also increased due to the global financial crisis. In some sectors, the economic contraction caused by the crisis resulted in job loss, which has led some households to turn to MFIs for consumption lending. At the same time, microenterprises that rely on MFI financing for production have seen markets for their products shrink as a consequence of the crisis, making microenterprise failure a great possibility.

G. The possible benefits of MFI lending have also been hampered by the global financial crisis; one effect of the crisis has been to intensify unpaid work, making it less possible for those women who need access to MFI resources to use those resources to engage in earnings opportunities than was previously the case.

H. Clearly, the global financial crisis has affected the microfinance environment and, as a result, women's access to financial services. This suggests the need for urgent and gender-sensitive policy responses.

EXERCISE 9

Participants should divide into groups of four. Each group should contain participants from a variety of countries. Each group should take 20-30 minutes to discuss the potential effects of the global financial crisis on those MFIs of which the members of the group have some knowledge, by considering the following questions:

1. Did the MFI practise the poverty-lending or financial systems approach to microfinance?
2. Was the MFI engaged in activities that increased gender equality? If so, explain how you know.
3. How has the global financial crisis affected the MFI of which you have knowledge?
4. Do these effects have implications for gender equality in your country?
5. What kind of policy actions could be devised in response to the gender-equality effects of the global financial crisis on the MFI?
6. Each group should prepare a flipchart that arrays the key answer to each question by the countries examined in the group. In plenary, facilitators should draw out the areas of comparability and contrast across the different experiences described by the participants in their groups.

FURTHER READING

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