WOMEN'S FINANCIAL INCLUSION AS AN ENGINE OF GROWTH

POLICY LESSONS FROM THE iiG PROGRAMME

IMPROVING INSTITUTIONS FOR PRO-POOR GROWTH

Leading development practitioners have called for the prioritizing of women's financial inclusion as a vehicle for promoting gender empowerment. Much attention has focused on microfinance, but research evidence suggests that financial inclusion in the form of access to savings accounts may also increase females' bargaining power in the household. At the same time, there is a growing emphasis on finding innovative ways to promote savings more broadly in developing countries, as a key driver of poverty reduction and growth.

Can microcredit increase the impacts of programmes designed to promote the social and economic empowerment of adolescent girls? What kind of financial services and products do women demand? Is traditional microfinance servicing needs which could be better met by savings products? In what ways are practitioners expanding financial access to rural communities underserved even by microfinance? Several iiG projects study how to answer these and other questions on a range of issues surrounding the links between financial inclusion, female empowerment and growth.

KEY FINDINGS

- **Microfinance has the potential to augment the economic empowerment of adolescent girls, when provided alongside life and livelihood skills training.**

- **A key feature of women's demand for financial services is the desire to pay a regular series of instalments to a bank or similar institution, as a way of amassing a lump sum.** It is likely that this is driven by self-control issues, or pressure to spend resources on others if funds remain within the household. A savings product offering these features could potentially replace micro-credit in some contexts.

- **Community-based microfinance institutions have a particularly high take-up by women, suggesting that it is the women in these rural communities who have a particularly high unmet demand for savings and credit services.** However, there is still sizeable take-up amongst men, and thus any attempt exclusively to target women with such interventions would be unadvisable.

- **Community-based microfinance groups survive and are actively used several years after their formation with the help of NGOs.** This suggests that they are a sustainable intervention and that individuals truly find their services beneficial over time.

FINANCIAL ACCESS AS A TOOL IN EMPOWERING ADOLESCENT GIRLS

There are an expanding number of programmes offering life skills and vocational skills training to adolescents in developing countries, particularly adolescent girls. Such programmes may be a viable delivery mechanism for expanding financial services to young women. Moreover, financial services have the potential to reinforce the benefits of such programmes and to assist relatively low-skilled girls to engage in self-employment activities.

iiG research examined the impact of BRAC's core Employment and Livelihood for Adolescents (ELA) programme in Uganda. ELA targets adolescent girls aged 13-19, particularly those who are out of school, with the goal of assisting them in achieving greater economic and social empowerment. The programme covers both life-skills training (e.g. family planning courses) and livelihood skills training (mainly apprenticeships in activities such as hairdressing), as well as providing the girls with a safe space for sharing their experiences. This core programme was found to be very effective for both economic and social empowerment of adolescent girls. Researchers found that after two years, girls in Ugandan communities with a core ELA programme were more likely to be engaged in income generating activities, had 41% higher monthly consumption expenditures, and had a 26% lower rate of teenage pregnancy and a 58% lower rate of entry into marriage/cohabitation.

Building on this success, might providing the option of microfinance loans to girls in such programmes further assist them to become self-reliant through self-employment activities? iiG researchers experimented with adding microfinance into the ELA programme in Tanzania. After the core ELA training had taken place, 50% of the ELA clubs in their sample were randomly chosen to receive microfinance services which relatively older girls in the programme could opt into.

Making microfinance available appears to complement the effects of livelihood skills training for those girls who participate in ELA (whether they themselves take up the microfinance or not). Participants at clubs where microfinance is offered are 11 percentage points more likely to have an income-generating activity compared to participants at ELA clubs with only the core training. There is also a positive impact on these girls' reported plans to start a new income-generating activity in the next year, and in measurements of their financial knowledge about savings and interest.

Furthermore, offering adolescent girls access to microfinance may have important spillovers for girls who live in the same community but who do not participate directly. With the ELA microfinance programme, such non-participating girls were found to have increased their savings in ROSCAs and NGO-provided savings activities. This is likely to be attributable to a demonstration effect: non-participating girls observed participating girls increasing their economic activity and then tried to save more as a way to emulate this behaviour.

On the downside, actual take-up of microfinance loans appears to be very low amongst adolescent girls. This suggests that microfinance loans can have a big effect for the small number of girls who take them up, but that in contrast they are not demanded at all by most girls. It may be that these girls fear being trapped into debt, or that they simply do not have access to profitable investment opportunities. In other iiG work, researchers found that only 22.1% of the applicants to a competition for young entrepreneurs in Zambia were female. It therefore appears that either social factors or a gender-specific set of economic barriers may deter young girls from considering entering into business. Overall, skills training programmes for adolescent girls may be a viable platform for also promoting their financial inclusion. However, the small take up of microfinance loans amongst these girls underlines the need for further initiatives to encourage them into entrepreneurship and business. Moreover, the fact that provision of microfinance to some girls encouraged other girls into savings suggests that young women may have existing resources which they can mobilise if provided with the right kinds of savings technologies.

RETHINKING MICROFINANCE – WHAT KIND OF FINANCIAL SERVICES DO WOMEN ACTUALLY DEMAND?

Might many women be using microfinance loans as a way to save? This might seem paradoxical, but in fact it may be a logical course of action given that many women may struggle to hold savings at home, either because of self-control problems or social or familial pressure to redistribute resources. The rigid structure of repayments in a microfinance contract and the pressure from microfinance institutions to repay may provide adequate discipline for microfinance clients to commit to saving the loan instalment amount each month, earmarking savings for loan repayment and shielding them from others' demands.

In light of this, iiG researchers re-examined demand for microfinance loans using an experiment with female microfinance clients in Pakistan. They found that many women are willing to accept either credit or savings contracts within the same few weeks, suggesting that these women do not demand credit or savings per se but rather demand a product which offers a regular sequence of instalments in exchange for a lump sum. Such demand might be better met by a savings product rather than a microfinance loan, given that microfinance loans require poor clients to pay sizeable interest rates to obtain a similar structure of payments.

The traditional view of microfinance is one whereby individuals take loans in order to make an investment which they would not have been able to accumulate enough capital for by themselves. However, this view has recently been challenged. In particular, the lack of a grace period in most microfinance contracts suggests that many individuals cannot be using microfinance loans for risky investment, since they have to begin repaying the loan almost immediately. Instead, the demand for microfinance may actually be a demand for a way to commit to amassing a lump sum of savings, whether to meet short-term liquidity needs or invest in an indivisible durable consumption good.

To test this, we use a framed field experiment among women who are already participating in group lending arrangements in rural Pakistan, taking a simple repayment structure — loosely modelled on the idea of a ROSCA —and offering it as an individual microfinance product. The repayment structure yields a lump sum in return for a regular series of instalments. By randomly varying the date on which the lump sum is paid out, they randomly offer some participants a micro-saving contract (receive the lump sum on the last day of the contract) and others a microcredit contract (receive the lump sum on the first day of the contract).

Crucially, results show high demand both for credit products and for savings products amongst the same population of women. Moreover, the same women often accept both a credit product and a savings product within a period of a few weeks. Again, this behaviour can be explained by the idea that these women prefer lump-sum payments (for example, to finance purchase of a household item), and also struggle to hold savings at home over time. Researchers estimate that 50% of the women in the sample have high demand for lump-sum payments coupled with savings difficulties.

The key policy implication is that the distinction between micro-lending and micro-saving may be largely illusory: female microfinance clients appear to value a mechanism for regular deposits and lump-sum payments, whether that is structured in the credit or the debt domain. Therefore savings products may be a better replacement for microfinance in some contexts, since savings products are of much lower cost to poor clients (since they do not involve consumers paying interest). Second, a bank savings product based on ROSCAs may be good way to bring women into the formal financial system whilst ensuring that they are familiar and comfortable with the kind of product they are signing up for. Indeed, demand for the ROSCA-based product in this study was generally high, with approximately 65% take-up.

COMMUNITY-BASED FINANCIAL INSTITUTIONS

In recent years many development practitioners have promoted community-based microfinance initiatives such a Self-Help Groups and Village Savings and Loan Associations (VSLAs), as a way to expand financial access to poor populations in rural areas. Many schemes either explicitly target women or have found that the majority of self-selected participants are female. As such, it appears that demand for such services is particularly high amongst women, and that such institutions may be a promising way to promote the financial inclusion of women who are particularly marginalized in terms of low education, poverty and geographic isolation. Recent results from a study on VSLAs in Malawi find that women use these groups firstly as a way to save for annual agricultural investments and school fees, and secondly as a way to borrow for small business projects.

The VSLA model was first developed by CARE International in Niger in 1991. VSLAs are designed to provide a secure way for members to save and to earn interest on savings, as well as to access loans in villages where formal credit may be non-existent or very expensive (the communities targeted are typically underserved even by microfinance lenders). VSLAs and similar 'Self-Help Groups' have experienced rapidly-growing popularity in recent years, and now have over 100 million members worldwide.

The standard model for VSLAs is that individuals self-select into groups of 15-25 members. They are then provided by the organising NGO with a cash box and three separate locks, and three different members of the group are elected to act as key-holders (thereby reducing the probability that any funds placed into the box will be subject to theft). The group receives basic training in financial literacy and account-keeping. It then holds weekly meetings at which the group members can purchase up to five 'shares' of a fixed, small value. At monthly loan meetings, members can also request to take a loan, to be repaid in monthly instalments at a fixed monthly rate of interest. At the end of a cycle – usually a year – the group's total funds, including the successfully-recovered loans and loan interest, is 'shared out' in proportion to individual members' savings (hence the term 'shares').

Researchers revisited all 150 VSLA groups trained as part of a 2009-11 intervention in Malawi, to collect data on membership and individual account histories. The initial findings regarding gender are striking. First, 75% of participants are female, even though the intervention was not restricted to female membership and not explicitly targeted at women. Furthermore, anecdotally the main reasons that women report for joining VSLAs echoed those found in Pakistan: namely a desire to keep money outside of the household, either because of their own tendency to spend money on 'unnecessary purposes' or because of a belief that their spouse tended to do so. Indeed, intra-household bargaining may be a key driver of demand for saving in community-based microfinance institutions: of the members who received an extended individual survey, 44% admitted to hiding money from their spouse sometimes (although notably this figure was the same for male members who answered the extended survey).

For what purposes do women in these groups use savings and credit? For savings, groups report that their most important uses are agricultural inputs (43% of groups), agricultural investments (13%), building materials (9%) and livestock (3%). Again, this suggests that individuals seek to save for particular lumpy investments or durable consumption goods. For loans on the other hand, the most important uses were trading/business (74%) and agricultural inputs (13%), notably much less than for savings. Thus individuals seem to borrow predominantly to support non-farm business activities. Finally, a large number of groups also reported that a secondary motive for both savings and loans was simply to buy food, and that a secondary motive for loans was for emergencies. Thus it seems that savings and credit are partly being used as insurance.

In terms of policy, first it seems that even without explicitly or implicitly targeting women, women are likely to make up the majority of members of these kinds of microfinance groups. However, men do have significant demand for community-based microfinance – 25% of members in the groups studied are men – and so men should not be neglected by such interventions. Second, community-based microfinance seems to be a popular and sustainable initiative: of the groups formed in 2009-2011, 95% were still active at the end of 2013. Third, providing women with ways both to save and to borrow may be the best way to meet their complex financial needs, which depend on the type and timing of different investments and purchases.

POLICY IMPLICATIONS: PRIORITISING SAVINGS ACCESS

- Incorporating microfinance into existing adolescent education programmes may be an effective way to extend financial inclusion amongst adolescent girls, which in many contexts may be even lower than the financial inclusion of women as a whole.

- More developed skills training programmes and other social initiatives are needed to encourage young women into business.

- Offering better savings technologies to young women may have more widespread impacts than offering credit.

- Savings contracts may be able to deliver services similar to micro-credit at much lower cost to poor women. This is because women may ultimately want to pay a regular series of instalments in return for a lump sum, regardless of whether such a contract is structured as savings or as credit. Structuring the contract as savings should avoid costly interest payments for the consumer.

- A bank savings product which mimics features of a ROSCA might experience high take-up amongst women because of familiarity with ROSCA arrangements.
- Community-based microfinance appears to offer a viable solution for expanding financial access to women in rural areas.
- Men also have a significant demand for community-based microfinance, and so should not be excluded or neglected by such interventions.

FOR MORE INFORMATION

The evaluation of the ELA programme in Uganda is described in more detail in **Empowering adolescent girls: Evidence from a randomized control trial in Uganda** by Oriana Bandiera et al. (2014). CSAE working paper 2014-30

The related evaluation which added microcredit into the programme is discussed in **Economic empowerment of adolescent girls: The effects of layering microcredit on an adolescent development program in Tanzania** by Selim Gulesci and Munshi Sulaiman (2015). Available from munshi.slmn@gmail.com

To find out more about work with young entrepreneurs in Zambia, see Aspire by Marcel Fafchamps, and Simon Quinn (2014). CSAE working paper 2014-34

For a discussion of whether women prefer saving or borrowing, see **Two sides of the same rupee? Comparing demand for microcredit and microsaving in a framed field experiment in rural Pakistan**, by Uzma Afzal, Giovanna d'Adda, Marcel Fafchamps, Simon Quinn, and Farah Said (2014). CSAE working paper 2014-32

For more detail regarding the project *Savings, lending and default in community-based microfinance groups: Evidence from rural Malawi* see http://www.iig.ox.ac.uk/research/62-savings-in-community-microfinance-malawi.htm

For a description of the original intervention on which the VSLA research in Malawi was based see **Impact of village savings and loans associations: Evidence from a cluster randomized trial** by Christopher Ksoll, Helene Bie Lilleor, Jonas Helth Lonberg, and Ole Dahl Rasmussen (2013). No. 56, Rockwool Foundation Research Unit.

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