
Women's access to credit: Is micro-finance an answer?

Lucia Gamuyakairo

Long essay submitted in partial fulfilment for the Masters Degree in Women's Law, Southern and Eastern African Regional Centre for Women's Law, University of Zimbabwe, 2003

Introduction

This article is a continuation of my previous dissertation presented for fulfillment of the Post-graduate Diploma in Women's Law course pursued in 2000. In the research, I did a comparative study of the Co-operative and Rural Development Bank (CRDB) before and after its privatization in 1996 in relation to women and access to credit. The aim was to analyze the effect of structural adjustment programmes which led to privatization of many public companies, the Co-operative and Rural Development Bank included.

The Co-operative and Rural Development Bank, now a local private bank, was formally established by the Government of Tanzania to cater for rural development and administration of donor funds as well as small and medium-sized loans. Before privatization, the bank had special grants for women. Its activities included providing services to mainly farmers and small-scale business people who included women.

However, following the restructuring programmes, the government sold all its shares to individuals, private companies and DANIDA (Danish International Development Agency) who were responsible for restructuring the bank. As a result of changes, the focus of the bank changed too from providing services to being more business-oriented. To start with, the special grants to women were stopped and a minimum amount to be advanced was also introduced in order to cut down administration costs and increase profitability. Security charging became a pre-condition before any fund could be released.

Consequently, women who were able to get credit before privatization could no longer access credit as before. The findings suggest that structural adjustment programme reforms had a negative impact on women's access to credit.

'Access' means way of approach or entry, right or opportunity to reach, use or visit, and the *Collins Gem English Dictionary* defines credit as 'a system of allowing customers to receive goods or cash and pay later' (Collins Gem, 1999:124).

According to economists, the aim of financial sector reform in banks is to promote a market-oriented, more competitive and prudently-managed financial sector. Besides it is also believed to promote efficiency in financial intermediation and enhance deposit mobilization (Brounbrigen, 1998:13).

However, international human rights instruments, like the Convention on Elimination of all forms of Discrimination Against Women (CEDAW) requires states parties to ensure equal access to credit facilities from financial institutions, banks, non-governmental organizations, and so on. Article 13 provides as follows:

States parties shall take all appropriate measures to eliminate discrimination against women in areas of economic and social life in order to ensure, on the basis of equality of men and women, the same rights, in particular rights to bank loans, mortgages and other forms of credit.

Tanzania, being among the countries that have ratified CEDAW, is required to abide by their provisions. It follows that the laws relating to lending have to be in conformity with the ratified convention.

Later in 2000 the bank decided to establish a micro-finance scheme wherein customers who needed lesser amounts could be served.

Micro-finance is a way of delivering financial services to micro-enterprises. The financial services that are rendered include accepting deposits, giving advice on financial matters, educating customers in business matters as well as lending. Customers who are covered under micro-finance are those engaged in small projects like selling food, poultry and chicken rearing.

The scheme started with four regions as pilot areas, however to date it has extended to four other regions making a total of eight out of 21 regions covered in mainland Tanzania. It uses special funds donated by DANIDA and the terms and conditions for lending are distinct from normal lending. For example, no equity contribution is needed and collateral is not mandatory.

There is an assumption that women are able to access credit through micro-finance. The belief is based on various factors like the set-up of the scheme, less stringent conditions that apply with these loans and the type of credit offered. More often, the schemes advance loans for small and medium-sized businesses and mainly women are involved in these.

Even donors, whose objectives are to empower women economically through advancement of credit, tend to channel their grants or aid through non-governmental organizations with the same objectives so that the non-governmental organizations can advance credit to women.

But is micro-finance the answer? To what extent can women access credit through the scheme? What is the way forward to enable women to enjoy their right to credit?

This article aims to analyze whether the scheme helps women access credit and, if so, to what extent. In doing so, the terms and conditions that hamper women from accessing credit from normal bank lending and how they do so will be discussed. The reasons adduced for the conditions will be highlighted. The general operation of micro-finance schemes will be analyzed with particular reference to the Co-operative and Rural Development Bank of Tanzania. The general shortcomings of the schemes as well as of the Co-operative and Rural Development Bank's scheme will be discussed and finally a way forward through suggestions and recommendations will be presented in my conclusion.

This study, as already explained, is based on the work done in 2000. The methodologies used to make it possible are observation and analysis of bank's data and records concerning the scheme, as well as liaising with other organizations that have similar schemes. It was easy for the writer, being an employee of the bank, to observe what was taking place within the company in terms of established micro-finance, and address questions like what women's responses are and whether they are more able to access loans than before.

Furthermore, being an employee made it easy for the writer to obtain data and records for analysis. For example, I could analyze the total of intermediaries in two regions (Morogoro and

Iringa) and work out how many were women, men or mixed and work out the extent of repayments in relation to the sexes.

Tanzania banking lending conditions

Before people can access credit from the bank or any financial institution, they have to fulfill several conditions. According to the laws in Tanzania, both married and single women can get loans from a lending institutions in their individual capacity provided they meet the conditions required. The Co-operative and Rural Development Bank regulations and polices are not discriminatory either. The following are the conditions to be fulfilled:

1 Equity contribution

Equity contribution or down-payment is the contribution customers are required to make to the project they are requesting money for. This contribution can either be in materials or in monetary form. The amount to be contributed by the customer depends on the regulations of the concerned lender. In the Co-operative and Rural Development Bank, for example, the equity contribution should not be less than 25 per cent of the total capital of the project or amount requested.

Given cultural practices, gender roles and historical imbalances that still exist in our societies, it is hard for most women to fulfill such a condition. Take, for example, the issue of education which is an enabling resource to access other resources – a girl child is given a secondary position in a family which has a negative impact on her education as well as her future employment opportunities.

2 Collateral or security

The banks and financial institutions also require collateral to secure the advanced loan or credit. According to the Banking and Financial Institution Act [Act No. 12/91: Sec 37(3) and (5)], the banks are prohibited from granting or permitting unsecured advances unless such advances have been unanimously approved by all of its directors and have been notified in advance to the Central Bank of Tanzania. It should be noted that all banks have to abide by the terms and conditions of the Central Bank in all their activities such as deposits and lending, among others [Act No. 1/999 Sec.5 (1) (4)].

The aim of these conditions is to ensure that the money lent, together with interest, is repaid and, in case of default, the lending bank can dispose of the pledged security to recover the loan. In ensuring this, the value of security for any advancement is not less than 125 per cent of the credit accommodation secured by it [Part III of BOT guidelines].

Security can be in various forms. For most banks, the preferred security is surveyed fixed property so that the bank's interests over the property can be registered with the registrar of titles at the Ministry of Land. The problem with this preference is that customers who have built their properties in unsurveyed areas and do not have title deeds cannot therefore have their properties accepted as securities by the bank. Surprisingly only 30 per cent of Tanzania's land — most of it

in urban areas — has been surveyed and thus only 30 per cent of owners have titles (Department of Statistics).

The condition of pledging security before one obtains credit operates to the disadvantage of many women in rural as well as urban areas, regardless of whether one is operating in a cash economy or as a peasant farmer, due to the fact that most women do not own land.

Landed property can either be acquired through purchasing or succession. However, the fact that most women are not well educated means that they end up not occupying well-paid jobs and therefore end up not being in a position to purchase landed properties of their own. For example, a surveyed empty plot is sold at minimum price of 600,000 Tanzanian shillings, an equivalent of USD \$ 600, while per capita income of most Tanzanians is less than that amount. Besides, the security preferred is land that has been developed through buildings as opposed to empty plots, unless the plot is in a prime area. Furthermore, most women cannot acquire real property through inheritance since the customs often prevent them from inheriting the land and instead simply grant them usufructuary rights over it.

Acquiring credit is not simple either for those few women who own landed properties. There are other conditions attached to the land that makes it difficult for them to access credit. The property has to be insured against risks like fire or accidents in cases of vehicles. As if that is not enough, a customer has to pay an evaluation cost. This is the money paid or commissioned to a person who performs the task of evaluating the property to be charged as security. The fee is 5 per cent of the value of the property to be charged as security. On top of that, some fees have to be paid before registering a property as security for the loan. All these conditions require money which most women do not have in the first place. As a result they are technically ousted from exercising their rights to access credit.

3 Other conditions

A customer is also required to pay for documents or forms used to formulate the agreement between the bank and the borrower. The bank prepares these contract documents. A customer can pay any amount ranging from US\$100–US\$250 depending on how many sets of forms are used. Besides that, a customer must possess a valid business licence and is required to present the financial analysis, business plan and project appraisal.

Looking at the cost involved before one can secure the loans it is easy to grasp how the financial impediments may prevent women from accessing credit.

As if all those conditions are not enough, the banks' lending policy stipulates that the minimum amount to be advanced in normal lending is US\$25 000. The bank argues that small loans are uneconomical, as operational costs tend to be high and thus not profitable. This means that women who have small projects will not be able to access credit.

4 Reasons adduced to justify conditions

There are various reasons adduced by the bank as a justification of the above discussed conditions:

Firstly, the Co-operative and Rural Development Bank, being a privately-owned bank, is governed by the Company Ordinance [Chapter 212 of the Laws of Tanganyika]. This law requires the company to do business in a sound manner otherwise they may be closed down. Following the change of ownership from a state-owned bank to a privately-owned company, there is also a change in its objective and mission. The bank's articles and memorandum of association clearly stipulate as follows:

Co-operative and Rural Development Bank is to be a market-driven commercial bank rendering banking products to quality customers with an objective of raising its profitability through minimizing costs as well as risk in operations. The profit will be used in paying its shareholders a reasonable return on their investment.

Secondly, it is also argued that their business is to receive money from customers (depositors) and lend that money to other customers (borrowers) with interest. It is through this business that banks earn profit to pay interest to depositors as well as pay dividends to its shareholders. In order to achieve this goal, the loaned money must be repaid. This is done through formulation of policies, regulations, and so on, that provide conditions to be fulfilled before one is granted credit. Besides, the Central Bank stipulates that not more than 5 per cent of any bank's share capital should be lent unsecured.

The above requirements apply equally to men but women are more affected than men. The historical imbalances and gender roles put women in a more precarious position than men. However, research done in Tanzania and bank's records reveal that generally women are good borrowers in the sense that they strive to pay back their loans — unlike their male counterparts — but due to conditions which are stringent to them, they are excluded from borrowing. In order to alleviate this situation, the micro-finance scheme was established.

Micro-finance: its operation

Micro-finance schemes are generally taken as corrective measures against women's obstacles to accessing credit. They are assumed to be the panacea of all economic ills and a means to integrate women in development (Spar, 1994:110) It is in this spirit that donors decided to channel their aid or grants to certain non-governmental organizations or institutions to be lent to small customers. DANIDA, for example, has channelled micro-finance funds through the Co-operative and Rural Development Bank with the aim of contributing to the sustainable improvement of the living standards of the poorest sections of population – women being amongst them. It is assumed that small-scale projects which were once rejected will now secure financial services through this scheme.

The terms and conditions in micro-finance lending are less stringent than the normal bank lending. Besides, some funds are specifically for women like the 'Special women's grants' and 'Women's funds' projects.

Under this scheme, customers are allowed to use informal securities like furniture, business assets, and so on. However the customers' integrity is the aspect which is considered most. The

informal securities to be charged need not be registered or insured, above all the aspect of equity contribution does not exist.

Another good aspect of micro-finance is the training offered to customers. Normally most institutions administering micro-finance schemes train their customers in capacity building and business education, including business and marketing techniques, though there are a few who do not offer such training.

The interest rate charged depends on the lending organization but normally it is higher than that charged by the banks.

The micro-finance lending can be provided to an individual, a group of people or through an intermediary. In cases where lending is to a group, the cohesion within the group is considered to be their security. Each group can comprise five to ten members but although the loan is advanced to a group, each individual may be doing his or her own project. The liability of the members of the group is allocated both jointly and severally. In case of default by one member of the group, the whole group is required to pay.

Besides the general reasons behind establishment of micro-finance by donors, Co-operative and Rural Development Bank has its own reasons also for establishing the scheme. The reasons will be discussed later.

Shortcoming or weaknesses of the scheme

It is assumed that since micro-finance does not require a borrower to fulfill the terms and conditions as stipulated in normal lending, women are therefore able to access credit through it. However the practical side of it leaves a lot to be desired.

The scheme caters for small-scale projects and a few medium-sized ones. Normally the interest charged is very high for the borrowed money. For example, the interest rate for PRIDE Tanzania is 40 per cent.¹ The reasons given are that since the projects are small and scattered, the operational costs on the part of the administering institution are too high. Furthermore, the administering institution had to make some profit. In these circumstances the borrower has to make an extra effort, sometimes evading taxes so as to pay the principal sum and huge accrued interest. For a woman borrower the burden can be too much to shoulder thus she may either have to pay through other sources or fail to repay altogether.

Another cause of high interest charges is attributed to the fact that these types of loans are unsecured. They are thus considered too risky to the lender because the lender has no channel to resort to in case of default.

The system of lending to a group of people whose cohesion is considered to be their security has proved to be problematic. The set-up can destroy social relationships and cause enmity among members. The set-up model of group formation ties individual behaviour with group responsibility. Every member of the group has a separate project though the money is lent to the group. Each member is supposed to repay their own portion and in the circumstance where one

¹ PRIDE is a non governmental organization that administer micro finance scheme to women in Tanzania.

member of a group defaults, the administering institution pressurizes the group either by withholding future loans or forcing the remaining members to pay up for the defaulting member. However this does not mean that each member contributes equally but the member who has the means would be the one to pay as the liability of members is jointly and severally. As a result the situation among group members is one of strife instead of solidarity.

The act of accepting informal securities might be seen as working in favour of most women, however it can also have the effect of impoverishing the household and causing chaos. This is due to the fact that in case of default, their items pledged would be disposed of to recover the debt. The situation can be worse if the items are for the purpose of recovering another member of the group's debt (in cases of group lending). In other circumstances the money is recovered through intimidation, force and violence against borrowers.

What makes it worse is that some schemes do not offer business training and this can result in women consuming the borrowed money and failing to repay.

Reasons behind establishing micro-finance in the Co-operative and Rural Development Bank

Apart from the general reasons by donors discussed before, the Co-operative and Rural Development Bank has its own reasons that prompted it to review its previous decision of not lending to micro-enterprises. The reasons are as follows:

Firstly, according to the bank's shareholding structure, 37 per cent of the total paid-up share capital is owned by individuals coming from different parts of Tanzania: rural and urban, whereby women constitute 5 per cent. These shareholders are middle and small earners thus they cannot meet the minimum loan criteria set by the bank. But all the same the bank felt obliged to serve them. The best way to do so was through micro-finance, especially for rural shareholders. However this should not be interpreted to mean that the scheme is only rendered to bank's shareholders.

Secondly, there is also an increase in the need for financial services from rural clients. This situation has been brought about by the growth of Tanzania's economy, a factor that created awareness of the necessity of saving. Besides this, the closure of the former National Bank of Commerce branches in rural areas – being the effects of structural adjustment programmes – gave rise to the increased need for financial services.

The third considered reason relates to the sustainability of the bank. Micro-finance is taken as a way of designing future customers of the bank. The idea is that customers who are enjoying the services from the bank are also depositing with it. They are thus the bank's future and alternative customers.

Besides, it is the DANIDA fund that is being administered and not the depositors' money, which is governed by the Central Bank guidelines. On top of that, the bank has long experience of serving the rural people as that was among the reasons it was initially established.

The types of clients to be served in micro-finance are small-scale enterprises. These types of clients are high risk due to their small, scattered nature and because most of them do not have collateral. Thus intermediaries are used in order to serve them efficiently and profitably.

Intermediaries are economic groups established in a certain area by people having some common interest of helping each other economically. These could be youth's economic groups (YEGS), co-operative societies (SACCOS) and women's economic groups, among others.

How does the intermediary system operate?

According to the micro-finance set-up in the Co-operative and Rural Development Bank, the bank is not directly dealing with individual customers. The arrangement is that intermediaries are the ones entering in agreement with the bank. The arrangement seems to be beneficial on the part of the bank, as it need not make follow-ups on the borrower but rather on the intermediary concerned. In that way the operational cost on the part of the bank is reduced. The intermediary acts like a mini-bank as it collects proceeds (deposits) from its customers and deposits them with the bank. When a customer wants to borrow he or she will get the loan from the intermediaries according to their own arrangement and agreements.

The terms and conditions are the same as in other micro-finance schemes. The interest charged is 18 per cent, which is lower than the normal rate (20-25 per cent). However the intermediary concerned normally adds 5–10 per cent above the rate charged by the bank when lending to its members thus in a way making some profit too.

The arrangement between the bank and the intermediaries is such that the latter will deposit with the bank and get interest in turn like any other depositor. It is explained that under this arrangement an intermediary fund grows due to interest paid by the bank and additional interest rates charged when it lends to its members. So the member's deposits grow too.

Criteria to select intermediaries

The following are the bank's set criteria for choosing intermediaries to be used in the scheme.

Firstly is the distance from the Co-operative and Rural Development Bank branch to the place where the intermediary is situated. Those that are near the Co-operative and Rural Development Bank branches are preferred as this reduces operational costs on the part of the bank.

Secondly, the concentration of intermediaries in a certain area is another criterion as it is cheaper for the bank to serve them collectively.

Thirdly, the bank is also looking at the potential for expansion or growth through examining a number of members and their average income.

The group management is also another factor whereby the commitment of leaders is assessed through looking at the history of the group.

Co-operative and Rural Development Bank's micro-finance weaknesses

When analyzing the Co-operative and Rural Development Bank micro-finance scheme, the following shortcomings were discovered:

- First the scheme is not gender sensitive. Women, who are a disadvantaged group in society, are not given special treatment under the scheme.

- Considering the selection of intermediaries through which the bank is lending to its customers, the bank preference for already-existing groups is affecting women in the places where women have not organized themselves. As per the set-up, they will not be able to benefit much from the scheme – for example in Iringa and Morogoro regions, the data shows that there are a total of 48 intermediaries out of which 15 are groups of women intermediaries, 25 are men and 8 are mixed sexes.
- Looking at the data, many groups are made up of men; this means that in those two regions women are not accessing credit much compared to their male counterparts. Besides, in the groups of mixed sexes, there are fewer women and the leaders tend to be men. This can be attributed to cultural attitudes and socialization, as women do not mix freely with the opposite sex.
- The use of intermediaries has the effect of adding a burden to customers in terms of interest. The bank lends to intermediaries at 18 per cent interest, then the intermediaries lend to their members. However the intermediaries add some interest over and above that charged by the bank as their profit. Under this arrangement, the bank does not have control over how much should be added; as a result the total interest charged can be even higher than the normal lending bank. Under this circumstance, the burden is shouldered by the member.
- Another shortcoming is that the scheme covers medium and small-scale businesses but not very small-scale enterprises. This is because the criterion for one to get such credit is serving ability. It follows that the poorest portion of society, women being among them, are not included.

Conclusion and recommendations

Looking at the shortcomings of the scheme generally and in the Co-operative and Rural Development Bank in particular, one can argue that micro-finance is not the total answer to women and access to credit. The scheme, together with the normal lending system, needs to be improved to respond to the economic needs of women. I would therefore make the following recommendations.

Firstly, the amendments of the provision of the Banking and Financial institution Act and BOT Act, which govern normal lending, are recommended. The requirement that banks and financial institutions advance secured loans can just be a general rule, but further provide that a certain percentage of the loan portfolio be advanced to women unsecured. This will act as an affirmative action to women who do not possess collateral.

Secondly, there should be specific funds to cater for women's projects. The funds can be set aside by the government or donors. The projects to be funded should also include macro-enterprises for those women who manage to pursue such big projects. In my view, such projects have a larger turnover and operational costs are low, thus they can more effectively empower women economically than the small projects.

In cases of micro-finance schemes, I suggest that needs assessments be conducted before establishing any scheme. The aim is to assess what women need instead of imposing on them the borrowing set-up. The needs assessment could cover questions like: *Do they need to borrow in groups or individually? How much? For what purpose and for how long? What should be the recovery mechanism?* And so on.

In the circumstance whereby the loans are advanced to a group, liability should be severally and not jointly. In this case one will not suffer the consequence of another person's default.

On the issue of high interest rates, it is suggested that it be reduced to a reasonable rate, for example 5 per cent, so that the projects can be operated profitably on the part of women. Furthermore, intermediaries should not make an addition to the interest rate.

On top of that, business training should be conducted for women before advancing them with funds so as to equip them with elementary business knowledge to enable them to run the business profitably.

Regarding the Co-operative and Rural Development Bank, the following is recommended:

The bank's policy on lending and credit manual amendment is recommended to the effect that a requirement of 25 per cent down-payment be dispensed with for women customers, considering a well-known and researched fact that women strive to pay back their loans.

Since the law allows the bank to lend 5 per cent of its portfolio unsecured, then the same should specifically be set aside for women.

In micro-finance schemes, women should not be left to compete with men. Instead, special measures could be taken to ensure that they benefit also. For example:

The bank should fully participate in helping women to formulate these groups through which the money is channelled to customers. However, women who are not in groups should not be denied the benefit of loan services through micro-finance and thus be allowed to borrow in their individual capacities; also the scheme should be spread to all regions in Tanzania instead of only the current eight regions.

Together with this, the bank management has to be sensitized to gender issues so that they have women's problems at heart whenever they formulate policies and guidelines. The sensitization should be extended to women customers also.

Looking at the whole discussion, I am optimistic that if the above recommendations were implemented, women would be able to access to credit through micro-finance as well as from normal banks.

Bibliography

Brownbridge, M. &Harvej, C., *Banking in Africa*, World Press Inc., Asmara Eritrea, 1998.

Dahal,T.S., *Women's Law: An introduction to feminist jurisprudence*, Oslo, Norwegian University Press, Oslo, 1987.

Ncube, W *et al.*, *Paradigms of exclusion: Women's access to resources in Zimbabwe*, WLSA, 1997.

Sparr,P (1994) 'Banking on women: Where do we go from here?', in P. Sparr (ed) *Mortgaging women's lives: Feminist critiques of structural adjustment*, Zed Books, London, 1994.