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**Enhancing Rural Women's Access to Capital:
Why It Is Important and How It Can Be Done.
The Case of Columbia**

By

Diana Fletschner

**AGRICULTURAL &
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***ENHANCING RURAL WOMEN'S ACCESS TO CAPITAL:
WHY IT IS IMPORTANT AND HOW IT CAN BE DONE.***
THE CASE OF COLOMBIA

By

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Abstract

Improving access to capital for low wealth households is a vital part of any rural development strategy, especially one designed to rectify long standing rural inequality and to generate broadly-based growth. In addition, there may be further benefits from specifically targeting the capital needs of rural and low-income women. Most credit programs oriented to increase access to credit for poor households are based on a “gender neutral” approach. However, unless specifically targeted, women tend to have inferior access to financial resources than do men. This differential deserves special consideration from policy makers given presumed social welfare and productivity gains to be had from specifically enhancing women’s productive capacity within the household.

This paper introduces the rationale for enhancing women’s access to capital, documents the particular factors that constrain women’s credit access from conventional financial intermediaries, and presents a review of the international experience with women-targeted credit programs. Finally, it reviews the position of rural women in Colombia with an emphasis on the position of women within the Colombian financial sector.

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**ENHANCING RURAL WOMEN'S ACCESS TO CAPITAL:
WHY IT IS IMPORTANT AND HOW IT CAN BE DONE**

SECTION I: Introduction. Why Specifically Target Rural Women's Access to Capital?

Improving access to capital for low wealth households is a vital part of any rural development strategy, especially one designed to rectify long standing rural inequality and to generate broadly-based growth (Hauge *et al.*, 1999). In addition, there may be further benefits from specifically targeting the capital needs of rural and low-income women. After introducing the rationale for enhancing women's access to capital in this introduction, Section II documents the particular factors that constrain women's credit access from conventional financial intermediaries. Section III presents a review of the international experience with women-targeted credit programs, providing an overview of institutional options and their strengths and weaknesses. Section IV then turns specifically to the position of rural women in Colombia, while Section V focuses on the Colombian financial sector and the position of women within it. Section VI closes this report with conclusions and recommendations about what can be done to enhance women's access to capital in Colombia.

So why specifically target women's access to capital? We could be content with implementing "gender neutral" programs oriented to increase access to credit for poor households. After all, households with a female head (which are frequently towards the poorest end of the wealth spectrum) would likely benefit from a program of this sort; and for households with a male present he could obtain the loan and, presumably, do what is best for his family.

However, the logic for specifically targeting *women's* access to capital rests on two inter-related points that dispute these too easy presumptions:

First, seemingly gender neutral credit programs are more likely to be gender blind than really gender neutral as they may simply fail to reach women-headed households. This problem can be attributed to:

- i) Women's particular structural conditions such as having to fulfill multiple household tasks and take care of their children; their high poverty rates; etc.
- ii) Credit market failures that adversely affect poor women because of their specific characteristics. Unless specifically targeted, poor women's economic conditions and needs do not match what traditional financial institutions generally offer.

Second, there are presumed pay-offs in terms of poverty alleviation, and improved economic efficiency by improving women's access to capital. This view is often referred

to as the “instrumental” approach to incorporating gender in development policies.¹ Two major elements of this idea are that:

- i) women are viewed as productive agents instead of needy beneficiaries (Boserup, 1970); and,
- ii) it does matter *who* in the household receives the additional resource (in this case, capital).

While this first point is relatively straightforward, the second is perhaps less so. To further develop this argument, it is essential to examine the manner in which families make decisions and allocate their resources. I present a brief introduction to the current thinking on intrahousehold decision making process in the next several paragraphs and a more complete summary on the research on the importance of women’s position within the household in the appendix.

Households can be thought of as microeconomic units that, through their production and consumption decisions, choose how to best allocate their resources (labor, assets, etc.). The process by which households make decisions has been modeled in several different ways, depending on the assumptions made about preferences and resource-handling within the household (Haddad *et al.*, 1997).

Unitary models of household decision-making assume that families can be viewed as economic units with a single set of preferences and that household resources and information are fully shared. If households behave as if they were one unit, women would not have additional problems in their access to capital. That is, it would suffice to design a credit program that improves poor households’ access to financial resources, without taking into consideration which member of the family is the actual loan recipient. Unitary models, however, have been widely criticized for not taking into consideration that preferences may, in fact, not only be different across family members—in particular between men and women—but, moreover, they may not be aggregated in any simple way (Folbre, 1984).

Collective models of household decision-making, on the other hand, view families as collections of individuals who both cooperate and may have conflicting interests. They are based on the notion that the heterogeneity in family members’ preferences is resolved through a bargaining process. According to this approach, “household decisions” depend both on family members’ preferences and on their relative bargaining power (Sen, 1990; Folbre, 1984).

Within the collective models, the “non-cooperative bargaining” approach may constitute a particularly attractive alternative to modeling household decision-making. Non-cooperative models are based on more flexible and more realistic assumptions about the way in which families operate:

¹ One could also argue for the need of designing policy that would reach women because women deserve the same benefits as men, or because women (poor women) need special help. The extensive literature presenting this position offers a wide array of reasons to provide assistance to women, ranging from purely altruistic or egalitarian motives to economic or political self-interest (Razavi, 1997; Jacquette, 1990).

- i) family members are entitled to different (individual) preferences;
- ii) family members may not pool their income;
- iii) families may make decisions that are Pareto-inefficient. That is, overall household production or well-being could be improved by merely reallocating its resources without making any family member worse-off.

Recent empirical works based on non-cooperative bargaining models of household decision-making have found that household resources were, in fact, inefficiently allocated (Udry, 1996; Doss, 1994). These inefficient outcomes arise, at least partly, from enforcement problems and imperfectly shared information between family members (see Katz, 1997; Carter and Katz, 1997).

Under this scenario, “intrahousehold inefficiencies” would affect household behavior and, as a result, it would matter *who* in the household receives new access to economic resources—in this case, to capital. Enhancing women’s access to capital is likely to strengthen their bargaining power within their families and consequently to affect households’ decisions. Women’s improved access to capital may, for instance, reduce intrahousehold inefficiencies improving food consumption, children’s education, and family health care.

If that were the case, credit programs that target poor women could represent improvements over programs that simply target poor households because, by making a positive difference for women, they may constitute a cost-effective way to induce economic growth, to reduce poverty, and to improve nutrition, health, and education indicators. There is thus a strategic complementarity between women-targeted and more general credit programs.

In summary:

- Unless specifically targeted, women tend to have inferior access to financial resources than do men.
- There may be additional social welfare and productivity gains to be had from specifically enhancing women’s productive capacity within the household.

SECTION II: Market Failure -- Women in the Credit Market

Almost everywhere in the world that poverty has been studied, results show a disproportionate number of women to be poor. This is the case whether poverty is defined in terms of income or by other indicators, such as ill health, inadequate nutrition, little or no education, or lack of leisure time. Although absolute figures change dramatically depending on the measures used, women’s representation among the poor is higher than men’s in all cases (Buvinic, 1997).

It is not surprising that women are persistently found among the poorest of the poor, given that social or cultural norms often create an uneven playing field and prevent them from participating in economic activities on an equal basis. Women have traditionally

been relegated to lower-paid activities and earn less than men for comparable jobs. Some social norms are strong enough to explicitly exclude women from working in specific areas but, more frequently, the constraints imposed are more subtle.

Women's income is consistently lower than men's (Restrepo and Reichmann, 1995; IDB, 1990; Berger, 1989); and their employment possibilities and their opportunities for starting or enlarging their own microenterprises are constrained by a variety of factors.

Some of the explanations are:

- i) women's supply of labor may be intermittent or restricted to the type of work that can be done at home because of their childbearing and childrearing responsibilities (Almeyda, 1996; Pitt and Khandker, 1995; Mencher, 1988);
- ii) women may not have access to information on alternative projects they could work on;
- iii) in populations with deficient diets, women may not ingest the necessary nutrients and may thus be more vulnerable to health problems, particularly those related to pregnancy and lactation (Mencher, 1988).

Additionally, women-headed households typically display a higher dependency ratio—more consumers per income earner—which places them towards the lower end of the wealth spectrum (Buvinic, 1997; Restrepo and Reichmann, 1995; IDB, 1990; Berger, 1989). This is a particularly important concern given that the number of women-headed households is increasing in developing countries (Buvinic, 1997).

As a result of their (frequently) adverse structural position, women often encounter the same credit market imperfections that rural poor have to face. As Hauge *et al.* (1999) carefully explain, most of these obstacles can be aggregated into four categories:

- a) Some of the costs involved in a loan are independent of the amount lent. These transaction costs include both the money and the time spent, for example, on the paperwork for the loan application and repayment process. Since transaction costs are fixed, regardless of the size of the loan, they affect smaller borrowers more than proportionally.
- b) Poor borrowers are limited in the type or amount of collateral they can offer. Lacking traditionally accepted guarantees, they are often compelled to pay higher interest rates for credit.
- c) Lenders need to gather information about the borrowers in order to estimate their risk of default. Since the cost of obtaining this type of information may be high and is not proportional to the size of the loan, smaller loans are less attractive to lenders.
- d) In any setting where contracts are difficult to enforce, lenders face a higher risk of default which, coupled with potentially higher costs and delays, turns lending into a less attractive activity. Consequently, lenders might increase their rates or, in more severe cases, find it not worthwhile to offer loans at all.

Although poverty, in itself, is a very serious obstacle for women attempting to get credit, there are also imperfections of the financial markets that specifically constrain women's access to credit. These obstacles stem from legal, social, cultural, and economic restrictions; they make traditional financial programs unsuitable for women *even when*

they belong to a wealth level actually served by the formal financial sector. The common credit market imperfections that affect women, in particular, can be classified into three groups:

- i) institutional constraints;
- ii) supply-side constraints; and
- iii) demand-side constraints.

2.1. Institutional Constraints

Institutional constraints are legal regulations or social norms that condition the type of economic activities women can engage in and the extent of women's access to and control over resources. Such institutional constraints affect women's access to credit by making it more difficult for women to fulfill the standard requirements for a loan, or by turning women into less profitable clients and discouraging lenders from transacting with them. The most frequently cited institutional constraints are:

IC-1) Women are particularly limited in their access to, or control over, resources that could serve as collateral. This results, at least partially, because:

- a) Property rights are biased against women. Although now most countries have rectified unequal treatment, a few countries still have agrarian and/or civil codes that limit women's access to and control over property. This is a critical problem because it limits the availability of collateral for women and, consequently, hinders their access to credit (Deere and Leon, 1997).

Until only a few years ago, married women in countries like Chile, The Dominican Republic, Bolivia, Peru, and Brazil could not buy, sell, or rent land; and the law granted a woman's husband full control over all her resources, including assets that she may have owned prior to the marriage (Alvear Valenzuela, 1987).

Inheritance laws in some societies give preference to male relatives; and, in some instances, ignorance of legal inheritance rights results in women losing their land to male relatives (Lycette and White, 1989).

The situation is even more dramatic for women who have partners but are not legally married. In most countries, they do not have legal access to any of the property their partners own, nor are they counted among the beneficiaries when their partners die. In other words, even when they are part of a household owning enough titled land, women may not be able to use it as collateral to obtain loans.

Finally, the agrarian reforms of the last couple of decades, with few exceptions such as the reforms in Cuba and Nicaragua, have allocated land to "household heads."

And, conforming to the family farm stereotype in which male heads of household are the principal breadwinners, they have excluded most women from the possibility of benefiting directly (Deere and Leon, 1997; Lycette and White, 1989; Deere, 1987; Boserup, 1970).

- b) In poor households, any property that could be offered as collateral is likely to have already been pawned. This is because men are usually perceived to be engaged in more profitable activities and are typically the main income providers.
- c) Women also face a disadvantageous position when businesses or salaries are accepted as collateral. Since women's businesses are usually in more traditional and less remunerative activities, their enterprises are typically not viewed as very valuable

collateral. Moreover, women—because of the type of activities they engage in—are less likely to have the documentation of formally registered businesses (ANUC, 1998; ANMUCIC, 1998; Lycette and White, 1989). When regular salaries are used, women as a group are at a disadvantage, once again, because they tend to work in sectors with the lowest pay levels.

IC-2) Women may be prevented by law from applying for loans by themselves. Some legal codes establish that married women can apply for loans from financial institutions only if they are represented by their husbands or have been explicitly authorized by them (Alvear Valenzuela, 1987).

In countries where married women's rights are limited and are conferred to their husbands (as a direct consequence of IC-1 and IC-2), women applying for a loan would have to involve their partners in the transaction, thereby losing control of the project and reducing their decision-making power.

IC-3) Women use different sources of information. In most societies, women do not use (or have access to) the same information channels as men. Consequently, their lack of knowledge about available funds and application procedures prevents them from taking advantage of many sources of credit (Almeyda, 1996; Weidemann, 1992; Lycette and White, 1989).²

2.2. Supply-Side Constraints

Supply-side constraints are obstacles in women's access to credit that originate from biased lending practices. Such constraints are particularly frequent in traditional financial institutions but may appear, to a lesser degree, even in some of the alternative financial institutions. Supply-side constraints may arise from financial institutions' perception of women as small and inexperienced borrowers and, as such, less attractive clients (Lycette and White, 1989). Or, they could occur simply because lack of more specific knowledge about female clients prevents lending institutions from offering products tailored to women's needs. Among the most important supply-side constraints are:

SC-1) Transaction costs can have an adverse impact on women's borrowing capacity. As previously mentioned, fixed transaction costs—money and time involved in applying for and repaying loans—have a disproportionately negative impact on the poorer borrowers. Transaction costs are higher when borrowers are far from financial institutions, when repeated visits are required, when banks' business hours are inconvenient, and when extensive paperwork is involved. The negative impact of transaction costs on women's borrowing ability is even more complex, given that women asking for loans will typically

² A study of the financial sources for women microentrepreneurs in Chile found that "...women were less aware than men of financial institutions and instruments such as loans available. Women identified fewer sources of finance and were more misinformed than men regarding collateral requirements and types of enterprises financed by commercial banks." (in Almeyda, 1996:46).

be responsible both for their income-generating activities and for their “reproductive roles.” Moser (1993) defines women’s reproductive roles as:

“... the childbearing/rearing responsibilities and domestic tasks undertaken by women, required to guarantee the maintenance and reproduction of the labor force. It includes, not only biological reproduction but also the care and maintenance of the workforce (husband and working children) and the future working force (infants and school-going children).” Moser (1993: 29)

The magnitude of this double burden varies, depending on the composition of the household and the household lifecycle (Restrepo and Reichmann, 1995). The more demanding their reproductive roles are, the more valuable their time is at home; and it follows that long travel distances, inconvenient schedules, and complicated procedures become greater obstacles in their access to credit (Baydas *et al.*, 1994; Lycette and White, 1989; Reichmann, 1984).

SC-2) Traditional financial institutions’ collateral or guarantor requirements tend to be ultimately biased against women. As previously argued, in many societies women do not have legal access to land; even when they do, social norms often do not confer them control over those assets, limiting their use as collateral (Kurwijila and Due, 1991; Reichmann, 1984). When guarantors are required, women are often not treated equally, either (Baydas, 1994). In many cases, female guarantors are not accepted and, in some instances, it can be very difficult for a woman to obtain a male guarantor (ANUC, 1998). This is made all the more difficult by specific program requirements that limit guarantors to sponsoring one loan at a time (ANUC, 1998).

SC-3) Women are sometimes required to have a male relative supporting their decisions. There are financial institutions that explicitly require that women have their loan applications co-signed by their husbands (if married) or their fathers (otherwise) (Almeyda, 1996; Berger, 1989; Reichmann, 1984). Even when there are no such policies at the institutional level, married women in smaller and tighter communities are usually denied credit. That is because bank employees—typically male—would be overstepping a friend’s dominion by giving credit to his wife, without prior consent from her husband (Ospina, 1998).

SC-4) When procedures and requirements for obtaining loans are not clear and widely known, bank employees responsible for loan approvals may frame them as special favors. The most common methods of repaying those favors, such as inviting loan officials for a drink or for dinner, giving bribes, etc., are not considered acceptable behavior for women (Ospina, 1998; Lycette and White, 1989).

2.3. Demand-Side Constraints

Demand-side constraints, in turn, include all those obstacles that may inhibit women from applying for loans, even when there are funds that are available to them. Some of the demand-side constraints are:

DC-1) Poor rural women tend to undertake projects that are more traditional and that render lower levels of return (Almeyda, 1996; Rhyne and Holt, 1994; Restrepo and Reichmann, 1995; Morris and Meyer, 1993). Their choice of project is often bounded by norms indicating what type of activities are socially acceptable for women, and by the extent to which their reproductive roles limit their mobility and time availability. Other extremely important factors preventing women from switching to more profitable sectors are often overlooked; these are: the absence of innovative role models, the lack or inadequacy of information about other activities they could potentially engage in, and the tendency of those providing technical assistance to guide women to traditionally female projects.

DC-2) Even when women have a project that could be profitable and attractive to lending institutions, they may be unable to prepare an adequate feasibility study and would thereby be unqualified to obtain loans (Lycette and White, 1989). This is likely to be a consequence of women's lower literacy levels and lack of experience with financial institutions. Women's educational level—particularly women old enough to engage in income-generating activities—varies widely across countries (Almeyda, 1996). However, even though girls' literacy rates have significantly increased in the last couple of decades, women's literacy levels tend to be lower than men's (Almeyda, 1996; Baydas *et al.*, 1994; Morris and Meyer, 1993; Lycette and White, 1989; Reichmann, 1984). On the other hand, even literate women may feel intimidated and less confident in applying for loans from traditional financial institutions when they have not had previous credit experience (Kurwijila and Due, 1991; Weidemann, 1992; Reichmann, 1984).

DC-3) Poor women, especially those in households close to the survival margin, give primary importance to satisfying the basic needs of their children and themselves. Hence, they might not apply for credit because they are more averse to risk and fear debt (Almeyda, 1996; Morris and Meyer, 1993).

As a result of these complex sets of constraints, poor rural women may not be able to obtain as much credit as they would have liked from traditional financial institutions, or, they may not receive any credit at all. One of the difficulties in assessing the magnitude and effects of these financial market imperfections is that a significant number of women, assuming that they would be rejected, may actually self-select themselves out and decide not to apply for loans. Some women may be choosing not to apply for credit, based on a correct assessment of their chances; that is, they do not have the type of project, income, collateral, guarantors, etc., requested by lenders (Baydas *et al.*, 1994). This is a case of potential clients not meeting lenders' requirements, either because they are not attractive customers or because lenders do not offer products that suit women's specific needs and characteristics. Other women may decide not to apply for loans because they believe that they would be denied credit when, in fact, they meet all the requirements needed to be approved (Baydas *et al.*, 1994). This problem arises mainly because of lack of adequate information. In some instances, women may not even know that there are funds available and how to apply for them (Baydas *et al.*, 1994).

Overall, then, it is apparent that the conjunction of women's structural position (limited access to collateral, reproductive roles, high poverty rates, etc.) coupled with financial market imperfections that affect women (poor women's economic conditions and needs that do not match what traditional financial institutions generally offer) shape women's demand for credit and the type of financial services that may, or may not, be offered to them.

SECTION III: Institutional Options and Experience for Targeting Credit to Women

The analysis in this section aims to provide a brief description of the different types of financial institutions, their attributes, and the methods they use to compensate for the information problems that characterize credit markets.³ As we are interested in women's access to credit, the review will focus on how these different types of financial institutions reach (or do not reach) resource-poor women. However, as Almeyda (1996) points out, many institutions do not disaggregate information by gender, because they claim that they do not have "discriminatory" policies. Consequently, it is difficult to obtain the type of information that would be more relevant for this study, particularly in the case of the more traditional financial institutions.

Whenever possible, this review will highlight the number of women reached by different institutions and women's share among their clients. However, it should be emphasized that it is as important (if not more) to analyze the characteristics of:

- i) women who were not able to receive as much credit as they would have liked to;
- ii) women who did not receive credit at all; and,
- iii) women who decided not to apply for loans.

Unfortunately, information of this kind can only be elicited from specifically designed surveys which, as far as I know, have not been carried out in the region.

Another very important dimension to analyze is the impact that the types of loans provided by the different institutions can have on their clients' income and well-being. Unfortunately, this is a considerably more difficult task for at least three different reasons. First, funds from different sources can be clumped together. Second, most households are involved in multiple activities. Third, it is likely that households that borrow funds will share characteristics that induce specific types of outputs (for instance, if households that apply for loans are those that are more willing to take risks, those same households may also be more likely to adopt riskier but higher-yielding new technologies). All these considerations impose great difficulty when trying to identify the real impact that a particular loan may have on the current situation of the household. One way of proceeding requires the use of sophisticated econometric techniques; which demands the use of very detailed data that is rarely available and very expensive to obtain. Not surprisingly, there is far less information on the impact of credit programs than there is on programs' outreach.

³ For a more exhaustive analysis of the different financial institutions, the segment of the market they serve, the market imperfections that most affect them, and a review of their performance in Latin America, see Hauge *et al.*, (1999).

Finally, for each type of institution, I present some case studies. Given the somewhat limited information on financial institutions that are making special efforts to reach women, I am unable to focus exclusively on the degree to which each type of financial institution reaches rural women in Latin America. This review will therefore also include urban experiences and cases from other regions of the world. While acknowledging that these cases are not fully comparable, I believe they still provide valuable information.

The financial institutions to be analyzed are classified into four groups: i) formal lenders; ii) informal lenders; iii) cooperative financial intermediaries; and iv) alternative financial institutions. This last group refers to credit programs implemented by NGOs and includes both group-based methods (such as solidarity groups and village banking) and individual-based programs.

3.1. Formal Lenders

Formal lenders are financial intermediaries whose activities are regulated and supervised by, for example, the Superintendence of Banks. They include agricultural development lenders, state or privately owned banks, state programs that offer credit to small farmers, etc. Their infrastructure, organization, and abundant resources allow them to provide wide coverage, to diversify their portfolio, and thereby to be less vulnerable to shocks caused by bad weather or by low agricultural prices. Formal lenders tend to rely on traditional methodologies for loan approvals, screening borrowers through formal credit records and paperwork, and relying on collateral assets to guarantee loans. Their high transaction costs and collateral requirements typically leave an important segment of the population unable to obtain loans (Hauge *et al.*, 1999).

Poor women find themselves particularly excluded from financial transactions with formal institutions in three important ways. First, as discussed in section II, property rights are biased against women in many societies. As a result, poor women are even less likely than poor men to be able to provide the types of collateral that formal financial agencies traditionally require. Second, the higher opportunity cost of women's time relative to men's magnifies the negative effects of the (typical) geographic dispersion of the lending offices, their inconvenient office hours, and the complicated application procedures. Finally, women's frequent lack of business experience may make dealing with formal financial institutions such an intimidating task that it dissuades them from applying for loans (Morris and Meyer, 1993; Weidemann, 1992; Buvinic and Berger, 1989).

Nevertheless, recent empirical evidence in Latin America indicates that some commercial financial institutions are expanding their services to smaller producers in general. In fact, even though small loans generally represent only a modest share of their portfolio, the total volume that commercial banks lend to microproducers is often comparable to (or larger than) what other financial institutions like NGOs offer (Almeyda, 1996). More specifically, some banks have adjusted their practices in order to be able to reach more women. Studies have found that the proportion of women among borrowers in

commercial banks is similar to the proportions served by alternative programs implemented by NGOs (Almeyda, 1996; Baydas *et al.*, 1994).⁴

Almeyda (1996) reports another important finding: potential clients (microentrepreneurs) lack information about financial institutions and, consequently, make incorrect assumptions about these institutions' requirements for loans. Banks are generally believed to charge higher interest rates, demand real estate as collateral, and offer only large loans. Yet this was found not to be the case for many of the formal institutions interested in microcredit that were reviewed in the study.⁵ Lack of information about formal financial institutions and incorrect assumptions regarding the services they offer were more prevalent among women.

The common findings that women resort to the formal financial sector less frequently than men, and that they receive smaller loans than men when they do apply, point to the need for a careful examination of the potential explanations for these results. Only empirical research can shed light on whether the gender differences result from institutional constraints, supply-side constraints, demand-side constraints, or a combination of the three. Baydas *et al.*'s (1994) study of Ecuadorian formal credit markets has found that, contrary to common beliefs, women are at least as likely as men to apply for loans and that, once they apply, they are at least as likely to receive them. They are, however, more likely than men to receive loans that are smaller than applied for. Baydas *et al.* (1994) conclude, therefore, that the problems that women face in their access to formal credit may not be the result of supply-side problems, and that effective solutions would have to extend beyond the financial sector. It should be noted, however, that this study is based on microentrepreneurs who had participated in special assistance programs. That is, the participants already were engaged in some type of productive activity and, as such, are probably not representative of those segments who self-select themselves out of the formal financial markets.

We shall now turn our attention to evidence from a number of specific formal financial institutions and the varying degrees to which they serve women. We have, on the one hand, the Bank Rakyat Indonesia (BRI) with its general credit program KUPEDES. This bank has successfully moved from being a state-owned bank that operated with government subsidies, to becoming a profitable privately-owned bank with more than 3000 financially self-sufficient branches (Boomgard and Angell, 1996; WWB and ICWC, 1995). Even though BRI works within the rural sector, its loans are not limited to agriculture-related activities. It is viewed as a very successful experience, not only because of its remarkable growth, but also because of its outreach: 15.1% of KUPEDES' borrowers were below the poverty line and 73% were landless or nearly landless. Unfortunately, results regarding female borrowers are not as favorable: while the average

⁴ It is important to note that the case studies reviewed by Almeyda (1996) refer for the most part to urban areas and, as such, these findings may not mirror the behavior of formal financial institutions in rural areas.

⁵ This does not rule out the possibility that these assumptions hold for formal financial institutions in general. The institutions included in the study in question were selected on the basis of having "some experience in providing microcredit" (Almeyda, 1996:20). It is therefore not clear how representative they are of the overall population of formal financial institutions.

loan size does not vary significantly between men and women, the latter represent only 23% of the borrowers (Boomgard and Angell, 1996; WWB and ICWC, 1995). Four reasons have been suggested to explain women's low level of participation: i) in some regions of Indonesia, women do not engage in the type of activities financed by KUPEDDES; ii) some of the (male) officers have prejudice against lending to women, even though women's repayment records have been extremely good; iii) most of the field workers are men, who may not fully understand women's needs; and iv) in those cases where collateral is required, customary religious laws regarding property ownership are biased against women (WWB and ICWC, 1995).

Two urban-based Latin American banks, Banes in Chile and Pacifico in Ecuador, on the other hand, offered a more gender-balanced picture. In keeping with their institutional commitment to reach the lower-income groups, more than 50% of their outstanding loans were smaller than US\$5000—Banes' average loan was US\$988 and Pacifico's was US\$239 in 1992 (Almeyda, 1996).⁶ Contrary to the generally held belief among microentrepreneurs surveyed by Mehech (in Almeyda, 1996), these institutions do not require collateral to give loans. In fact, co-signature is the most frequent type of guarantee, and they use their clients' repayment history to determine their creditworthiness.⁷ Their flexibility in terms of types of collateral accepted and their competitive interest rates⁸ help explain women's higher participation levels: in 1992, women received 50% of the outstanding loans in Banes, and 44% in Pacifico (Almeyda, 1996).

3.2. Informal Lenders

Informal lenders can be classified into two rather loose categories, according to their connection to the borrowers and their rationale for lending. On the one hand, there are friends, relatives, neighbors, etc. that lend based on solidarity and implicit reciprocity. These lenders do not typically require any collateral, nor do they charge interest on the loan. This is essentially an informal social insurance scheme by which lenders attain a right to reciprocity that they can demand in the future (Zeller and Sharma, 1998). On the other hand, informal lenders also include moneylenders. Moneylenders are able to reach borrowers that do not have access to formal credit by using their personal knowledge of the clients as a screening mechanism. Instead of relying on collateral, familiarity with the clients allows them to minimize fraud and other problems of contract compliance. At the same time, their monopolistic position allows them to charge considerably higher interest rates.

From the lenders' perspective, the risk of not recovering a loan is very low, because they lend only to persons within their social network, where contracts can be enforced. By dealing directly with a lender that knows them, borrowers can avoid lengthy appraisal processes, complicated paperwork, long travel time, and confusing loan terms. The

⁶ Even then, less than 5% of their portfolio is invested in microcredit loans (Almeyda, 1996).

⁷ Banes also uses the solidarity group methodology that will be discussed later (Almeyda, 1996).

⁸ Their effective real interest rates were similar to (or lower than) those charged by the NGOs and Credit Unions included in the study (Almeyda, 1996).

characteristics of informal loans (small amounts with rapid repayments—and, depending on the source, high interest rates) imply that they are more likely to be used to finance short-term activities, such as guaranteeing minimum consumption levels during bad times or providing working capital.

Given that several features of the informal sector partially mitigate problems that women face in the formal financial sector, poor women in developing countries frequently resort to informal lenders. Their geographic proximity constitutes a valuable advantage for women who generally lack time and are less mobile than men. In addition, informal lender's flexibility in terms of loan size, collateral requirements, and repayment schemes better match women's needs and economic position. In fact, Zeller and Sharma (1998) find that although women are less likely to apply for loans and are more likely to be constrained in the formal sector, that is not the case in the informal financial sector.

However, reliance on informal lenders also presents problems:

- i) interest rates are high (in the case of moneylenders);
- ii) women may have to partially relinquish control over their decision-making to the lenders (in the case of family or friends); and,
- iii) funds from these sources are uncertain and limited. Since informal lenders typically rely on their own funds and rarely take deposits, their supply of credit is limited. This implies that some of the potential borrowers who are willing to take loans at the given rates will not have access to funds, or that they will have to pay even higher interest rates (Zeller and Sharma, 1998).

3.3. Cooperative Financial Intermediaries (Credit Unions)

Credit unions constitute one of the main sources of financing for small producers in developing countries (Magill, 1996). They are membership-based institutions that are typically regulated through national cooperative legislation. Membership is restricted to a group of people that share a common characteristic or bond. Close-bond cooperatives are those in which members have links such as working for the same organization, belonging to the same church, etc.; open-bond cooperatives are those which restrict membership to people living in the same geographic area. These common ties guide the type of services that the cooperatives provide but, more importantly, they decrease credit risks (Almeyda, 1996; Magill, 1996).

Traditionally, in order to obtain a loan from a credit union, borrowers not only need to be members (shareholders), but also to save a percentage of the loan in the credit union for a specified period of time. Through this requirement, credit unions are better able to screen borrowers to reduce risks and avoid requiring collateral assets. To guarantee loans, credit unions rely on co-signers and savings (Almeyda, 1996; Magill, 1996). Credit unions tend to charge interest rates that are higher than those of most formal institutions, but lower than those of NGOs (Almeyda, 1996). Given that borrowers are required to meet some minimum savings requirement, credit unions typically cannot reach the poorest of the poor. However, in most cases, those requirements are fairly low (Magill, 1996). By disregarding collateral requirements and providing a friendlier environment in which

members share a common bond and are engaged in long-term relationships, credit unions become an attractive alternative for women (Almeyda, 1996).

I will describe three credit unions in this section: SEWA from India, Coocique from Costa Rica, and Progreso from Ecuador. SEWA is a cooperative bank created in 1974 to provide women with an alternative to moneylenders by addressing some of the problems that women faced when they tried to get funds from the existent formal financial institutions. This cooperative targets poor, self-employed women, including agricultural workers. Although it started as an urban institution, SEWA was authorized to operate in rural areas from 1993 onwards. Today, 17% of its borrowers work in agriculture (WWB and ICWC, 1997). SEWA has been able to overcome some of the most notable barriers poor women confront in dealing with financial institutions: i) it offers a very informal atmosphere, having all female employees; ii) the loan applications are short, clear, and simple, and the staff helps with filling out the forms; iii) signatures are replaced by thumb impressions and pictures; iv) in most cases, SEWA does not ask for collateral; borrowers are, instead, required to open a savings account and to buy bank shares in proportion to the amount of their loans.⁹ As of 1997, SEWA is a profitable institution with approximately 15,000 outstanding loans and an average loan size of US\$142 (WWB and ICWC, 1997). Their relatively high repayment rate, 96%, is the result of close contacts with their clients and their strong follow-up procedures (WWB and ICWC, 1997).

Coocique began operating in 1965 and today is Costa Rica's largest credit union. Branches are located in rural areas, and 11% of its total volume of loans is for agricultural projects. At the end of 1992, it had roughly 1,000 outstanding loans, with an average size of US\$1,560 per loan. Although notable, the level of women's participation in this credit union is still moderate: 37% of their members are women, and 30% of the loans are granted to women (Almeyda, 1996).

Progreso, created in 1969, is an open-bond cooperative with an urban clientele of more than 30,000 members. By December of 1992, it had close to 3,500 outstanding loans with an average size of US\$874 per loan. Although women account for only 30% of its membership, they received 48% of the loans. It should be noted, however, that 92% of loans given to women were of less value than US\$1,000 (Almeyda, 1996).

3.4. Microfinance Programs

An impressive number of non-governmental organizations (NGOs) around the world have undertaken the task of filling some of the void left in the financial markets by commercial banks and credit unions. As a result, they have developed and implemented credit methodologies that specifically target low-income people, most of which have successfully reached women. NGOs tend to offer shorter-term loans, charge higher interest rates than commercial banks, require alternative forms of collateral, and provide (sometimes optional) training.

⁹ They do accept non-traditional forms of collateral (such as jewelry), and presenting collateral speeds up the loan granting process (WWB and ICWC, 1997).

However, the emphasis over the last few years has been not only on extensive outreach, but also on creating sustainable institutions. The methodologies developed by microfinance programs take advantage of local information and peer pressure to reduce the incidence of default, and they provide repayment incentives, such as loans increasing in size, based on borrowers' credit history. Some specialized microfinance programs are group-based; others deal with clients on an individual basis.

3.4.1. Individual-Based Programs

These programs rely on a combination of techniques from traditional commercial banks and informal lenders that better suit poorer borrowers' needs. They reduce the sometimes insurmountable burden of transaction costs by locating their agencies closer to their clientele. Since most of the potential borrowers lack the types of collateral traditionally required, NGOs usually take a more flexible approach. They frequently rely on clients' credit histories, providing clients with only very small loans initially and increasing the size of the loans, based on satisfactory repayment behavior. They may depend on co-signers or personal references—or on clients' saving history, if the institution offers saving services.

ADOPEM (The Dominican Association for Women Development) is a successful example of this type of program. It has been operating in the Dominican Republic since 1982 and lends to more than 50,000 women. To obtain funds from ADOPEM, the borrower must run a business that has been in existence for at least 6 months, and at least 50% of its employees have to be women. This program, affiliated to Women's World Banking, combines individual lending and solidarity groups and reaches over 10% of the poor women entrepreneurs of the Dominican Republic (WWB and ICWC, 1997). In fact, approximately 70% of ADOPEM's borrowers are in the bottom 50% of those living below the national poverty line (Microcredit Summit, 1997). Most of its clientele are located in urban areas and employ less than 5 people. ADOPEM charges an effective interest rate of 30%, has an average loan of US\$400, and has very low default rates (Microcredit Summit, 1997; WWB and ICWC, 1997). ADOPEM is financially self-sufficient and accepts substitutes of traditional collateral such as personal guarantors or other assets.

3.4.2. Group-Based Programs

Group methodologies were developed in order to eliminate some of the problems of traditional lending, primarily the disproportionately high transaction costs of small loans and the collateral requirements that exclude large sectors of the poor population from the financial markets. From the lending institutions' viewpoint, lending to groups allows them to clump together the members' individual loans, lowering their administrative costs. These costs are passed on to the groups, which are entirely responsible for distributing, monitoring, and collecting the loans. Group approaches allow borrowers who do not have sufficient collateral to obtain loans from the formal financial system to get credit based on social collateral or joint liability.

Group approaches present additional advantages, especially for women. It is easier to spread and obtain information through a group; this is an extremely important feature for women, given that in some societies women are excluded from formal networks. In certain cultures, interaction with (typically male) agents from the lending institutions may be more acceptable if done through female groups than with individual women. Finally, by working in groups, members learn from their peers, develop skills, and improve their self-confidence. This is expected to sharpen their decision-making skills and to encourage them to undertake new economic activities.

3.4.2.1. Solidarity Groups

The solidarity group approach is probably the most widely-spread of the new microfinance methodologies designed to reach the poor. In Latin America, the solidarity group approach was pioneered by ACCION International. Solidarity groups are typically self-formed and include 3 to 8 members. Joint liability implies that if one or more members of the group defaults, the whole group is denied credit in the future. The resulting peer pressure constitutes a very effective (and relatively inexpensive) mechanism to induce prompt repayment.

One of the most famous solidarity group programs is BANCOSOL in Bolivia. BANCOSOL is probably the first private commercial bank in the world that is exclusively devoted to microentrepreneurs (Weidemann, 1992). BANCOSOL grew out of a very successful NGO, PRODEM, that started in 1987 and decided to become a bank in 1992, in order to be able to capture savings to be able to meet the overwhelming demand for credit (Glosser, 1996; Weidemann, 1992).¹⁰

BANCOSOL operates with groups of 4 to 8 microentrepreneurs that have run businesses for at least a year. Group members apply for individual loans but co-guarantee all the loans of the group. Although this program was not intending to target women specifically, 65% of its credit officers and 70% of its clients are women (WWB and ICWC, 1997; Glosser, 1996). BANCOSOL borrowers are mainly market vendors (70%) or work in the manufacturing or service sectors (30%). According to 1997 figures, BANCOSOL loans varied from US\$100 to US\$5,000 in size, with an average of US\$687; the repayment rate of 98% was very high. Loans are of very short terms (weekly, biweekly, or monthly), and the effective interest is 32% (WWB and ICWC, 1997; Microcredit Summit, 1997; Glosser, 1996).

Another NGO working with the solidarity group methodology since 1988 is PROPESA. PROPESA operates in Chile, covering the capital and its proximities, as well as Regions V, VI, and VIII. With over 6,000 borrowers, this NGO has one of the largest market shares of loans to microenterprises in Chile (Microcredit Summit, 1997). PROPESA's average loan is US\$305, and they are allocated to trade activities (57%), manufacturing (37%), and services (6%) (Almeyda, 1996). PROPESA charges interest rates that are

¹⁰ PRODEM continues to exist and is currently experimenting with lending technologies in rural areas. Rather than focusing on microenterprises, it emphasizes support to family economies, the provision of loans for agriculture, electrification, housing, etc. (Restrepo and Reichmann, 1995).

comparable to those from commercial banks and presents a high repayment rate (Almeyda, 1996). This program has a comparatively low level of female participation; in 1992, women received slightly over 40% of their loans (Almeyda, 1996).

3.4.2.2. Village Banking

Village banking, the most successful methodology to extend financial services to rural women worldwide, was first developed in the 1980s in Latin America. Many village banks serve only women and, according to a comprehensive study of 68 such programs by the United Nations Development Fund for Women (1996), women constitute 95% of the membership of village banks around the world. The village bank methodology is more than a purely financial system; it encourages local empowerment via an integrated approach that includes special training and takes full advantage of the benefits derived from working in groups.

Although the specifics vary slightly with each application, the village bank methodology provides financial services to the poor and women, based on terms that were especially designed to match their requirements and their most frequently expressed needs. They provide small loans for short terms but, at the same time, require small but regular savings. Women, who often do not have much previous credit experience, feel more comfortable taking loans that satisfy their working capital needs without exposing them to unnecessary risks. According to UNIFEM, the average loan size for village banks in Latin America is US\$91, which is significantly lower than the loan sizes of the other financial programs reviewed in this study.

The shorter term of the village bank loans is yet another feature that is favorable to most women. By matching more closely the economic cycle of some of the economic activities women typically engage in (e.g., petty trading), village bank programs facilitate women's good repayment performance. These small loans with frequent payments would typically imply extremely high transaction costs and would threaten the sustainability of most programs. The village bank methodology, however, attenuates these otherwise insurmountable costs by: i) aggregating these very small individual loans into a larger group loan; ii) giving the village bank managers the task and responsibility of administering the individual loan transactions; iii) standardizing loan products and loan processing; iv) minimizing the cost of training and technical assistance (UNIFEM, 1996).

Although extensive outreach is one of the main goals of the village banking philosophy, sustainability becomes a central goal if resources are to be channeled to the poor in an enduring fashion. Thus, the village banking methodology strongly emphasizes the importance of self-sufficiency, and the fact that some village banks have achieved operational self-sufficiency seems to show that this is a realistic goal (UNIFEM, 1996).

Table 3.1. Indicators of Scale: Village Banking Programs by Region
December, 1994

	Latin America	Asia	Africa	North Africa /Middle East	Total
Number of Programs	36	6	21	5	68
Number of Banks	2640	172	535	152	3499
Number of Members	65266	6678	16652	2158	90754
Number of Borrowers	65097	6260	14071	2158	87586
Percent Women Members	91%	100%	92%	96%	95%
Average Loan Size	US\$91	US\$89	US\$58	US\$122	US\$90
Repayment Rate	94%	94%	99%	N/A	95%
Operational Self-sufficiency ¹	6	2	2	Operational self-sufficient	N/A

Source: *Village Banking. The state of the practice* (UNIFEM, 1996)

¹ Number of programs with 90% operational self-sufficiency or more.

In the UNIFEM sample, the programs that achieved operational self-sufficiency were older, and those that exhibited lower levels of self-sufficiency were newer; that is, they found a positive correlation between age of program and self-sufficiency (UNIFEM, 1996). Additional characteristics of village banks' clientele that have a major impact on their level of operational self-sufficiency are: 1) the degree of literacy and education of the members—the higher these are, the more capable the members will be to manage their own projects and the village bank; 2) the geographical location of their members—serving rural areas entails higher costs because more time and transportation are needed to cater to a more scattered population; 3) the economic activities their members are engaged in—business activities in rural areas tend to be less diversified and therefore represent riskier portfolios (UNIFEM, 1996).

With respect to financial self-sufficiency, the UNIFEM study reports that “while village bank programs may often face costs which exceed their income, village banks themselves are usually financially self-sufficient, whether they are in new or old programs” (UNIFEM, 1996:53). Village banks are able to achieve financial self-sufficiency because they generally charge interest rates that cover their full costs (namely, costs of operation,

costs of funds, and inflation). These interest rates are typically higher than those charged by commercial banks. Practitioners estimate that an average village bank that operates according to these guidelines can be self-sufficient within a period of three to five years.

The ultimate goal of the village bank philosophy is to boost the self-confidence and develop the skills of the program beneficiaries so that they (mainly women) can overcome some of the constraints they frequently face. Beneficiaries not only would gain financial experience that can help them deal with the more traditional formal institutions, but they could also engage in new economic activities. In the short term, they would develop a community-owned financial institution that allows them to undertake projects and build experience. With those goals in mind, program beneficiaries are required to work in (mostly single sex) groups that meet regularly.

The characteristics of village banks—their credit terms (small loans with frequent payments), their higher interest rates, and their strong emphasis on group solidarity and social support—provide a self-selecting mechanism which guarantees that they will work only with the poorest segments of the population. These are precisely the people who cannot obtain credit under more favorable conditions on their own.

Two of the village bank programs that are successfully operating in Latin America are: CAM (Center for Microenterprise Support) in El Salvador, and CARE Women's Village Banking Program in Guatemala. The CAM program, which started in 1990, is affiliated to FINCA International—the NGO that pioneered the philosophy of village banking. CAM serves two types of clients: i) microentrepreneurs that wish to start their own business or that have very small enterprises and ii) a lesser number of larger entrepreneurs that are still small enough not to have access to commercial bank loans (WWB and ICWC, 1995). By 1997, the CAM clientele consisted of over 14,000 microentrepreneurs, and CAM expects to be able to reach 20,000 microentrepreneurs in the near future. More than 80% of their current clients are women, and 85% of them reside in rural areas (Microcredit Summit, 1997; WWB and ICWC, 1997). CAM does not offer loans for manufacturing or agriculture; its goal is specifically to improve the economic and social conditions of low income families involved in small businesses.

CAM lends to more than 700 village banks, each one formed by 20 to 50 household heads (typically women) with joint liability. The village banks are responsible for lending to their members (WWB and ICWC, 1997). Loans are offered for periods of between four to twelve months and average US\$350. Approximately 80% of their first-time borrowers are below the national poverty line, and the average first loan is of only US\$70 (Microcredit Summit, 1997). CAM exhibits a very high repayment rate of 98%, according to the WWB and ICWC report (1997). In order to participate in the program, potential clients have to plan to establish a business, offer some type of collateral, and participate in the training sessions that are provided at no cost.

CARE Women's Village Banking Program diverges from the original village bank model developed by FINCA. CARE strongly emphasizes its commitment to improving outreach. As a result, the number of borrowers in the program has increased considerably

since its foundation in 1991 (World Bank-SBP, 1997). Their focus on providing services to isolated rural areas, in a country with insufficient and badly maintained roads, helps provide rural women with access to financial resources that would otherwise be too costly because of the transaction costs; but this entails higher operational costs (World Bank-SBP, 1997). In addition, due to the lack of social services, literacy rates in these areas are low and, as a result, training is a substantial component of the CARE program. CARE has adjusted the village banking program in order to provide smaller but longer term loans. However, World Bank-SBP (1997) found that, in regions that were primarily engaged in agricultural activities, most women would have liked to obtain larger loans and for a longer period of time that would match the agricultural cycle.

CARE Women's Village Banking Program performance has improved steadily and its loan repayments are very high. Still, it is not a sustainable program, nor will it be in the near future, unless important changes are made (World Bank-SBP, 1997). At present, the program benefits from services provided by CARE—the organization that created it—such as an excellent management information system, centralized accounting services, and office space. These very desirable services represent, however, higher overhead costs and tighter donor dependency which, coupled with a poorer and less educated clientele and high transaction costs derived from offering small loans, become serious obstacles on the road to sustainability (World Bank-SBP, 1997).

3.5. Linking Constraints with Lending Institutions

To conclude this general overview, Table 3.2 explicitly links some of the main obstacles constraining rural women's access to credit (from Section II) with the different types of lending institutions (from Section III).

Table 3.2. Links between Constraints and Lending Institutions

Constraints	Formal Lenders	Informal Lenders	Credit Unions	Microfinance Programs
<p>IC-1</p> <p>Women are particularly limited in their access to, or control over, resources that could serve as collateral.</p>	<p>Although this obstacle originates from legal regulations or social norms, the magnitude of its negative impact depends upon the type of collateral required by each type of lender (see constraint SC-2 below).</p>			
<p>IC-2</p> <p>Women may be prevented by law from applying for loans by themselves.</p>	<p>If this were the case, women would be able to access funds from formal lenders only through men.</p>	<p>If this were the case, informal lenders—who are not regulated by law—may be the only alternative for women who want to take loans by themselves.</p>	<p>If this were the case, women would be able to access funds from these institutions only through men.</p>	
<p>IC-3</p> <p>Women use different sources of information.</p>	<p>For the most part, formal lenders do not actively reach for new, small clients. In some cases, lack of accurate information leads women to believe their conditions (interest rates, collateral requirements, etc.) are stricter than they actually are.</p>	<p>Women have access to information on at least some informal lenders.</p>	<p>This constraint is less likely to be a problem in dealing with credit unions and microfinance programs.</p>	
<p>SC-1</p> <p>Transaction costs can have an adverse impact on women's borrowing capacity.</p>	<p>Transaction costs tend to be high given that formal lenders typically are geographically farther, have inconvenient office hours, and require complicated paperwork.</p>	<p>Transaction costs tend to be very low. Informal lenders do not require complicated paperwork and geographically close.</p>	<p>Credit unions and microfinance programs tend to be closer to their clientele and have a more flexible approach. However, credit unions and group-based programs typically require more involvement (e.g. participation in meetings, training, etc.)</p>	
<p>SC-2</p> <p>Traditional financial institutions' collateral or guarantor requirements tend to be ultimately biased against women.</p>	<p>Formal lenders tend to rely on traditional forms of collateral that women are less likely to be able to provide.</p>	<p>Informal lenders use personal knowledge to screen clients and social pressure to enforce repayment. As a result, typically, they do not require collateral; and, when they do,</p>	<p>Collateral requirements are weakened but, in order to receive loans, individuals first need to become members of the credit union and, in most cases, also need to have</p>	<p>Microfinance programs tend to substitute traditional collateral for repayment incentives and peer-monitoring. In group-based programs,</p>

		they accept less traditional objects.	savings in the institution.	credit is provided based on social collateral and joint liability.
<p>SC-3</p> <p>Women are sometimes required to have a male relative supporting their decisions.</p>	Although this is rarely an explicit requirement, this obstacle can be frequently observed in formal institutions.	This is not a problem for consumption loans from informal lenders. However, it may appear more strongly in the case of productive loans.	This is not necessarily an issue with credit unions. However, an additional obstacle for women with partners arises when credit unions allow only one member per family.	This is less likely to be a problem in microfinance programs and especially in group-based programs.
<p>SC-4</p> <p>When procedures and requirements for obtaining loans are not clear and widely known, bank employees responsible for loan approvals may frame them as special favors that women cannot repay.</p>	Even though procedures themselves may be better defined in formal institutions, those procedures may not be widely known because of their more formal interaction with the clients.	The dynamics under which lending occurs reinforce lenders' (family members' or moneylenders') power over borrowers.	This is less likely to be a problem in dealing with credit unions or microfinance programs because of their friendlier approach to clients. Nonetheless, interacting with (typically male) agents from the lending institutions may be more acceptable if done through female groups than by women individually. If that were the case, group-based programs present an advantage for women.	
<p>DC-1</p> <p>Poor rural women tend to undertake projects that are more traditional and that render lower levels of return.</p>	Formal lenders are likely to be the ones offering the cheapest credit. However, their interest rates may still turn most traditional projects unprofitable.	This is a significant problem with moneylenders who, as a result of their monopolistic position, charge much higher interest rates.	Unless subsidized, credit from credit unions or microfinance programs is more expensive than that from formal institutions. On the other hand, these programs may encourage women to undertake new and, presumably, more profitable economic activities.	
<p>DC-2</p> <p>Women may be unable to prepare an adequate feasibility study.</p>	This may be a serious obstacle and can intimidate women in their dealing with formal lenders.	Feasibility studies are not required by informal lenders.	These institutions tend to provide help/assistance with preparing feasibility studies.	
<p>DC-3</p> <p>Women may be more averse to risk and fear debt.</p>	Given their, typically, less friendly environment, formal lenders tend to heighten potential clients' fear.	Fear of default is likely to be a significant problem for women dealing with moneylenders. As a result, women might take loans from informal lenders only when badly needed.	Since these programs often include technical assistance, women may view the project as less risky than otherwise. Moreover, group support may lessen this constraint because, by working in groups, members learn from their peers, develop skills, and improve self-confidence.	

Having reviewed the manner in which different types of financial institutions operate and, in particular, how they relate to the most common obstacles constraining rural women's access to capital around the world, I will now concentrate on the Colombian case.

SECTION IV: Rural Women in Colombia

Rural women constitute approximately 15% of the total Colombian population (Caro, *et al.*, 1997). Available measures of rural women's contribution to the economy, however, are very inadequate. For instance, by the current definition of the Economically Active Population (EAP), only 35% of the adult women are considered economically active compared to 77% of the men (Caro, *et al.*, 1997). In fact, Gaitan and Rugeles (1996) estimate that, partly because of this, 1.2 million women have not been included in policies or programs aimed to provide relief to the agricultural sector.

In 1993, 17.1% of rural households were headed by women (Deere and Leon, 1997). It is important to note, however, that the relatively high percentage of female-headed households in rural Colombia does not necessarily signal an empowerment of women. Data from a 150-household survey, implemented by IICA in 1993, reveal that 18.5% of the participant households were headed by women, but a significant number of those households did not have a male member present. Only 10% of the women interviewed were household heads and had a partner (Gaitan, 1996).

Table 4.1. Distribution of Rural Households by Per Capita Income-Decile.

Per Capita Income Decile	1988		1995	
	Male Head (in %)	Female Head (in %)	Male Head (in %)	Female Head (in %)
1	83.7	16.3	77.5	22.6
2	81.7	18.3	77.7	22.3
3	83.7	16.3	84.1	15.9
4	85.8	14.2	85.6	14.4
5	82.0	18.0	83.1	16.9
6	85.1	14.9	82.2	17.8
7	81.8	18.2	77.8	22.2
8	79.2	20.8	77.6	22.4
9	76.9	23.1	76.8	23.2
10	83.4	16.6	80.9	19.1
Total	82.3	17.7	80.3	19.7

Source: Caro, *et al.* (1997), based on the Encuesta Nacional de Hogares Rurales, 1995 and 1988

The feminization of poverty, a frequent concern in many countries, does not seem to be occurring in Colombia. According to a World Bank poverty study, other things being equal, a Colombian female-headed household is not more likely to be poor than a male-headed one (Caro, *et al.*, 1997). Except for the country's Pacific area, proportionately less female-headed rural households are poor than male-headed households. Nonetheless, as

Table 4.1. shows, female-headed households' participation in the lowest two deciles has increased from 16.3% and 18.3% in 1988 to 22.6% and 22.3%, respectively, in 1995 (Caro, *et al.*, 1997).

Another indication of women's position in rural Colombia can be derived from the gender distribution of land ownership among small producers. In the absence of more general results, I will refer only to data from the IICA study. In their sample, land ownership was attributed to women in 24% of the cases, to men in 42% of the cases, and was jointly held in 34% of the cases. This indicates that men have formal ownership of their land more frequently than women do. However, if we include the cases of joint ownership, women are formal owners in 58% of the households. This percentage is significantly higher than women's observed level of participation in income-generating activities and their access to credit. Thus, Gaitan (1996) concludes that although land titles warrant formal ownership, they may not carry with them *de-facto* rights.

4.1. Socio-economic Status of Women in Colombia

In order to better understand rural women's financial needs in Colombia, it is imperative to take a closer look at the types of activities they engage in and at the types of decisions they make or do not make. Most peasant women have three types of responsibilities: productive, reproductive, and communal.

Analysis of the data from the IICA 1993 survey reveals that, on average, rural women dedicate 6 hours to productive activities, over 7 hours to reproductive activities, and 0.1 hours to communal activities per day (Gaitan, 1996). In other words, women tend to spend 45% of their working time on productive activities. Table 4.2. provides a more detailed description of women's daily activities.

An interesting fact is that women's productive activities are, contrary to men's, quite diverse. According to the 1995 National Survey of Rural Households (ENHR), 78.7% of men reported agriculture as their primary activity, followed by wage labor. By contrast, only 12.5% of women declared agriculture as their main activity. Women reported industry, commerce, and services as their primary occupation in 42%, 53%, and 65% of the cases, respectively (Caro, *et al.*, 1997; Gaitan, 1996). However, as Caro, *et al.* (1997) points out, it is important to note that these figures refer to respondents' primary activities. They may, therefore, ignore women's participation in activities that can fall within what they perceive to be their domestic chores (e.g., raising small animals).

Table 4.2. Women's Daily Activities

Activity	Hours per day	% of working time
Productive Activities	6.17	45.0
Agriculture	2.47	
Animals	1.60	
Transf. of agric/animal products	0.78	
Wage labor	0.46	
Crafts	0.40	
Trade	0.32	
Other activities	0.14	
Study	0.04	0.3
Communal Activities	0.10	7.3
Reproductive Activities	7.39	53.9
Total	13.70	100

Source: Gaitan and Rugeles, 1996, based on the 1993 IICA Survey.

Furthermore, Table 4.3. uses data from the IICA survey to provide an indication of men's and women's relative contributions to each type of activity. According to this information, men do not participate in the processing of agricultural or animal products, nor do they make crafts. Women are also responsible for most of the animal husbandry. And, as it has been reported in all the relevant literature on the topic, women carry most of the burden in domestic work.

Table 4.3. Men and Women's Relative Participation in Daily Activities.

Activity	Men	Women
Agriculture	57.8%	42.2%
Animals	32.2%	67.8%
Transf. of ag/animal prod.	0%	100.0%
Wage labor	65.1%	34.9%
Crafts	0%	100.0%
Trade	49.0%	51.0%
Domestic work	4.4%	95.6%

Source: Gaitan and Rugeles, 1996, based on the 1993 IICA Survey.

A broadly accepted finding in the literature on rural Colombia asserts that rural women's participation in productive activities is stable and permanent. While it is affected by male migration, civil or military conflicts, and other temporary problems, it is not merely a response to them (Caro, *et al.*, 1997; Gaitan, 1996; Campillo, 1996).

As far as communal activities go, women tend to participate more in health committees and men to be involved with communal boards and production-related organizations

(Table 4.4). The study found, however, that more women are joining production organizations (Gaitan, 1996).

Table 4.4. Men and Women's Relative Participation in Communal Activities.

Activity	Men	Women	Others
Health Committees	19.5%	51.9%	28.6%
Communal Boards	52.9%	20.6%	26.5%
Production Organizations	50.0%	33.3%	16.6%
Others	0%	80.0%	20.0%
Total	35.7%	38.9%	20.0%

Source: Gaitan and Rugeles, 1996, based on the 1993 IICA Survey.

In addition to the information on women's participation in different types of activities, the IICA 1993 survey also provides important information on women's role in decision-making. Interestingly, the data indicates that the proportion of women that stated making production decisions (19.1%) is roughly the same as that which reported being the household head (18.5%). Men were reported as making the household's production decisions in 44.3% of the cases; 36.6% of the households reported joint decision-making. A more accurate picture emerges, however, when instead of thinking of the household's principal decision-maker, we examine who typically makes each type of decision within the household. Women report making decisions regarding the products to be consumed by the household, raising small animals, household management, food manufacturing (such as jams, cheese, etc.), and craft-making. Men, on the other hand, are typically responsible for deciding what and how much is going to be produced and sold, and how production resources are allocated. In other words, men are more likely to make production decisions, while women are more likely to make reproduction decisions (Gaitan, 1996).

4.2. Legal and Institutional Changes in the Position of Rural Women in Colombia

The poor performance of Colombia's agricultural sector in the 1980s, and the resulting insufficient supply of basic food, fostered the introduction of drastic policy changes. Colombia became one of the first Latin American countries to implement a policy specifically designed to help peasant women. The goals of this policy were to promote women's access to resources and to education, and to encourage the formation of women's organizations. Unfortunately, these efforts had very limited reach, and the policy was mostly abandoned when the government changed (Caro, *et al.*, 1997; Gaitan, 1996; Campillo, 1993).

Nonetheless, one of the positive outcomes of this period—in which severe agricultural problems were coupled with conflicts with drug traffickers and paramilitary groups—was the creation and strengthening of peasant movements. Of particular importance is the creation, in 1985, of the National Association of Peasant and Indigenous Women (ANMUCIC). The group's initial objective was to promote the development of projects oriented to increasing the income levels of rural women. Shortly after its formation, however, ANMUCIC realized that, to make a difference, it also needed to be active on

other fronts. As a result, ANMUCIC became actively involved in eradicating legal discrimination against women by ensuring that women's rights were explicitly recognized and that women were able to participate in decisions. At the same time, ANMUCIC undertook a project at the national level to guarantee that rural women would become aware of their rights, and also that women themselves demanded the enforcement of those rights (Leon and Deere, 1997).

Social and economic peasant organizations, such as ANMUCIC, are very strong in Colombia today. Unfortunately, as powerful as they are, they still have a long way to go before they reach most of their target population. In fact, the IICA survey found that only 40% of the households in their sample were involved in some type of communal organization.

In the early 1990s, thanks to the political support of high-ranking government authorities and of international organizations, important changes favoring women were introduced in the legislation. These changes have improved the rights of women in general, of female-headed households, and of women in consensual unions (and their children). Some of the most important provisions for women introduced at the time are (Deere and Leon, 1997):

- Law 54 of 1990, a Civil Code amendment, guarantees equal rights regarding joint patrimony and inheritance to both partners regardless of whether they are legally married or members of a consensual union. For instance, upon the death of a man, his wife or partner is entitled to half of their joint patrimony; the rest is inherited in equal parts by all the (legal and natural) children.
- The National Constitution of 1991 states that “Women and men have equal rights and opportunities. Women cannot be subjected to any type of discrimination” and that “The State will provide special assistance to women who are household heads.”
- Law 82 of 1993 acknowledges the existence of female household heads and establishes explicit measures to guarantee their well-being.

Furthermore, in 1993, the government implemented EPAM, a policy promoting women's participation and equity towards women by requiring a gender perspective in all the government policies, programs, and projects. Specifically, EPAM formally recognized that at all institutional levels women and men had different access to resources and that institutional supply should therefore be adjusted accordingly in order to guarantee equal access (Caro, *et al.*, 1997). A year later, in 1994, the Policy for the Development of Rural Women was implemented. This policy aimed to improve rural women's welfare by recognizing their major role in the development process, their triple responsibilities (being in charge of productive, reproductive, and communal tasks), and the inequalities they face (Gaitan, 1996).

Finally, and perhaps most importantly, Colombia has—as have most other Latin American countries since the 1960s—undergone a land reform program which has increased women's access to land, the most typical form of collateral. Interestingly, in Colombia, the agrarian reform laws have, over the last decade, granted women a markedly more favorable treatment than the one they (implicitly) receive in most other

countries of the region.¹¹ It is important to mention that Agrarian Law 30, approved only 10 years ago, explicitly granted women four basic rights (Deere and Leon, 1997):

- single women who were heads of household could be the direct recipients of agricultural plots for their families and would have preferential treatment in the distribution of unutilized national lands;
- women were to receive land titles jointly with their partners, regardless of whether they were legally married or permanent companions;
- women were granted the right to be included among their husband's heirs; and,
- women's organizations were to have equal participation in regional and national committees of the Colombian Agrarian Reform Institute (INCORA).

Unfortunately, the introduction of these rights was not enough to improve women's position noticeably. Although the total number of plots awarded under Agrarian Law 30 increased, the proportion of women among the beneficiaries did not change, remaining at 11% at the national level (Deere and Leon, 1997; Gaitan, 1996).¹² It is impossible to make any serious evaluation of how this law affected women with partners, given that the available data does not explicitly consider joint titling; those plots are probably counted as being given to the men (Deere and Leon, 1997; Gaitan, 1996).

That a law granting such basic and important rights to women failed to make the agrarian reform more favorable to them, provides meaningful evidence of the considerable gaps between legally-granted rights and those observed in practice. There seems to be a general agreement that the main obstacles with Law 30 were problems related to its implementation (Deere and Leon, 1997). Most of the difficulties arose out of INCORA's bureaucracy, civil servants' ignorance of Law 30's provisions, and general male opposition to grant these rights (Deere and Leon, 1997).

In 1994, a new Agrarian Law (Law 160) was sanctioned. The main provisions affecting women's status as land reform beneficiaries were (Deere and Leon, 1997):

- the selection criteria for beneficiaries was modified so that certain categories of women received the maximum number of points, giving them priority in the land redistribution. Women included in this group were female household heads and women who were socially or economically "unprotected" (for instance, women that were widowed or abandoned because of the intense political conflicts).
- the notion that land assigned to households should be titled jointly was reinstated, thereby reinforcing land rights of women with partners.
- ANMUCIC was allowed to participate in the board of directors of INCORA and in the regional and local committees that select land beneficiaries and are responsible for implementing the agrarian reform.

However, there are still aspects of this law that can pose problems for women. For instance, only credit-worthy persons are eligible as beneficiaries. This implies that

¹¹ For an in-depth analysis of the Agrarian Reforms in Latin America, see Deere and Leon (1997).

¹² In some regions, like in the Risaralda Valley, the number of plots allocated to women did increase but the average size of plot received by women was significantly smaller than in the past. (Deere and Leon, 1997).

women heads of household, who would otherwise be given priority, could not apply for a plot of land if their former partners had defaulted on a loan (Deere and Leon, 1997).

4.3. Problems that Indirectly Affect Rural Women's Access to Capital in Colombia

This section identifies a number of important factors which negatively affect rural women's credit access in Colombia. A particularly worrisome problem is the fact that so many rural women lack documentation. People who are extremely poor may not be able to afford trips to the state offices or to do the paperwork necessary to obtain proper documentation. Since men are more likely to be heads of household, to be involved in production-related decisions, and to benefit from state programs, women and children in households with limited resources are often not registered. As a result, in a significant number of cases, women's interactions with institutions have to take place through other intermediaries (like their partners); or, even worse, they may simply not participate in social programs and thus not have access to the resources these programs provide. In a direct attempt to mitigate this problem, the Rural Women's Office of the Department of Agriculture and Rural Development has started a campaign to provide documents to rural women (OMR-MADR, 1996).

As far as formal education level is considered, the situation of women seems to be relatively similar to that of men. There are no important differences in illiteracy rates across genders. Comparisons of census data between 1988 and 1995 show that the proportion of women that passed to the next grade is slightly higher, and the proportion that abandoned school is lower, than the corresponding rates for men. Although this is a very favorable result for women, it is important to keep in mind the bigger picture: we are still talking about very low education levels. Men receive an average of 4.43 years of education, and women 4.61 (Caro, *et al.*, 1997; Gaitan, 1996; CONPES, 1994; ENHR, 1995 & 1988). Moreover, only 5.3% of the women surveyed in the IICA sample had reached the high school level (Gaitan, 1996).

A significant difference between men and women is apparent, however, when we look at the recipients of technical assistance. Men tend to receive far more technical assistance than women. Within the households included in the IICA survey, 64.7% of the men had received technical training versus only 16.8% of the women (Gaitan, 1996). The slightly higher levels of formal education and the significantly lower levels of technical training may explain, at least partially, why so many more women work in commerce, services, and manufacturing, while most men work in agriculture (Gaitan, 1996).

One of the main factors affecting women's access to credit is their asset level. Within the land reform context, women's position improved noticeably after Law 160 was implemented. The proportion of women who benefited directly increased from 11% to 19.1% in 1995 and to 16% in 1996. More importantly, the increase in joint titling is extraordinary, going from 17.8% in 1995 to 57.2% in 1996 (Leon and Deere, 1997; INCORA).

Table 4.5. Beneficiaries from Law 160¹³

Year	Total	Women	Men	Couples
1995	4,172 (100%)	796 (19.1%)	2,632 (63.1%)	744 (17.8%)
1996	3,863 (100%)	600 (15.4%)	1,061 (27.4%)	2,212 (57.2%)

Source: Leon and Deere (1997).

As encouraging as these results are, there are important caveats that need to be mentioned. Plots granted to women or couples were substantially smaller than those granted to men. For instance, the average plot sizes were smaller than 10 Has. for women, smaller than 14.5 Has. for couples, and larger than 17.5 Has. for men. Further, Pulido (1997) concludes from a survey of 881 peasant women leaders that 56% did not know how to apply for land through the agrarian reform program. This is an extremely high figure, if we consider that these women are leaders and that they could potentially be the ones disseminating information about these procedures to the rest.

Table 4.6. Average Plot Size for Land Distributed in 1996 (in Has.)

Year	Women	Men	Couples
Through Land Market	9.7	17.8	13.2
State distribution	7.5	17.5	14.7

Source: Leon and Deere (1997).

Of even greater concern is the finding that the general results of this new agrarian law have been quite dismal. With slightly more than 4,000 beneficiaries per year, land distribution barely exceeds the yearly figures of ten years ago (Deere and Leon, 1997).

In summary, a brief review of rural women's position in Colombia reveals that:

- the law does not discriminate against them; in fact, in some cases, the law explicitly favors women;
- ANMUCIC is a strong organization that plays a very important role in strengthening women's rights and the enforcement of these rights; and
- women's participation in production activities is significant and stable.

However:

- a critical number of women are excluded from any program, given that they lack "citizenship;"
- women and men appear to have relatively similar—though still low—levels of formal education, but men receive far more technical assistance; and
- over the last decade, significant changes have been introduced in the agrarian reform laws in an attempt to incorporate women into the process, with the impact of these changes being modest and the results mixed.

¹³ These figures refer both to land distributed directly by the state and through the land market.

The general overview having been completed, we can now turn to look specifically at women's situation in the Colombian financial market.

SECTION V: Women and the Financial Market in Colombia

There is general consensus that in Colombia, as in all developing countries, access to financial resources is limited for the rural poor (see Hauge, *et al.*, 1999, for a current and concise description of the financial market in rural Colombia). As I have argued, women tend to face additional obstacles in their access to credit; they are more likely to be credit-constrained than men with similar resource endowments. In this section, I provide a more concrete depiction of women's position in Colombia's financial market. Although this study is about women in rural areas, the scarcity of lending experiences in rural areas and the lack of sufficient information prevent me from focusing exclusively on rural areas and force me to also include some urban experiences.

The review presents two complementary positions: perceptions of borrowers (or potential borrowers), and characteristics of the institutions offering loans. First, I will describe women's perception of their position in the financial market as (potential) loan recipients. Then, I will examine, from a gender perspective, the performance of some of the financial institutions most relevant for small producers in Colombia.

5.1. Colombian Women's Perception of Their Position in the Financial Market

In this section I will review what women believe are the underlying factors affecting their access to credit. Using the framework presented in Section II, the analysis will categorize those factors into institutional constraints, supply-side constraints, and demand-side constraints.¹⁴

Institutional Constraints: Colombian laws do not discriminate against women. In fact, in some instances, as the agrarian reform law, they explicitly favor women. However, women's legal property rights are, in practice, frequently ignored (Ospina, 1998). As a result, women often do not have property titles in their names and find themselves limited when those titles are required as collateral.

Supply-Side Constraints: Women's complaints revolve around four points (Ospina, 1998; Bonilla Castro, 1994):

- i) Extremely high opportunity cost of the time involved in applying for loans. Women feel that this is particularly problematic for them given that their household responsibilities typically demand their constant presence at home;
- ii) Excruciating delays in approval and disbursement of loans;

¹⁴ Two surveys provide a considerable amount of the information used for this review. The first one had national coverage and collected data from 881 female leaders of different social and peasant organizations. Results from this survey were analyzed by Pulido (1997) in a report for Oficina Mujer Rural—Ministerio de Agricultura y Desarrollo Rural. The second survey was based on a sample of 55 urban-based women microentrepreneurs who had and had not taken loans from a group of financial institutions. These data were analyzed by Bonilla Castro (1994) for an IDB project.

- iii) Unrealistic collateral requirements. Being poor, their families do not own the physical assets typically accepted as collateral. Being women, they have limited access to and control over household resources. The first of these two disadvantages—being poor—is a significant limitation in Colombia, as physical collateral is still the prevalent form of guarantee. This is so, even though the legal framework allows for alternative forms of collateral and a special guarantee fund (FAG) was created to help peasants overcome collateral requirements.¹⁵ The second handicap—being women—limits the collateral they can provide, even when they belong to families with assets that could be accepted by financial institutions. Besides, women seem to have very limited knowledge of the FAG's purpose and the way it operates, so they rarely take advantage of it (Ospina, 1998; Pulido, 1997; Prada y Velandia, 1996).
- iv) Their partners' influence on their access to credit. In some cases, their partners' credit histories are more important than the guarantees women could present (OMR-MADR, 1996). Moreover, in the more scarcely-populated and tightly-knit rural areas, women's expected subordination to their partners creates an additional barrier when they apply for loans. Through informal conversations, women reported times in which they were required to provide, in addition to the standard documentation, an authorization from their partners because some (male) employees did not want to overstep their friends' domain (Ospina, 1998).

Demand-Side Constraints: Women reported being afraid of applying for loans. The application procedure seems too complicated to them and they fear not being able to repay their loans (Bonilla Castro, 1994). Women also presented some reticence to prepare feasibility studies. Their lack of experience in preparing feasibility studies turns an otherwise standard procedure into an extremely complicated task. Moreover, without adequate knowledge of the financial system, they do not fully comprehend the need for such documents (Ospina, 1998).

Bonilla Castro (1994) found that women microentrepreneur resort to NGOs, credit unions, and input suppliers more often than they do to commercial banks. Within the group of microentrepreneurs that did not receive loans from formal financial institutions, women received funds from the informal sector twice as frequently as men (Bonilla Castro, 1994). They had resorted to the informal sector because moneylenders do not require complicated and lengthy paperwork, because they lack traditionally accepted collateral, and because loans are promptly disbursed.

Pulido (1997) reports similar findings. A very worrisome result from that survey was that 66% of the women that were interviewed had never applied for loans. This is a high figure if we consider that all the women in the sample were leaders of social or peasant organizations. Given the personal characteristics associated with being a leader and the presumption that those leaders have been more exposed to formal institutions, technical assistance, and training, one would expect that these women's demand for capital would

¹⁵ Unfortunately, some officials of a large state bank (Caja Agraria) do not promote dealing with FAG because applying for guarantees from FAG is a cumbersome process and they believe using the guarantee fund encourages default (Pulido, 1997).

be significantly higher than that of non-leaders. The study does not indicate the reasons why these women never applied for loans: were they not interested in receiving loans, or did they believe they would not qualify? If the latter were the case, were their perceptions correct? If they simply did not have a demand for capital there would be no need to make any adjustments. However, if this were not the case, it would be important to analyze what factors constrained them the most: insufficient collateral, inaccurate information, etc.

The 881 female leaders in the study have presented a total of 327 loan applications, mainly to Caja Agraria and to members of the informal sector (Table 5.1). Since Caja Agraria offers the lowest interest rates, it is worth noting that only 35.2% of the applications were to Caja Agraria and that 31% of the applications to Caja Agraria have been denied. On the other hand, 26.3% of the loan applications were for the informal sector and only 4.6% of those were rejected (Pulido, 1997).

Table 5.1. Loan Applications by Financial Institution.

Financial Institution	Number of Applicat.	% of Applicat.	% of the Applicat. that have been denied
Caja Agraria	116	35.2	31.0
Other Banks	41	12.5	7.3
Informal Sector	86	26.3	4.6
Cooperatives	58	17.7	15.5
NGOs	8	2.4	25.0
Others	18	5.5	38.8
Total	327	100.0	18.6

Source: Pulido (1997).

When asked why their loan applications had been rejected, women reported the following reasons: lack of collateral (41%), lack of profitable projects (6%), other family members having outstanding loans (6%), other family members having defaulted a loan or being late with their payments (6%), small scale of their project (6%), lack of guarantor (6%), and no reasons given by lenders (16.4%) (Pulido, 1997).

In order to guarantee their loans these women were required to present cosigners in 39.6% of the cases, physical collateral in 23.3%, or were required to be clients before they could have access to loans in 14.6% of the cases. Finally, only 3.1% had used the guarantee fund (FAG) (Pulido, 1997). The two most frequent requirements—cosigners and physical collateral—presented a critical barrier for these women's access to capital. When asked what the most important obstacle in their access to credit was, 47% of the women interviewed reported finding cosigners and 31% being able to provide collateral. A smaller group mentioned the paperwork (10%) and the feasibility studies (6%) (Pulido, 1997). Finding guarantors is even more difficult for women if they are (informally)

required to obtain a male guarantor, particularly when guarantors are limited to sponsor only one loan at a time (ANUC, 1998).

5.2. Different Types of Financial Institutions and How Women Fit into Them

Expanding financial services in order to reach small producers has been a long-time goal in Colombia. However, as in most countries, the approaches followed have varied over time. In the 70s and early 80s, the main objective was to reduce poverty. Capital was provided on a benevolent basis: interest rates were subsidized and defaults were often forgiven. Under this *modus operandi*, programs were not self-sufficient and eventually ran out of funds. By the late 80s, the strategy shifted towards increasing the productivity of small producers; training and technical assistance were emphasized. This approach, known in Colombia as the Carvajal methodology was promoted at national level by the National Plan for the Microenterprise in 1988. Unfortunately, it stumbled with problems because it failed to incorporate enough funding institutions and default rates were still high.

Reforms introduced in the Colombian financial system in the early 90s promoted hard competition. Financial institutions had to search for unexplored segments of the market. As a result, there has been a concerted move towards lending to smaller enterprises. Today, however, instead of the more paternalistic approach of the past that emphasized outreach, financial institutions place high priority on their sustainability. Thus, the higher costs of providing funds to the rural areas—with less-known and geographically-dispersed markets—have effectively limited the enlargement of financial markets to urban and suburban sectors. So much so that in rural areas, the financial institution with the most territorial coverage is still a State bank: Caja Agraria. Although Caja Agraria currently has an important share of its portfolio in urban areas, it has branches scattered through very isolated places in Colombia. The extent of its coverage can be better appreciated if we note that there are 400 municipalities where Caja Agraria is the only institution providing financial services.

In the remainder of this section, I will analyze the extent to which some of the most relevant financial institutions offer their services to women. I have classified these institutions according to the lending methodology they apply (as in Section III) and will examine their portfolios from a gender perspective. When available, I will also include women's opinions regarding the services these lenders provide.

5.2.1 State Banks: Caja Agraria

With its more than 800 branches and a portfolio in the order of \$1200 billions Caja Agraria is, no doubt, the single most important financial institution in rural Colombia. Therefore, it looked very promising when Caja Agraria, following guidelines from the National Policies for Rural Women, allotted a special credit line for women. According to Table 5.2, the regional distribution of Caja Agraria's loans to women is fairly even. Looking at the total number of loans, and according to Caja Agraria's overall experience, they estimate the number of women participants to be 66,000.

Table 5.2. Regional Distribution of the Women-Portfolio – Caja Agraria
November 1997

	Outstanding Loans		Number of Loans	
	Total (\$)	%	Total	%
Antioquia	21,616,033,678	9%	9682	10%
Arauca	2,447,002,771	1%	806	1%
Atlantico	8,199,530,968	3%	2149	2%
Bogotá	14,576,481,076	6%	3678	4%
Bolivar	4,204,772,897	2%	1297	1%
Boyaca	28,790,013,618	12%	12005	13%
Caldas	8,371,284,918	3%	3711	4%
Caqueta	4,670,166,632	2%	1163	1%
Casanare	3,971,844,729	2%	1297	1%
Cauca	7,302,512,193	3%	3297	3%
Cesar	7,454,521,893	3%	2177	2%
Cordoba	10,360,516,652	4%	2514	3%
Cundinamarca	23,598,027,021	10%	10942	12%
Huila	7,184,476,734	3%	3966	4%
Llanos Orientales	7,817,486,781	3%	2291	2%
Magdalena	7,805,673,914	3%	1822	2%
Mocoa	6,902,154,475	3%	1698	2%
Narinio	7,953,181,794	3%	5546	6%
Norte Santander	5,447,657,854	2%	2991	3%
Quibdo	4,198,647,809	2%	1475	2%
Quindio	4,070,744,214	2%	1567	2%
Riohacha	5,734,905,957	2%	1520	2%
Risaralda	3,935,356,071	2%	1340	1%
Santander	11,414,951,137	5%	6766	7%
Sucre	6,271,221,315	3%	1680	2%
Tolima	9,079,347,026	4%	3704	4%
Valle	7,451,256,800	3%	3268	3%
Total	240,829,770,927	100%	94352	100%

Source: Reico (1997).

Unfortunately, without appropriate promotion, clear guidance, and support from other fronts, this special credit line did not yield the expected increase in female participation. Loans taken by women represent merely 20.1% of the total portfolio; a figure only moderately higher than the 16.5% reported over a decade before (see Table 5.3). In fact, the rate of participation by the end of 1996 was so low that the project was extended for another year. Aiming to boost women's involvement, Caja Agraria and the Rural Women's Office of the Department of Rural Development prepared materials that promoted the program, organized workshops, and gave lectures on project design and evaluation.

Table 5.3. Female Participation in Caja Agraria's Portfolio

	Number of Loans		Outstanding Loans	
	Men	Women	Men	Women
1984	81.1%	18.9%	84.3%	15.7%
1985	82.2%	17.8%	85.2%	14.8%
1986	85.2%	14.8%	83.5%	16.5%
1997			79.9%	20.1%

Source: Gaitan and Rugeles (1996) and Reico (1997).

Two studies provide insights regarding women's interaction with the Caja Agraria: the analysis by Gaitan and Rugeles (1996) based on data from the IICA-BID survey to female food producers, and the work by Pulido (1997), which specifically reviews bottlenecks in women's access to funds from the Caja Agraria.

Responses to the IICA-BID survey indicate a very high approval rate for loan applications presented to the Caja Agraria, i.e., above 90%. However, interviews with several related sectors (such as state offices, research institutions, development agencies, and users' associations (ANUC, ANMUCIC, and INDI)) unanimously pointed to serious limitations in Caja Agraria's ability to reach rural small and microproducers. The problems, they said, revolve around the bureaucratic, confusing, and sometimes arbitrary procedures, and the distressing delays in the loan application process.

In the IICA sample, 60.8% of the loans were requested by men and 39.2% by women. Given that the approval rate is very similar for both groups, 95% for men and 91% for women, Gaitan (1996) concludes that there appears to be no discrimination against women in the credit operations of Caja Agraria. However, the picture is likely to be more complicated. Although similar approval rates are a good sign, they only attest to an apparently gender-neutral procedure once loan applications have been presented. It is easy to think that the women (and men) who applied for loans were those who considered they were likely to receive them. Thus, a relevant question in order to determine whether women are discriminated against or not is: what happened with those women who did not apply for loans? They could simply have no demand for capital at the established interest rates, in which case there is no discrimination problem. However, there might be a group of women who wanted funds but considered they would not meet Caja Agraria's requirements and thereby chose not to apply at all. The size of this group, relative to the equivalent among the men, could tell us a great deal. Moreover, it would be of great interest to find out whether those women's assessments were correct—i.e., did they indeed not meet the requirements to obtain a loan from Caja Agraria? If their predictions were correct, this would signal that Caja Agraria is not meeting that sector's needs. If their predictions were not correct, on the other hand, the problem is likely to be originated by inadequate information regarding Caja Agraria's services (for instance, that they used information channels to which women do not have easy access). However, obtaining this type of information is obviously extremely difficult; therefore, an analysis of this sort is beyond the scope of this study.

Officials from Caja Agraria have not been systematically prepared to attend to women's needs in a sensible fashion. This is a significant problem, given that branch directors have a considerable amount of power and discretion at the local level. Some directors of Caja Agraria regard women as good clients; women exhibit good repayment behavior, and they are organized and responsible. However, this is not a widely held notion. In fact, in accordance with the prevailing cultural patterns, officials argue i) that women have no experience in income-generating activities and ii) that if women had received funds, they would likely hand them over to their partners (Pulido, 1997).

Providing the guarantees required by Caja Agraria is also a problem. Most women do not own a piece of land that could be offered as collateral; they have difficulties finding guarantors; and very few of them operate through the FAG. In fact, those that make use of the guarantee fund are sometimes required, by officials from Caja Agraria, to provide collateral for the 20% of the loan not guaranteed by the FAG.

One additional obstacle for women trying to operate with Caja Agraria stems from an internal norm that defines who is affected by loans granted to individuals (Decree Law 2360 from 1993). Its Article 11 states that loans granted to wives/husbands, permanent companions, siblings, and close relatives such as siblings and brothers/sisters-in-law, are considered as granted to the same person. An arguably risk-reducing policy, this rule implies that an individual cannot receive funds from the Caja Agraria if s/he or any of her/his family members has failed to repay a loan in time. The article does not explicitly discriminate against women; however, current cultural and socioeconomic conditions result in men having a much larger share of Caja Agraria's portfolio than women and, consequently, women are disproportionately affected by the regulation.

5.2.2 Commercial Banks: Caja Social

Commercial banks are, for the most part, absent from Colombian rural areas. I will, therefore, present only a brief description of a large urban-based commercial bank: Caja Social. This highly profitable and financially successful institution allocates a considerable share of its portfolio—as far as banks are concerned—to small loans. Its coverage is ample: in 1992 it reached over 120,000 clients through 128 office branches located in areas accessible to microentrepreneurs (Bonilla Castro, 1994).

Table 5.4. displays information about the small loans granted by one Bogotá branch of Caja Social (La Candelaria) in one semester. Homogeneous credit policies across branches suggest that these results are representative of Caja Social as a whole. Nonetheless, regional variations are likely to arise due to socioeconomic and cultural differences of the populations served by each branch. The number of men who received small loans exceeded the number of women by almost 19% (Table 5.4). It is worth noting, however, that the difference occurs mainly in the largest-loans category (loans within the US\$3,750-5,000 range); the agency seems to be granting similar numbers of smaller loans (under US\$3,750) to men and women. However, the category where the difference emerges accounts for over 45% of the small loans granted and, clearly, for a much higher share of the small loans' portfolio.

Table 5.4. Loan Distribution by Gender – Small Loans Portfolio – Caja Social – 1993*

Loan Size (US\$)	Number of Loans			%		
	Men	Women	Total	Men	Women	Total
< 625	2	2	4	0.85	0.85	1.71
625 – 1,250	11	13	24	4.70	5.56	10.26
1,250 – 2,500	32	30	62	13.68	12.82	26.50
2,500 – 3,750	15	22	37	6.41	9.40	15.81
3,750 – 5,000	79	28	107	33.76	11.97	45.73
Total	139	95	234	59.40	40.60	100.0

Source: Bonilla Castro (1994)

* Data from the La Candelaria branch in Bogotá—Loans approved from June to November 1993.

Caja Social grants loans by way of decentralized procedures that allow for fast loan approvals and disbursements. Additionally, they have more flexible collateral requirements. Although they sometimes require cosigners, clients' savings and loan repayment histories are taken into consideration when approving loans.

I lack information to comment on overall repayment rates relative to total portfolio and can examine only the distribution of delinquent loans by loan size and by sex of the beneficiaries. It is difficult to draw any conclusions from such a small sample—34 loans defaulted in one branch over a two-month period—but Table 5.5 shows that men have more delinquent loans than women for loans under US\$2,000, while the opposite is true for loans in the US\$3,000-5,000 range. If one keeps in mind that, according to Table 5.4, the number of men who received loans between US\$3,750 and 5,000 is so much higher than the number of women, then women's higher absolute number of delinquent loans is probably indicating a difference even larger in relative terms. However, as stated, the information available is not enough to reach clear conclusions in this regard.

Table 5.5. Delinquency Rates (>90days) by Gender – Small Loans Portfolio
Caja Social – 1993*

Loan Size (US\$)	Number of Delinquent Loans			%		
	Men	Women	Total	Men	Women	Total
< 600	0	0	0	0	0	0
600 – 1,000	3	2	5	8.82	5.88	14.71
1,000 – 2,000	6	4	10	17.65	11.76	29.41
2,000 – 3,000	4	5	9	11.76	14.71	26.47
3,000 – 5,000	3	7	10	8.82	20.59	29.41
Total	16	18	34	47.05	52.94	100.00

Source: Bonilla Castro (1994)

- Data from the La Candelaria branch in Bogotá—Loans approved from July to August 1993.

5.2.3 Credit Unions: Cupocrédito and Coopmujer

Credit unions play a significant role in Colombia's financial market. Even though this sector has recently experienced a severe crisis as a result of grave problems in some of the largest credit unions, today the system appears to have recuperated. The recovery is, at least partly, a result of a clearer and stricter supervision (Hauge, *et al.*, 1999). Among the credit unions, I will take a glance at two successful institutions: Cupocrédito, one of the largest credit unions in Colombia; and Coopmujer, a smaller credit union that works exclusively with women.

Cupocrédito has over 100 branch offices most of which are located in small cities. By 1992, its membership was close to 300,000. Men tend to receive more loans than women in Cupocrédito but, given that they make no special effort to reach women, loans seem to be fairly evenly distributed between the two (Table 5.6).

Table 5.6. Loan Distribution by Gender – Small Loans Portfolio – Cupocrédito – 1993

Loan Size (US\$)	Number of Loans			%		
	Men	Women	Total	Men	Women	Total
< 1,247	35,209	29,914	65,123	41.09	34.91	76
1,247 – 6,234	12,442	8,118	20,560	14.52	9.48	24
Total	47,651	38,032	85,683	55.61	44.39	100

Source: Bonilla Castro (1994).

It is likely that women's relatively high participation in Cupocrédito results, at least partially, from their flexibility regarding guarantees: loans are granted based on the member's history in the institution, on her/his savings, and on cosigners—who are easier to obtain because after becoming a member of the credit union, one operates in a familiar environment.

Table 5.7. Delinquency Rates (>90days) by Gender – Small Loans Portfolio
Cupocrédito – 1993*

Loan Size (US\$)	Number of Loans			%		
	Men	Women	Total	Men	Women	Total
< 462	165	151	316	48.67	44.55	93.22
462 – 923	9	6	15	2.65	1.77	4.42
923 – 4619	5	3	8	1.48	0.88	2.36
Total	179	160	339	52.80	47.20	100

Source: Bonilla Castro (1994)

* Data from the Suba-Rincón Bogotá branch, as of Dec. 31st 1993.

Once again, the information available to me was about the distribution of past due loans by loan size and by sex of the beneficiary. I do not have data on the share of past due loans on total portfolio, nor do I know the total number of loans granted. In consequence, it is difficult to evaluate portfolio quality and to provide a complete picture of what

figures in Table 5.7 represent. Nonetheless, results from one Cupocrédito branch in Bogotá (Suba-Rincón) show fewer women than men defaulting loans. Yet, the differences do not appear to be significant.¹⁶

I will now turn to Coopmujer, the other credit union to be described in this review.¹⁷ This institution has been operating since 1988 and has offices in San Gil and Bucaramanga. Coopmujer works exclusively with and for women: 100% of their clients and staff are women. It provides training on legal aspects, on cooperatives, and on gender issues, among other things. But Coopmujer's main activity is to encourage savings and provide credit to microentrepreneurs or petty traders—particularly in the areas of cloth manufacturing, footwear, cheese, dairy, food, and crafts. Without sufficient capital of their own, these women had to resort to moneylenders and intermediaries in the past. Naturally, that substantially reduced the profitability of their enterprises and limited their opportunities to grow. Coopmujer does not subsidize interest rates. However high its rates may be, Coopmujer is still a more favorable option for women in the area. By December of 1997, more than 1,600 women had outstanding loans from Coopmujer.

Coopmujer's requirements for granting loans include: being members of the credit union for at least a month, paying member shares, presenting a national I.D. (cédula de ciudadanía), providing personal and commercial references, and a few other documents. Coopmujer does not ask for feasibility studies. Staff from the credit union interviews prospective borrowers and provides assistance whenever necessary—most women do not read or write. Although Coopmujer places a great deal of attention on client's repayment capacity and arrearage, it sometimes requires collateral too. By the end of 1997, 9.8% of the loans granted with personal guarantees and 9% of the loans secured with physical collateral were past due.

5.2.4. Microfinance Programs

5.2.4.1. Group-based Programs: Programs using Solidarity Groups

In view of the severe limitations that poor people face when they want to take loans from formal financial institutions because they lack the type of assets traditionally accepted as collateral, group-based credit methodologies would appear as a very desirable alternative for the Colombian case. As previously discussed, group-based methodologies provide a cheaper and more expeditious way to screen clients and monitor loan use and repayment. These features reduce lending and recovering costs, thereby expanding the pool of creditworthy clients and significantly favoring outreach. Nevertheless, one should be very careful when exporting this methodology to any new setting.

I was not able to find any village banking experience in Colombia, but there were several urban-based institutions using the solidarity group approach. Results of applying this methodology have been varied and with different levels of success.

¹⁶ This may not be the case if we weigh those figures by the number of loans received in each category.

¹⁷ This information is based on a conversation with Maria Luisa Mendez Romero, Manager of Coopmujer.

The solidarity group approach is based on the premise that group members know each other, have strong ties, and can monitor each others' behavior. Moreover, it strongly relies on the notions that:

- i) social norms within the community are strong enough and can be enforced in such a way that nobody would purposely default a loan and hurt other members of the group;
- ii) it is in each person's best interest to do everything possible to ensure total loan repayment, including repaying other members' debt, so that their own future access to credit is not damaged.

Even though these notions would, for the most part, be valid across Colombia, some factors could threaten the success of this type of program. With respect to the first point, for instance, it is essential to keep in mind that migration is very high in some areas as a consequence of severe economic problems and lack of security due to guerillas and/or paramilitary groups. This obviously harms the stability of some groups and communities. Additionally, certain right-wing groups oppose any sort of group formation, while some left-wing groups encourage the sabotage of this type of program, arguing that they employ foreign capital and their ultimate goal is to favor investors from imperialist societies.

In regard to the second point, the higher the default rate within a group is, the heavier is the burden for the remaining "good" members. As default rates increase, it becomes more and more difficult for those "good" members to cover their partners' default. If the situation is not fixed early enough, it becomes easier for them to be "corrupted" and not repay their loans either. This problem snowballs until the debt left is such that those members still in the group cannot (even if they had wished to) repay the total loan. Eventually, even the "good" clients are added to the list of "undesirable clients" (within the organization but also nationwide), drastically affecting their future access to capital, even when they have paid proportionally more than their own share (ANMUCIC, 1998).

Some of the institutions that have been successfully applying the solidarity group methodology in the northern and central regions of Colombia are: Actuar Atlántico, Actuar Bolívar, Actuar Caldas, Actuar Quindío, Actuar Risaralda and Actuar Tolima (all of them affiliated to ACCION International),¹⁸ Fundación Amanecer, Fundación Caicedo González, Fundación Mario Santo Domingo, Fundación San Isidro, Fundecor, and Fundicar. These institutions are also applying other lending methodologies but, in all cases, a substantial part of their portfolio is dedicated to solidarity groups.

Table 5.8. presents some basic figures describing these institutions. It is comforting to see that, with the exception of Actuar Risaralda, all of them have been very successful in reaching women. In fact, for most of these institutions, women represent at least 60% of their clientele. The figures for Fundación Mario Santo Domingo and for Actuar Atlántico are remarkable as far as women's outreach is concerned (79% and 90%, respectively).

¹⁸ ACCION International is a non-profit organization dedicated to promote the use of solidarity groups in order to reach the poorest sectors.

This positive outcome is likely to be the result of their location, of the methodology they employ, of the size of the loans they grant, and of the number of women in their staff; except for one case, more than 50% of their employees are women.

Table 5.8. Data on some Financial Institutions using the Solidarity Group Methodology
November 1996

Financial Institution	Micro-entrepreneurs reached	% of women	Portfolio (*)	Number of office branches	% of women among empl.
Actuar Atlántico – Atlántico	1087	90	124,035	1	67
Actuar Bolivar – Bolivar	67	64	69,267	1	64
Actuar Caldas – Caldas	1200	47	232,825	4	60
Actuar Quindio(**)-Quindio	NA	NA	90,924	1	63
Actuar Risaralda – Risaralda	557	37	66,657	1	59
Actuar Tolima – Tolima	4287	61	2,010,991	4	55
Fundación Amanecer – Casanare	1068	63	126,616	5	63
Fundación Caicedo Gonzalez – Valle del Cauca	465	61	53,873	9	60
Fundación Mario Santo Domingo – Atlántico	9732	79	1,955,826	3	54
Fundación San Isidro – Córdoba	231	65	100,740	1	56
Fundecor – Córdoba	1077	52	100,566	1	31
Fundicar – Guajira	5354	69	452,444	5	54

(*) in thousands of Colombian Pesos

(**) Actuar Quindio and Fundecor also have programs for women that are household heads

These figures alone are very encouraging, but a quick comparison between the portfolio and outreach of these programs and those from the Caja Agraria reinforces the case for reaching women via solidarity groups. The results displayed by these NGOs are very promising, but they are still highly localized and isolated efforts. Their coverage is limited because these institutions depend, at least to some extent, on international funds which have become more difficult to obtain (donor countries have reduced their budgets for this type of aid, and the demand for funds has increased substantially after the opening of the Eastern European block). On the other hand, since these NGOs are not authorized to take savings, they cannot expand their portfolio by capturing local money.

5.2.4.2. Individual-based Programs

Without doubt, the five institutions affiliated with Women's World Banking are among the individual-based credit programs that have most successfully reached women in Colombia. They are urban-based organizations committed to reaching microentrepreneurs, and especially women, located in: Bogotá, Bucaramanga, Cali, Medellín, and Popayán. Table 5.9 presents a summary of the indicators most relevant for this study. Given its outstanding performance, the rest of the section will concentrate on WWB-Cali, the first one to be created.

Table 5.9. Financial Indicators of Women's World Banking Affiliates
June 1998

	Gross Loan Portfolio (000 of US\$)	Number of outstanding loans	Average outstanding loan (US\$)	% of loans granted to women	Past due >30 days / gross loans (%)	Loans per Credit officer
Bogotá	1,624	4,803	340	75.0	4.42	320
Bucaramanga	2,039	4,757	430	72.9	2.30	340
Cali	7,318	13,631	540	68.9	1.45	401
Medellín	2,015	4,456	450	57.8	3.49	279
Popayán	3,421	7,093	480	71.6	1.85	373
Total	16,417	34,740	470	69.4	2.20	354

Source: Colombian Association of Institutions Affiliated with WWB.

WWB-Cali, founded in 1982, was the first Colombian institution affiliated with Women's World Banking. It was also the first institution worldwide to receive loans from WWB International. WWB-Cali first started as a group of professional women offering advice and help to other women. Over time, they received support from international agencies and were thus able to provide financial assistance and other badly needed services. WWB-Cali granted loans to small urban enterprises using the solidarity group methodology but, unfortunately, it was ill prepared for that type of venture. For one thing, WWB-Cali only managed small funds, which implied a severely restricted lending capacity. For another, it did not have a good information system, nor did it have sufficient and adequately trained staff; therefore it was extremely difficult to detect problems on time. To complicate matters, migration from rural areas to poor outskirts of the city was remarkably high, and the guerrilla had persuaded people not to repay loans that were the product of foreign capital investments. As a consequence of all these, the program could not continue operating in the same fashion, and the board decided to implement drastic changes.

With support from the IDB and the GTZ, WWB-Cali switched from a group-based to an individual-based lending methodology, implemented a very complete and efficient computer system, and trained credit officers. By July 1998, WWB-Cali covered the Cali area with 6 office branches in the urban area, a US\$9,000,000 portfolio, and 14,500 outstanding loans. Thus the Cali area; a region where no commercial banks provided microcredit, could receive it from WWB-Cali.

Once WWB-Cali considers that someone has the potential to become a client, it assigns them an analyst who visits their house and business and helps them prepare all the

necessary documentation. For smaller loans, WWB-Cali requires a national I.D. (cédula de ciudadanía) and an evaluation of the enterprise; for larger loans, it asks for a cosigner and a good credit history within the institution. Once a loan application is approved, the funds are available within 24 hours. The WWB-Cali loan granting procedure is based on rewarding a good credit history: clients start with loans under US\$500 (typically of around US\$250) for 4 to 6 months; if they exhibit a good repayment behavior, they are rewarded with immediate approval of larger loans that can gradually increase up to about US\$13,000 and longer terms that can go up to 48 months (Plata, 1998).

Loans include paid and mandatory technical assistance designed to aid microentrepreneurs in the financial management of their enterprises. Payments are monthly, for the most part, and have to be done at WWB-Cali's offices. Interest rates, which are not subsidized, are approximately 3% monthly (plus 0.75% for technical assistance, in the case of new clients). Over time, and after a good repayment behavior is observed, loan size is increased and the cost of technical assistance is reduced. As a result, the interest rates charged are similar for both large and small loans, the difference being mostly due to charges related to technical assistance.

WWB-Cali's statute requires that women comprise at least two thirds of its clientele but, according to its executive director, they never resorted to special policies in order to reach that goal. In fact, around 70% of its clients are typically women. WWB-Cali does not offer any special treatment for women, nor does it discriminate in their favor. The high proportion of women among their clients results from the fact that WWB-Cali serves one of the poorest economic groups, and it is in those groups that women tend to appear as economic actors (Plata, 1998). At the same time, although WWB-Cali's name does not prevent men from working with the institution, it certainly encourages women to participate. Other important factors that explain this positive result include their very friendly treatment of clients and the fact that women who have had positive experiences encourage other (female) friends or relatives to work with WWB-Cali.

As in most institutions, the women's average loan is lower than the men's (Plata, 1998). This could be because women take smaller loans (they borrow for smaller enterprises or they are more averse to taking risks). However, it is more likely to reflect the fact that there is a higher proportion of women among new clients—who, because of the lending methodology based on credit history, receive smaller loans. In regard to repayment rates, WWB-Cali finds no significant difference between men's and women's behavior; in all cases, the default levels are extremely low (Plata, 1998).

WWB-Cali is able to offer appropriate services with a very low total operating cost. This is partly because the staff and the credit officers have access to timely and accurate information—it runs very efficient portfolio, operations, and accounting computer systems. Another very important factor contributing to WWB-Cali's good results is the adequately trained team of credit officers who work within a very well designed framework of responsibilities and incentives. Once a credit officer recommends a loan, s/he is also in charge of providing the technical assistance and, especially, of recovering the loan. To prevent clients from falling behind with their payments, at the end of the

day, a list of all their clients who have missed a payment is handed to the credit officers so that they can visit those clients the following day (Plata, 1998). There are significant incentives for credit officers to maintain a healthy portfolio, as approximately 30% of their earnings is based on the quality of their portfolio (theirs, their agencies', and the overall foundation's). Quality of portfolio is rated according to the number of loans granted, the outstanding portfolio, and the delinquency rates. Consequently, credit officers have incentives to maintain a healthy portfolio and expand their outreach; at the same time, they are motivated enough to help other credit officers and to work in teams. Efficient information systems, together with the incentives schemes, translate into a very high loans/credit officer ratio of over 400 and very low rates of default.

WWB-Cali has embarked on plans for a very accelerated growth. By the year 2000, WWB-Cali plans to have 12 office branches and to be able to reach 90,000 clients. Obviously, this rapid growth increases pressure for it to become a formal (and therefore regulated) financial institution. However, at least for the time being, the board has decided against taking that step (Plata, 1998).

In regard to geographical coverage, WWB-Cali is interested in expanding its service to very small towns but it does not serve the rural sector now, nor is it planning on doing so in the near future. According to its executive director, working with rural clients would require expensive adjustments to their technology. Some of the problems of working in rural areas are: very high levels of violence; low levels of commitment in some groups, where members could simply decide to break their pledge and not to repay their loans; and acute transportation problems that would affect both credit officers and potential clients. For WWB-Cali, extending their services to rural areas would require guaranteeing a minimum of security; educating people that although it is a foundation, it does not give money away; and changing loan terms, repayment systems, and evaluation of repayment likelihood, among other things. In other words, WWB-Cali could provide services in rural areas, but at this point it would be too costly.

SECTION VI: Conclusions and Recommendations

The design of policies to successfully improve rural women's socioeconomic status in Colombia will require a more careful and informed understanding of their current position. An obvious first step in that direction would be to reinforce and expand policies oriented to obtain regional and national data disaggregated by sex. Sharp differences across regions in Colombia imply that any serious attempt to expand financial institutions' outreach must be based on a combination of policies and programs flexible enough to respond to the geographical, cultural, and social needs of the different sectors.

Nevertheless, more poor rural women could be reached via actions in at least two different fronts. On the one hand, it is important to promote the creation and expansion of microfinance NGOs and other finance institutions that are "friendlier to women." Measures to be considered include:

- i) attenuating the cost of reaching new geographic areas or more disperse populations by subsidizing the acquisition of office space in rural areas that these institutions were not covering and of motorcycles or other small vehicles;
- ii) encouraging the expansion of their services to new customers of a specific profile by subsidizing transaction costs (not interest rates)—this could be done, for instance, in the form of a fixed transfer to the institution for each new (female) client below the poverty line;
- iii) improving microfinance institutions' sustainability (and encouraging their growth) by allowing them to capture local savings.

However, given the magnitude of Caja Agraria's portfolio and its wide geographical coverage, it is clear that a significantly larger impact in reaching poor rural women could be achieved via adjustments in the way the Caja Agraria operates. Suggestions in this regard include:

- i) making all the relevant information concerning programs and requirements as easily and widely available as possible. This could improve women's access to the Caja Agraria in two ways:
 - women may have better chances to learn about the resources available to them if that information is distributed via channels that are more likely to reach women;
 - credit officers would not be able to add arbitrary requirements nor would loans be framed as "favors" (which most women feel they cannot repay) if the conditions for taking loans are clearly known (by, for instance, posting clear signs in all branches of Caja Agraria);
- ii) providing training and organizing workshops designed to convince credit officers that women are potentially desirable clients and that they should be treated accordingly;
- iii) accepting less-traditional forms of collateral;
- iv) establishing a clearer link between the Caja Agraria and the FAG, and training Caja Agraria's personnel on how to make better use of the resources administered by the FAG;
- v) reducing the burden of applying for loans by simplifying the procedures—decentralizing at least part of the loan-granting process may be necessary.

Finally, in order to address the notion that enhancing women's access to capital could be a cost-effective way of inducing economic growth or reducing poverty in rural Colombia, future research should examine intrahousehold dynamics in the region. That is, there is a need for better knowledge of the ways in which families allocate their income and resources and of how they make those decisions in this specific setting. That information will shed light on the household decision-making model that more appropriately describes these families' behavior and will provide an idea of the types of results to be expected from enhancing women's access to capital.

APPENDIX: Intrahousehold Inefficiency -- Women in the Household

Households can be thought of as microeconomic units which, through their production and consumption decisions, choose how to best allocate their resources (labor, assets, etc.). These production and consumption decisions are particularly related in agricultural households. Chayanov's pioneering work, in the 1920s, gave origin to an extensive literature and a variety of models on peasant household behavior. He portrayed the peasant household as a unit that decided how much family labor to commit to production in order to maximize family well-being or "utility." In his representation, the level of utility that a family achieves is positively related to the amount of goods that it consumes and negatively related to the amount of family work that it expends. In Chayanov's peasant household, an increase in the amount of family labor used had two opposite effects: it allowed the household to produce more and, as a consequence, to consume more goods, thereby increasing the level of utility it enjoyed; while, at the same time, the additional work decreased the household's utility because peasants were "drudgery averse" (Chayanov, 1966; Ellis, 1988).

Portraying peasant households as units pursuing multiple goals—as opposed to pure producers or pure consumers—complicates the task considerably. However, this additional complexity may help explain the crucial link between demand and supply-side responses to policy changes, especially in the presence of incomplete markets. A certain policy could, for instance, affect the amount of labor the household supplies to the market (supply-side response) and/or it could affect the demand for inputs and goods (demand-side response).

There exists a wide variety of policy instruments aiming to achieve desired economic, health, and/or educational goals by changing the economic conditions under which households from specific sectors of the population make decisions. However, it is impossible to predict what the outcome of applying any of these policies would be without a more in-depth understanding on how families make decisions. As Doss (1994) points out, some extremely important issues to explore are:

- How are individual preferences aggregated within the household? In other words, does it make sense to talk about "household preferences" or do we need to consider each person's preference separately?
- Are decisions made at household or at individual level?
- Do all members of the household pool their incomes?
- Do they pool their resources (labor, assets, etc.)?

Numerous models of household behavior have been designed which take as their starting assumptions the different possible answers to these questions. There are two dominant approaches in the economic study of intrahousehold decision-making:

- i) models that consider the household as a single decision-maker (unitary models); and,
- ii) models that view the household as a collection of individuals that both cooperate and may have conflicting interests (collective models).

A.1. Unitary Models

Unitary models assume that:

- i) the household has only one set of preferences (or at least that it could be treated *as if* it did); and,
- ii) individuals' assets, labor, income, and information are fully shared within the household.

A household may, according to this approach, be treated as a unit that combines its members' resources and incomes, making production and consumption decisions in order to maximize its (the household's) utility. For simplicity of exposition, I will concentrate the discussion of unitary models on their assumption of *a* household utility (or welfare) function. Two different sets of arguments have been used to justify this assumption:

- a) All household members have the same set of preferences. If preferences are common to all members within the household, optimal decisions at the household level would exactly mirror each member's optimal decisions; or,
- b) Household members have different preferences but their preferences can somehow be aggregated. Special rules governing household behavior have been suggested to indicate how (and why) preferences can be aggregated:
 - 1) There is a benevolent dictator who acts unilaterally and makes decisions taking everybody's preferences into account; or
 - 2) Perfect altruism within the family guarantees that household members "subordinate their individual inclinations to the pursuit of common household goals" (Ellis, 1993:181).

The first justification, namely that all household members will have the same set of preferences, seems very unrealistic and will not be further discussed.¹⁹ And, unfortunately, the benevolent dictator rule (justification *b.1*) only holds under very restrictive assumptions (Haddad *et al.*, 1997). If, on the other hand, rural households were made up of members, with differing preferences, that make decisions under purely altruistic motives (justification *b.2*), there would be no need for programs that target women specifically. It would suffice to implement programs which are designed to improve *poor households'* access to loans. In that case, households with a female head (which are often towards the poorest end of the wealth spectrum) would benefit from programs of this kind; and in households where a male member is present, the latter could obtain a loan under the program with which he would, presumably, do what is best for his family.

Unitary models, however, have been widely criticized for not taking into consideration that preferences may, in fact, not only be different across family members—in particular between men and women—but, moreover, they may not be aggregated in any simple way. In addition, besides assuming that families maximize a unique "utility function", unitary models assume that the function to be maximized does not change over time or across households. (Folbre, 1984).

¹⁹ For an empirical study on preference heterogeneity within the household see Barham and Kusago (1996).

A.2. Collective Models

A number of neoclassical economists have addressed the problems of working with immutable “household preferences” by modeling the household as a collection of individuals with their own preferences. Instead of assuming that those individual preferences are automatically aggregated at the household level, they dwell on the process by which this aggregation occurs. In collective household decision-making models, household well-being (or utility) depends not only on relative prices and incomes (as in the unitary models) but also on its members’ individual preferences and their relative bargaining power.

Models in this class can be grouped into two main categories:

- i) models that describe household behavior as the outcome of a cooperative bargaining process; and,
- ii) models that explain household behavior as the result of non-cooperative games.

A.2.1. Cooperative Bargaining Models

The cooperative bargaining approach starts from the underlying notion that individuals choose to “become a household” only if they are better off by acting together than they would otherwise be using their own assets, labor, and income individually (Haddad *et al.*, 1997; McElroy, 1990; McElroy and Horney, 1981; Manser and Brown, 1990; Schultz, 1990; Thomas, 1990). The important assumptions in this group of models are:

- i) Families have clear and enforceable sharing rules or “contracts” that establish how decisions are to be made;
- ii) Family members pool their income; and,
- iii) Household decisions are made in such a way that no member could be made better off without making the other members worse off (household decisions are “Pareto-efficient”). A family makes Pareto-efficient production decisions if their members cannot produce more of one good without decreasing the production of another.²⁰ A family makes Pareto-efficient consumption decisions if all produced and purchased goods are distributed among family members in such a way that no one could be better off without making someone else worse off.

Economists who consider household behavior as the result of a cooperative process, have followed two different paths to model the household decision-making process:

- i) One group assumes that families make Pareto-efficient production and consumption decisions but they make no a priori assumption about the process how does decisions are made. Instead, they *derive* the sharing rule that explains intrahousehold allocations from the data (Haddad *et al.*, 1997; Chiappori 1988; Browning *et al.* 1993; Browning and Chiappori 1995).
- ii) The other group explicitly establishes the household decision-making process. That is, they define how the individuals bargain to make “household decisions,” and what those decisions would be if no agreements were reached. Thus, in these

²⁰ Or, equivalently, the household is producing on the frontier of its production possibility set.

models, household decisions depend also on the individuals' relative "fall-back positions." Fall-back positions are affected by economic opportunities, and institutional, cultural, social, and legal factors.²¹

For this second set of models, individuals' bargaining power (or influence in the bargaining process) is directly related to how much access to or control over economic resources they have. That is, the more access to land, capital, jobs, etc., an individual has, the more her/his preferences will count in household decisions. As a result, any change that favors one member's economic position relative to the other's, affects individuals' bargaining power and, consequently, alters household decisions. This is a crucial feature because it allows for different household decisions depending on *who* has access to and control over economic resources. In other words, changes in who has access to and control over resources may affect household decisions even if the resources available to the household as a whole have not changed (Katz, 1992; Doss, 1994).

Although cooperative models are still based on controversial assumptions (enforceable contracts, fully pooled income, and Pareto-Efficient decisions), they represent an improvement over unitary models. Cooperative models of intrahousehold decision-making allow for differences in preferences and power across family members; and incorporate the notion that individuals' bargaining power is affected not only by market forces (prices and income) as in the unitary models but also by other factors²² which affect family members' fall-back positions and therefore their opportunity cost of cooperation.

A.2.2. Non-cooperative Bargaining Models

Among the Collective models, the "non-cooperative bargaining" approach may constitute a particularly attractive alternative to modeling household decision-making. Non-cooperative models relax three restrictive assumption on which cooperative models are based:

- i) they do not assume enforceable contracts amongst players—allowing for a more accurate representation of the informal nature of spouses' day-to-day decisions on how to allocate resources and income (Haddad, 1997 *et al.*; Harsanyi and Selton, 1988; Wooley, 1988; Binmore and Dasgupta, 1987);
- ii) they do not assume that income is pooled—this is a highly desirable property given most empirical findings;
- iii) they do not impose Pareto-efficiency in production or consumption decisions.

²¹ Initially, fall-back positions were modeled as the situation in which individuals would be in if they would have been divorced. However, divorce does not constitute a credible threat for day-to-day decisions (Wooley, 1988). In 1993, Lundberg and Pollack developed the "separate spheres model" in which individuals' allocation of labor and income at the fall-back position are based on culture-specific gender roles.

²² McElroy and Horney called these additional factors extrahousehold environmental parameters (EEP).

In this class of models, individuals are entitled to different preferences (as in all collective models) and to make decisions based on their own access to resources. Families are viewed as fairly independent and gender-specific subeconomies linked by “reciprocal claims” of members on each others assets, labor, and income (Haddad, *et al.*, 1997; Katz, 1992).

Family decision-making is modeled, in this school of thought, by combining the result of each family member’s best response to what they assume their partner’s would do. There is a wide range of non-cooperative bargaining household models depending on:

- i) the manner in which spouses assumptions about each other’s behavior are modeled (using Cournot-Nash solutions, Rational Conjectures, etc.); and,
- ii) the manner in which family members interaction is modeled (using, for instance, transfers of labor and income between spouses, or individual preferences that include the other spouse’s well-being, etc.) (Carter and Katz, 1997, Kanbur, 1991; Wooley, 1988; Ulph, 1980).

A.3. Which Model Should Be Used?

The predicted effects of different economic or social policies on household behavior depend on the way intrahousehold decision-making is modeled. Which of the types of models presented here should be used? There is no easy answer. As it will be shown below, the assumptions of the unitary models have been rejected by most empirical evidence. However, the additional data requirements and complexity of the more flexible models may not be justified if the gains in predictive power are not substantial. This argument is often used by researchers who choose to ignore what happens within the household.

How households make decisions, and therefore how reasonable the assumptions of these models are, depends considerably on the region, the time period, and the group being studied. Nonetheless, a brief look at empirical evidence in the literature may shed some light on the appropriateness of the assumptions in which these models are grounded.

A-1) Homogeneous preferences. Men and women in rural settings frequently differ in how they allocate their income. Mencher (1988) and Whitehead (1981) found differences in the degree to which men and women use their own earnings as personal spending money to satisfy their children’s demands, their own self image, and their perception of what society expects from them. There is also evidence that women dedicate a large portion of their income to everyday subsistence and family nutrition in Guatemala, Jamaica, Kenya, Ghana, St. Lucia (Blumberg, 1986; Horton and Miller, 1987; Carloni, 1987; Tripp, 1981; Knudsen and Yates, 1981; Dwyer and Bruce, 1988). Several studies have found that while there was a positive relation between children’s nutritional levels and mothers’ income in India, children’s nutritional level did not increase proportionally with fathers’ income (Kumar, 1977).

A-2) Income Pooling. Although there obviously are households where income is pooled, such households are not the norm. Empirical evidence has found that, not only

households do not always pool their income, but that their members often have only limited knowledge of their partners' financial affairs (Fapohunda, 1988; Safilios-Rothschild, 1988).

A-3) Pareto-efficient production decisions (household production cannot be increased by a mere reallocation of resources, without making some family members worse off). Two studies that found Pareto-inefficient production decisions at household level are Udry (1996) and Jones (1983). Udry (1996) finds that, in a region of Burkina Faso, crop yields for plots controlled by men are different from crop yields for plots controlled by women; and, that the household could produce more if some of the labor and fertilizer used for men's plots is reallocated to women's plots. Jones (1983), looked at Cameroon, and found that men and women were not maximizing household's income but rather they were both maximizing their own individual incomes. Women preferred to work on, less remunerative, sorghum fields than working for their husbands', more remunerative, rice fields. Working for their husbands will imply that women would not perceive any payment and any additional income would belong to the men.

A-4) Pareto-efficient consumption decisions (household well-being cannot be improved by altering the composition and distribution of the bundle of goods consumed, without making some family members worse off). Thomas and Chen (1994) and Bourgoignon et al (1993) found Pareto-efficient outcomes on the consumption side.

At this point, there is no conclusive evidence on whether or not household decisions are Pareto-efficient.²³ Further work is particularly needed in this area. If enough evidence of Pareto-inefficient household decisions is found, the effect of policies on household behavior may be significantly different from what the unitary or cooperative bargaining models would predict. In that case, non-cooperative bargaining models of household behavior become a crucial tool because "intrahousehold inefficiencies" would affect household behavior and, as a result, it would matter *who* in the household receives new access to economic resources--in this case capital.

Increased economic opportunities for women—in terms of additional access to and control over resources, or an autonomous source of income—are expected to improve women's fall-back position and, as a consequence, to improve their bargaining power within the household. Under the non-cooperative bargaining scenario, women-targeted programs—and, in particular for this study, women-targeted credit programs—could have desirable impacts even for those households in which male partners could, in principle, mediate capital to women whenever direct market provision failed them.

Moreover, credit programs that specifically target women may, via improvements in women's bargaining power, have positive effects on household production and

²³ It is important to keep in mind that the Pareto-efficient consumption decisions and the Pareto-inefficient production decisions cited above do not belong to the same studies (or set of households) (Doss, 1994).

consumption decisions (improving, for instance, food consumption, children's education, and family health care) whether or not women actually take a loan.²⁴

If that were the case, credit programs that target poor women could represent improvements over programs that simply target poor households by reducing household inefficiencies. Thus, they may be a cost-effective way to induce economic growth or to improve nutrition, health, and education indicators.

²⁴ Parallel examples are: policies that increase women's wages will affect women's bargaining power and household behavior even in households where women do not engage in wage employment (Doss and Senauer, 1994); or child-care subsidies such that if the couple is divorced are always given to the woman, will affect households' decisions even when the couple is not divorced (Lundberg and Pollack, 1997).

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