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**The empowerment of rural women and their role in poverty and
hunger eradication, development and current challenges**

Focus: Economic Empowerment of Rural Women

**PROMOTING GENDER-RESPONSIVE FINANCING IN
AGRICULTURE¹**

by

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Introduction

After decades of neglect, the global community is increasingly recognizing that investment in agriculture and rural development can drive broader development and economic growth. There is broad agreement that growth in agriculture generates the greatest improvements for the poorest people – particularly in poor, agriculture-based economies.² In the aftermath of the 2007-08 food price surge, agriculture and food and nutrition security have moved toward the top of the global policy agenda.

Agricultural and rural economic growth depend heavily on the need to expand and deepen financial services, institutions, and instruments in rural areas, where poverty is concentrated. To improve their productivity, access markets, and better manage risk, farmers and rural entrepreneurs need a range of financial services, including savings facilities, credit, insurance, and systems for effecting payments and transferring remittances. For the most part, however, these services are unavailable as rural areas are significantly underserved by financial systems.

To strengthen rural financial systems and make them more inclusive, a number of constraints must be addressed³. First, agriculture is a risky business, subject to a host of factors such as weather, disease, and pests. Potential rural borrowers often have no documented credit history and little or no collateral. Rural populations may be remote and dispersed, making service delivery costly and difficult. And, of particular importance for today's discussion, traditional gender roles and gender inequalities are often more pronounced in rural areas.

Measures are needed make rural areas – and women farmers and rural entrepreneurs -- more bankable. This requires innovative approaches to mitigate and manage risk, reduce transaction costs, and expand the range of financial services provided. It also requires stronger institutions, increased capacity of potential borrowers, and a more favourable policy environment. This paper draws a picture of recent developments on agriculture finance, and dwells on two areas, where women have been mostly involved: microfinance and value chain development.

I. Recent developments in finance for agriculture and rural development

Providing sustainable financial services for rural areas and agriculture in developing countries has been difficult, in spite of recent reforms and support to financial institutions. While subsidized, directed agricultural credit programs by Governments were common in the period 1960–80 but often resulted in market and Government failure, In the 1980s, a new financial systems approach shifted the emphasis to creating sustainable institutions, treating borrowers and savers as clients rather than beneficiaries, developing products that clients demand, and pricing products and services to cover costs and risks. Donor agencies reduced the use of credit lines in favour of grants, loans, and technical assistance to help in the design of appropriate products, institutions, and policies. Microfinance institutions (MFIs) started to

² IFAD (2010), Rural Poverty Report

³ Pearce, Doug, et.al, "Making Rural Finance Count for the Poor," DFID Agriculture and Natural Resources Team, September 2004

reach out into agriculture and rural areas, but more efforts are needed to design products and methodologies to meet the need of farming communities. 4

A variety of strategies – both informal and formal – can be employed to manage the risk inherent in financing for agriculture and rural enterprise that undermines the creditworthiness of prospective clients. Different strategies can be employed at different levels, as outlined in Figure 1.⁵

Figure 1 : Informal and formal risk management strategies

| Informal Risk Management Strategies | | |
|--|---|--|
| | Farm Household-level (mitigating risk) | Community-level (sharing risk) |
| Ex-ante | Savings Buffer Stocks Enterprise diversification Low risk, low return cropping patterns Production techniques | Food crop sharing Common property resource management Social reciprocity Rotating savings/credit |
| Ex-post | Sale of assets Reallocation of labor Reduced consumption Borrowing from relatives | Sale of assets Transfers from mutual support networks |
| Formal Risk Management Measures | | |
| | Market-based (share/transfer risk) | Publicly-provided (transfer/absorb risk) |
| Ex-ante | Contract marketing Financial hedging tools (options) Traditional insurance Weather-index insurance Contingent funds for disaster relief | Pest/disease management Physical crop/food stocks Price guarantees or stabilization funds Input subsidies Public insurance |
| Ex-post | Savings Credit | Disaster assistance Social funds Cash transfers Waiver (cancellation) of crop loans |

From Expert Meeting on Managing Risk in Financing Agriculture

⁴ Meyer, Richard L. (2011), Subsidies as an Instrument in Agriculture Finance: A review, Joint Discussion Paper, The World Bank, BMZ, FA O , G I Z , I FAD, and UNCDF

⁵ Proceedings from Expert Meeting on Managing Risk in Financing Agriculture, Convened by AFRACA, FAO, the Land Bank of South Africa, and the World Bank, Johannesburg, South Africa, 1-3 April 2009

To date, a number of interventions have been attempted to kick-start private sector activity in support of financial services:

- *Microinsurance and weather-index-based insurance*, to mitigate risks both for households and for lenders supplying financial services to the poor and to farmers engaged in crop and livestock enterprises;
- *Credit guarantee funds* to reduce default risks and induce lenders to serve specific target groups or institutions;
- *Warehouse receipt systems*, which involve commodities being stored in licensed and bonded warehouses that issue receipts certifying the amount and quality stored. The owners of the commodity (such as farmers and traders) provide the receipts to lenders in exchange for loans.
- *Specialized agricultural development banks* such as many state-owned agricultural development banks which have generally performed poorly;
- *Agricultural investment funds*, which are a form of financial mutual fund for pooling investor capital and investing it for investor profits.

While there is growing progress in resolving potential trade-offs between financial and development goals within efforts to build more inclusive financial systems⁶, there is little evidence how these different schemes respond to the distinct needs of women and men and whether attention has been paid to gender differences in delivery and outcome. Two-thirds of the *Agricultural investment funds* for instance, totalling \$7 billion (mostly from public-private partnerships), were found to have a social and development mission, such as agribusinesses with sound environmental and social practices or investments supporting women entrepreneurs. It could be that such focus is imposed by the partners involved in the funds: the individuals, institutional investors, and foundations that raise private capital to leverage public resources provided by international donors and development finance institutions.⁷

Donor support to agriculture

Since 1978, IFAD has invested more than US\$13 billion in low-interest loans and grants to support programmes and projects that have enabled approximately 400 million poor rural people to grow and sell more food, increase their incomes, improve their food security and determine the direction of their own lives.¹

Women's access to rural finance

Women's access to rural finance can be examined from a number of different vantage points. We discuss here the outlook for women's inclusion in new and expanding rural financial services, their role in remittances, and the impact of an agricultural value chain approach on women's access to finance.

⁶ Adrian Gonzalez, "Microfinance Synergies and Trade-offs: Social versus Financial Performance Outcomes in 2008," MIX Data Brief No. 7, August 2010, available at <http://www.themix.org/publications/data-brief-no-7-microfinance-synergies-and-trade-offs-social-vs-financial-performance-o>

⁷ Miller, Calvin, Sylvia Richter, Patrick McNellis, and Nomathemba Mhlanga (2010). *Agricultural Investment Funds for Developing Countries*. Rome: Food and Agriculture Organization of the United Nations.

Inclusive rural financial services

Millions of women and men in rural areas who were formerly excluded from the financial sector have gained access to financial services on an on-going basis, particularly access to small loans and credit. Innovations in financial services, especially in microfinance, contributed not only to poverty reduction and financial sustainability, but also to economic empowerment, increased well-being and social and political empowerment of women.⁸

Women's access to microfinance services brings a number of economic and social returns. First, **microfinance services can lead to women's economic empowerment**. Women's roles in household financial management improve, in some cases enabling them to access significant amounts of money in their own right for the first time. Women start their own economic activities, invest more in existing activities, acquire assets or acquire increased status in household economic activities through their visible capital contribution. Increased participation in economic activities raises women's incomes or their control of their own and household income.

Second, **increasing women's access to microfinance can increase household wellbeing**. This is partly the result of economic empowerment, but may occur even where women use microfinance services for the activities of other household members. Even where women are not directly engaged in income earning activities, channelling credit or savings options to households through women may enable them to play a more active role in intra household decision-making, benefitting children – especially girls -- through increasing expenditure on their nutrition and education.

Third, **a combination of women's increased economic activity and increased decision-making in the household can lead to wider social and political empowerment**. In some societies, where women's mobility has been very circumscribed and women previously had little opportunity to meet women outside their immediate family, there have been very significant changes. Individual women who gain respect in their households may then act as role models for others, leading to a wider process of change in community perceptions and men's increased willingness to accept change.

Where women are not able to significantly increase incomes under their control or negotiate changes in intra-household and community gender inequalities, they may become dependent on loans to continue in very low-paid occupations, with heavier workloads, while enjoying little benefit. In fact, for some women, microfinance has actually been disempowering when credit became debt.⁹ However, a general pattern of high repayment over the long term justifies a strong presumption that microfinance is not leading to unsustainable indebtedness for large proportions of its clients.¹⁰

⁸ IFAD (2009) Gender and rural microfinance: Reaching and empowering women, Guide for Practitioners, prepared by Linda Mayoux and Maria Hartl

⁹ IFAD (2009) Gender and rural microfinance: Reaching and empowering women, Guide for Practitioners, prepared by Linda Mayoux and Maria Hartl

¹⁰ Consultative Group to Assist the Poor - CGAP (2010), Does Microcredit Really Help Poor People? Focus Note Jan 2010, prepared by Richard Rosenberg

Many poor clients, in particular women, value microfinances as coping tools. The observed behaviour of hundreds of millions of clients demonstrates how important microfinance is for them, as described below.

- When providers make microfinance available to new clients there is hardly ever a need to advertise. Customers arrive in droves, propelled by word of mouth.
- Women not only take out loans, but they repay them with high reliability; In especially tough times, it seems that low-income borrowers are particularly anxious to preserve their continued access to microcredit and other financial services they might need to cope with anticipated shocks.
- Clients find microfinance services so valuable that they are typically willing to pay high interest rates on loans, and accept minimal or no return on savings.¹¹

Increased rural microfinance services need to go hand in hand with business development services so that rural women do not become over indebted or use microfinance as a simple coping tool. Specific “add on” programmes can help microcredit clients, in particular women, to escape the vicious cycle of poverty and debt. The experience of the Bangladesh Rural Advancement Committee (BRAC) shows how to reach extremely poor people by combining access to financial services with a variety of non-financial services, such as livelihoods training. Based on this approach, a Graduation Program sponsored by the Consultative Group to Assist the Poor (CGAP) and the Ford Foundation introduced a successful model that targets the poorest and provides consumption support, either as cash or directly as food, to ensure food security for participants and their families and thus creates peace of mind.

Facilities for savings can be critical. Regular savings help poor people manage risks, build resilience, and reduce the likelihood of having to sell assets when faced with a shock. Savings also contribute to building financial discipline and familiarity with financial service providers. Savings make possible asset transfer to jump-start a sustainable economic activity, matching the right activity to the interest and skills sets of participants, including seedlings and other agricultural inputs, sewing machines, or a stock of commodities to start small shops. The last building block is skills training and regular coaching, business planning advice, social support, promoting health and nutrition, and encouraging positive attitudinal changes along the way.¹²

Despite all efforts, serious challenges remain in establishing microfinance and banking in rural areas due to lack of infrastructure, transport and skilled personnel. On average, only 26 per cent of all bank branches are in rural areas, compared with 45 per cent for cooperatives, 38 per cent for specialized state financial institutions, and 42 per cent for microfinance institutions. Even though a smaller share of commercial bank branches is located in rural areas, they still provide the bulk of rural coverage.¹³ Additional barriers may arise from institutional culture and staff attitudes in interacting with rural women and men that can alienate prospective clients.

¹¹ Consultative Group to Assist the Poor – CGAP (2010), Does Microcredit Really Help Poor People? Focus Note Jan 2010, prepared by Richard Rosenberg

¹² Consultative Group to Assist the Poor – CGAP (2011) Reaching the Poorest: Lessons from the Graduation Model, Focus Note March 2010; prepared by Syed M. Hashemi and Aude de Montesquiou

¹³ Consultative Group to Assist the Poor/The World Bank Group (2010), Financial Access 2010, The State of Financial Inclusion Through the Crisis.

Rural women and remittances

Remittances -- the money migrant workers send home to their families -- provide crucial financial support for millions of people in developing countries. Many rural women leave their villages and migrate to urban areas or abroad to find better employment opportunities and support their families back home through savings and remittances. It is estimated that migrant workers are sending more than 300 billion dollars in remittances to their families every year. These remittances provide the food, clothing and shelter for millions of people around the world. If remittance savings are deposited in a bank or microfinance institution, instead of being kept 'under the mattress', the money can be mobilized to benefit other entrepreneurs. In this way, remittances can become an engine for wider local development, as well as directly reducing poverty for the families that receive them. From 30 to 40 per cent of remittances are sent to rural areas, where financial services are often lacking.

A study prepared by IFAD, INSTRAW and the Filipino Women's Council shows how gender issues influence migration, remittances and local rural development. Filipino migrants in Italy conceive their migratory project as a self-sacrifice for the well-being of future generations. Women save important amounts to ensure remittances reach their households in the Philippines. Remittances are mainly used to finance basic household consumption, but can also become investments into the purchase of land and technology for agricultural production and for the education of migrants' children and siblings. Migration and remittances have also decreased women's participation in agricultural activities.¹⁴

More needs to be done to reduce the cost of sending and receiving remittances and to offer financial products that cater to agriculture and rural development. In Guatemala, for example, the IFAD-funded Guatemalan Salcajá Cooperative introduced a way of doing online, international account-to-account money transfers. The cooperative studied the profiles and needs of senders and recipients, and then designed a marketing strategy to increase membership among remittance recipients.

Supporting value chain development for rural women

Financial services are especially needed to invest in agricultural value chains. In recent years, value chain development has become popular because of its potential to identify the opportunities and constraints involved in commodity production - credit, input supply, technology, infrastructure and human capacity. A value chain can be described as the full range of activities necessary to bring a product from its conception to its end use, and includes design, production, marketing, distribution and other support functions to bring the product to its end-user, including its disposal.

To construct value chains that benefit of poor rural producers and in particular women, it is important to understand and take account of the distribution of power and control among the various actors regarding quantity, quality and prices within the chain. Intervening along the value chain often means enabling poor rural people and women to 'move up' the chain. It also requires concerted efforts to raise the awareness about gender issues of wholesalers, processors and exporters.

¹⁴ IFAD, INSTRAW (2008), Gender, Remittances and Local Rural Development: The Case of Filipino Migration to Italy.

¹⁵ IFAD (2009) Factsheet on Remittances: Sending money home.

A gender-sensitive approach to value chain analysis makes it possible to examine the access to productive activities for men and women individually and in groups, identify differential gender-based opportunities for upgrading within the chain and the gender-based division of activities in a given value chain; and how gender power relations affect economic rents among actors throughout the chain. Value chain projects, when designed with attention to the principle of gender equality, can foster both competitiveness and gender equality.¹⁶

Organization of farmers in general and women in particular into self-help groups or cooperatives is central to increasing farm gate prices and improving the returns and incomes of small farmers within value chains.

Some examples from IFAD supported value chain development programmes include:

- An analysis of traditional oilseeds value chains in Uganda found that there was a distinction in the gender division of work between crops with a stronger commercial focus and a more mature value chain (sunflower and soybean) and traditional food crops that are in the process of becoming commercialised (groundnuts and simsim). Women usually bear most of the workload for food crops, performing at least 50 per cent of the tasks.¹⁷
- Gender-sensitive mapping of the dairy value-chain in India shows that milk processing is predominantly a female activity, but women's access to income from sale of milk depends on their ability to negotiate with male family members responsible for marketing. Adult male family members, or children, bring the milk to the collection point and receive payment. Extension agents and trainers are mainly men and few women are members of milk cooperatives.¹⁸
- Women's activities in backyard poultry production in Bangladesh were disaggregated into a set of activities and value addition that occurs through commercialization and improvement of the genetic material. Women received specialized training on well-defined nodes in the chain, and added value by upgrading and managing the gene flow of improved poultry, cattle or goats.¹⁹
- Under the Gender Action Learning System, spearheaded by Oxfam Novib with the support of IFAD, a mapping of the coffee value-chain in Western Uganda showed that women are heavily involved in coffee cultivation and processing (around 90% of coffee farmers) along with food crop production and household-related tasks. Men own the

¹⁶ USAID (2009) A Guide to Integrating Gender into Agricultural Value Chains (based on Promoting Gender Equitable Opportunities in Agricultural Value Chains: a Handbook). Prepared by Rubin, D. and Manfre, C. for USAID.

¹⁷ IFAD (2011), Gender and Poverty Analysis of Traditional Oilseeds Value Chains in Uganda, Study prepared by Claire Bishop-Sambrook.

¹⁸ Farnworth, Cathy Rozel and Ambra Gallina (2011), Developing Gender-Sensitive Agricultural Value Chains, Forthcoming.

¹⁹ Farnworth, Cathy Rozel and Ambra Gallina (2011), Developing Gender-Sensitive Agricultural Value Chains, Forthcoming.

land and take the main decisions regarding production, but provide little labour input. The project brought about significant changes in gender relations, particularly with regards to land ownership and the gender division of labour. There has also been an improvement of the quality of coffee, which in turn has led to increased income and improved trust between different value-chain actors.²⁰

Farmers' organizations improve producers' bargaining power, enable them to bulk produce and lower transaction costs. Other support mechanisms include on-farm storage (e.g. warehouse receipts) for farmers to benefit from seasonal price fluctuations, contract farming, and out-grower schemes. Many women are involved value-added processing but often face difficulties in meeting certification and quality standards.²¹

Few women farmer and producers reach the international market. By increasing women's participation in smallholder sourcing and support programs, many international food companies can improve crop productivity and quality, grow the smallholder supply base, and improve access to high-value markets.²² Fewer women are members of company contract farming schemes than men. Many companies source from established producer groups and women are typically underrepresented in both the membership and governance of these groups. Sustainability certification schemes are also less likely to benefit women than men. Women are typically underrepresented even in Fairtrade supply chains.

To improve the role of women in value chain development, a number of practical steps are suggested to improve opportunities for women smallholders:

- Increase women's membership and participation in smallholder sourcing schemes
- Ensure that more women benefit from technical training, extension services, and production inputs provided by the private sector
- Ensure that women smallholders benefit from sustainability certification programs and meet sustainability certification standards (e.g. Fairtrade, GLOBALG.A.P, Rainforest Alliance, UTZ CERTIFIED and organic standards).
- Increase opportunities for women within community development projects.²³

Conclusion

Efforts must be made to improve the efficiency of rural microfinance and value chain development, and reduce the risk and the transaction costs that all parties – but particularly

²⁰ Oxfam Novib (2011), Balanced trees bear richer fruits; Annex to Concept Note for a large IFAD grant. Experiences from a small IFAD grant R1161 "Gender Justice in Pro-Poor Value Chain Development", Uganda

²¹ ILO (2012) Value Chain Development: Approaches and activities by seven UN agencies and opportunities for interagency cooperation

²² Bill & Melinda Gates Foundation (2010) Improving Opportunities for Women in Smallholder-based Supply Chains Business case and practical guidance for international food companies, Prepared by Man-Kwun Chan, with advisory input from Stephanie Barrientos

²³ Bill & Melinda Gates Foundation (2010) Improving Opportunities for Women in Smallholder-based Supply Chains Business case and practical guidance for international food companies, Prepared by Man-Kwun Chan, with advisory input from Stephanie Barrientos

women face. To do so it is necessary to change the power relations within the value chains, create greater awareness about gender roles and capture a greater share of the value at farm gate.