United Nations Division for the Advancement of Women (DAW)

Reducing the Gender Dimensions of Poverty Microfinance: Policies and Practices

A synthesis report

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Table of contents

Executive summary 3

1. Introduction 3

1.1 Background 4

1.2 Project objective 4

1.3 Methodology 5

2. Common microfinance arrangements used by women 5

2.1 Informal microfinance arrangements 6

2.2 Formal and semi-formal arrangements 7

2.3 Examples of microfinance institutions 8

3. Microfinance and women's empowerment: existing constraints 9

3.1 Constraints related to the nature of microfinance services 12

3.2 Constraints related to the impact assessment of microfinance 14

4. Microfinance as a strategy for reducing the gender dimensions of poverty 14

4.1 Microfinance as a tool for women's empowerment – key issues and recommendations 14

4.2 Influence of culture and tradition on microfinance effectiveness – key issues and recommendations 16

4.3 How poor is poor? Targeting microfinance services – key issues and recommendations 17

4.4 The purpose of microfinance programmes – microfinance for cash management and wealth creation – key issues and recommendations 19

4.5 Evaluating the impact of microfinance programmes – key issues and recommendations 21

4.6 Support measures – key issues and recommendations 25

5. Levels of intervention to improve microfinance effectiveness 27

1. Intervention at the level of capacities and capabilities 28
2. Intervention at the level of microfinance institutions' mission 29
3. Enabling environment 30
4. Beliefs, culture and values 31

Abbreviations 33

List of annexes 34

EXECUTIVE SUMMARY*

Microfinance is seen as an important aspect in strategies that address the gender dimensions of poverty. Given the growing number of microfinance services targeted at women, the Division for the Advancement of Women (DAW) examined experiences and lessons learned in relation to microfinance to answer the following questions: Do microfinance schemes improve poor women's livelihoods on a sustainable basis? Do microfinance schemes target and reach those women who should benefit the most? Do microfinance schemes empower women? What are the key factors in the success and failure of microfinance schemes?

The project "Reducing the gender dimensions of poverty: Microfinance policies and practices" aimed to assess the viability of microfinance as a poverty reduction strategy and as a tool for the empowerment of women in Africa, on the basis of experiences and views of practitioners from all stakeholder groups. The project consisted of three components: a desk study, an on-line discussion, and two sub-regional consultations in Africa. The principal findings from the three components are summarized in the present report.

The report first gives a synthesis of the major constraints for using microfinance as a strategy to reduce poverty among women. It then identifies a number of areas that require attention in using microfinance as a tool for women's empowerment, including the influence of culture and tradition, targeted use of microfinance, the purpose of microfinance programmes, the understanding of the impact of microfinance programmes, and support measures to enhance microfinance.

The report further suggests four levels of intervention that will help concerned stakeholders to identify and articulate the nature and scope of their respective interventions, namely: capacities and capabilities of microfinance users and microfinance institutions; missions of microfinance institutions; external and internal factors; and beliefs, culture and values of microfinance users and their families and of microfinance institution staff, management, board and supporters.

Drawing from participants' experiences, the project generated a string of recommendations aimed at improving microfinance as a strategy for reducing the gender dimensions of poverty and enhancing women's empowerment.

The project did not recommend one specific minimum package or one single strategy for empowering women through their access to and use of microfinance. Instead, the recommendations and support measures should serve as practical guides for stakeholders' actions in any of the subject areas discussed.

**A draft of this report was prepared by Ms. Jette Jensen who served as a consultant to the Division for the Advancement of Women.*

1. INTRODUCTION

1.1 Background

Since the adoption of the Beijing Platform for Action (1995), the gender dimensions of poverty have become increasingly recognized, as has the need for specific strategies in support of women living in poverty. Among these, strategies that enhance women's access to and use of microcredit and microfinance services as a means of improving their livelihoods have received particular attention.

Microfinance in various forms is a significant source of financial services for many women in developing countries. Microfinance programmes[1] offer savings facilities and small loans that suit women's needs without requiring collateral or posing other conditions typical of the formal banking system. Microfinance programmes often combine financial services with other services, including in the areas of education, health, or entrepreneurial skills development, that enhance users' capabilities and facilitate their empowerment. But do microfinance schemes improve poor women's livelihood on a sustainable basis? Do microfinance schemes target and reach those women who should benefit the most? Do they empower women? Clarifying the key factors in the success or failure of microfinance schemes will help to determine their suitability for successful replication within different institutional frameworks and across cultures and economic systems. Against this background, it has become necessary to examine more closely the experiences gained with microfinance programmes.

In 2001-2002, the Division for the Advancement of Women (DAW) of the United Nations (UN) implemented a project entitled "Reducing the gender dimensions of poverty. Microfinance: policies and practices", with particular emphasis on the Africa region, in order to contribute to a better understanding of the impact of microfinance on poor women's livelihoods. The project consisted of a desk review of the literature, an on-line discussion, and two sub-regional consultations. The present report provides a synthesis of the insights gained from these three components. Chapters 2 and 3 draw from the desk review of the literature and highlight principal constraints women face in using microfinance as a tool for reducing poverty. Chapter 4 reflects the discussions and recommendations of the two consultations, and incorporates comments and observations from the on-line discussion, while chapter 5 summarizes four levels of intervention relating to microfinance users and microfinance institutions.

1.2 Project objective

The project aimed to assess the viability of microfinance as a poverty reduction strategy and as a tool for the economic empowerment of women in Africa on the basis of experiences and opinions of practitioners in the field.

In pursuing this objective the project sought:

a) to assess microfinance schemes for women globally;

b) to strengthen collaborative efforts among relevant stakeholders;

c) to identify methods by which microfinance schemes and strategies can be improved and replicated; and

[1] The term microfinance is commonly used as an umbrella term to refer to a range of services, including credit, savings, and other financial services like pensions and insurance.

d) to develop a "minimum package" for empowering women to access and utilize microfinance.

1.3 Methodology

The project consisted of three components: a desk review of the literature was undertaken in early 2001, an on-line discussion took place in June-July, 2001, and two sub-regional consultations were held in Africa in April, 2002. The desk review provided an overview of the current status of the microfinance debate and identified a range of critical policy issues[2]. The on-line discussion served to solicit the views and identify and discuss the particular concerns of relevant stakeholders and included a large number of practitioners, user groups, specialists, academicians and donor representatives. The on-line discussion contributed towards creating a dialogue among stakeholder groups and the identification of recommendations for improving microfinance schemes[3] (see annex A for an overview of the discussion topics). From the findings of the desk study and the issues that emerged from the on-line discussion, a set of topics were selected for further analysis at two consultations for practitioners from Francophone and Anglophone Africa[4] (see annex B for the agenda of the two consultations). The consultations provided a forum for exchange of experience and networking among stakeholders, and resulted in a series of recommendations to enhance microfinance as a poverty reduction strategy for women.

The project sought to obtain input from representatives of all stakeholder groups. A total of 115 participants[5] took part in the project, representing microfinance user groups (women's groups), microfinance providers, NGOs, governments, UN agencies and bilateral donors, academicians and gender specialists from Africa and other regions. Overall, microfinance providers accounted for 23 per cent of all participants. Specialists, researchers and academicians formed a relatively large proportion of participants, 23 per cent, especially in the on-line discussion, but their contributions were less frequent than those of provider and user representatives. Bilateral donors were well represented in the on-line discussion, while government representatives took a very active part in the consultations. The group with the lowest representation were users who constituted just 10 per cent of the participants. While their interests were expressed by microfinance providers, women's groups, gender specialists and/or government officials from women's departments, a more sustained and extensive participation of women microfinance users would have been desirable.

The methodology proved effective in reaching a large, diversified and relatively balanced number of stakeholders. The on-line discussion clearly favoured participants with internet access, but telephone contacts and fax messages were used to ensure participation by those with irregular internet access. Participants felt that the number and quality of on-line contributions were above those of comparable electronic discussion forums (see annex C for a summary of the lessons learned).

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[2] Ekujiuba (2001) and DAW Synopsis of Desk Review.

[3] A report on the on-line discussion is available with DAW: Jensen (2001).

[4] Reports on the sub-regional consultations are available with DAW: Chikhaoui (2002) and Jensen (2002).

[5] 74 persons participated in the on-line discussion, 22 in the Francophone and 24 in the Anglophone consultation. 5 took part in both the on-line discussion and in one of the consultations.

As a result of the project, a number of key issues were identified that need to be addressed in order to further improve microfinance as a possible strategic tool for reducing poverty among poor women.

2. COMMON MICROFINANCE ARRANGEMENTS USED BY WOMEN

The present chapter summarizes the main elements from the desk review of the literature. It is thus not limited to experiences with microfinance in the African region.

2.1 Informal microfinance arrangements

(a) Group-based arrangements

There are many and varied systems which facilitate financial transactions that are group-based and owned by their users. They range from simple reciprocal arrangements among neighbors, savings clubs and rotating savings and credit associations (ROSCAs), to insurance schemes, building societies and cooperative finance[6]. Among women in Africa, ROSCAs, in particular, are popular and go under various names such as "esusu", or "merry-go-round", "tontines" or "kibati". The ROSCAs represent very simple financial intermediation schemes based on the principle that each member of the group saves a fixed amount of money on a regular basis resulting in the availability of a single lump sum that can be allocated to a member according to the rules of the group. Systems of cooperative services exist for many groups, including of poor, educated or illiterate persons of artisans, farmers, market women, neighbors or building societies. Examples include savings clubs in Mexico, building societies in Bangladesh and popular insurance (funeral funds) in Ethiopia. These schemes provide acceptable solutions for the group's self-defined problems on self- determined terms[7].

(b) Individual-based arrangements

In addition to money-lending from relatives, friends and neighbors that usually do not charge fees or interest, the individual-based financial service providers fall into two groups: deposit takers and moneylenders. The deposit takers collect, record and keep regular deposits from users, normally at a fee. The charge for these services vary, but often amount to one day's saving a month. Women's use of this arrangement is indicative of women's desire to save small amounts of money in places where their husbands and families cannot gain access. The willingness to enter such schemes also reflects the trust that collectors enjoy among users.

Money-lending can take the form of loans against collateral in physical assets (by pawnbrokers), advances against crop sales, trade credits, or loans from professional money lenders. This form of credit can be exploitative when poor people face seasonal shortages and only have one source of credit. This may be, for example, the case of an employer or supplier of agricultural input who will only give the loan provided that the borrower promises to work at below the going wage–rate, sells his/her harvest to the lender at the lowest post-harvest price, or provides loans at exorbitant interest rates. On the other hand, moneylending can also be enabling if loans are made on reasonable terms allowing the borrower to overcome her/his particular

[6] This section is adapted from Johnson and Rogaly (1999).
[7] This section is adapted from Johnson and Rogaly (1999). For a detailed description of advantages and disadvantages of ROSCA's see Johnson and Rogaly (1999). P. 23-25, Robinson (2001), page 241, or Ledgerwood (1999).

problem or achieve her/his desired goal. While high real interest rates may indicate exploitation, they may also account for the high risks involved.

(c) What can be learned from informal microfinance arrangements?

While informal microfinance services may exhibit some limitations, their popularity shows that there is a demand for such financial services. Demand for services is highest for deposits, particularly by poor women, indicating their willingness and ability to save. The transaction costs for these services are low, e.g., costs other than interest fees such as travel time, paper work, etc. Given the local context of informal microfinance services, reputation works as a strong social incentive to save and repay in a disciplined manner. The variety of informal microfinance arrangements further suggests that these systems are highly adaptable to different economic conditions and changing circumstances.

2.2 Formal and semi-formal arrangements

Formal sector providers of microfinance services are institutions that are governed by banking regulations[8]. They may have their origin in the banking sector itself, such as commercial banks, savings banks, rural banks, postal savings banks, labour banks, cooperative banks or development banks. In several instances, banks have created subsidiaries that specialize in the provision of microfinance services. The formal sector also includes building societies, pension funds and insurance companies that may offer microfinance services. These are the types of institutions that women users would go to if they would attempt to access the formal sector institutions. However, many commercial banks and parastatal financial institutions have not adapted their services to the needs of small, poor, and remote-location users. In addition, microfinance services offered by some of these institutions have proven not to be financially viable. The International Fund for Agricultural Development (IFAD) has reported that many agricultural development banks in Western and Central Africa have gone bankrupt over the last decade or face other problems in servicing their users [9].

Microfinance providers in the semi-formal sector are governed by regulations other than banking regulations, allowing them to offer a mix of services that are adapted to the needs of users without the strict conditions that normally apply to the formal financial sector. These institutions range from limited liability companies, credit unions, village banks, social welfare organizations, to NGOs and development projects.

Microfinance institutions take either a minimalist or an integrated approach to the provision of services. A minimalist approach means the provision of financial services only, namely, deposits, loans, insurance, or pension services. An integrated approach includes the provision of financial as well as non-financial services related to (i) enterprise development support, such as bookkeeping, and business planning, (ii) social services in health, literacy and other types of education and life skills, and (iii) social intermediation related to group formation, leadership training, or cooperative learning. According to the literature, the provision of non-financial services facilitates the process of empowerment of women.

This report is limited to an assessment of the services provided by the formal and semi-formal microfinance sector, referred to as microfinance institutions, as the services offered by such microfinance institutions constituted the main focus of the project.

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[8] This section is in part adapted from Ledgerwood (1999).

[9] IFAD (2001), page 58.

2.3 Examples of microfinance institutions

The microfinance institutions that took part in this project, i.e. the on-line discussion and/or the consultations, are typical of those that target women. Very few, like the "Banque National pour le Dévéloppement Economique" (Burundi), were formal banking institutions. Most participating microfinance institutions were semi-formal institutions taking either a minimalist or an integrated approach to the provision of microfinance services. FINADEV (Benin), a fully commercial, profit-seeking stock company, and Citi Savings and Loans Company Ltd. (Citi S&L) (Ghana), were examples of minimalist microfinance institutions. The latter does, however, offer entrepreneurial training to users of a donor-supported revolving fund.

Most of the participating microfinance institutions were integrated, semi-formal institutions. They all offer a variety of non-financial services adapted to the needs of their user groups. These services range from social services in health, literacy, other education, life skills, enterprise development support services, such as bookkeeping, business planning, marketing, to social intermediation such as life skills, family conflict resolution, and leadership development.

Participating microfinance institutions had different legal status according to national regulations and the particular services they offered. Some microfinance institutions originated in women's associations that had expanded their services to include microfinance, such as the National Association of Business Women (Malawi), or the African Traditional Responsive Banking (ATRB) (Nigeria), established and owned by the Country Women's Association of Nigeria (COWAN). Others carried the status of a social welfare organization, also licensed to carry out money lending, like Zambuko Trust (Zimbabwe). One microfinance institution was an independent charitable trust with a co-operation agreement with an NGO (Small Enterprise Development Agency (SEDA), Tanzania, and World Vision International). Credit unions constituted another group of participating microfinance institutions, such as Yétémali de Conakry (Guinea), Caisse Malienne du Secteur Informel (Mali), and Mutuelle des Associations Féminines d'Epargne et de Crédit (Mauritania), as did foundations, such as Foundation Zakoura (Morocco). One example of a microfinance institution is highlighted in Box 1.

Box 1. African Traditional Responsive Banking (ATRB), Nigeria

African Traditional Responsive Banking (ATRB) offers a mix of services that respond to users' savings needs and the likely life events and risks they face, as follows:

Savings: Daily savings, group monthly savings (also from esusu groups), enabling savings (savings tied for three years at higher interest rates, but without eligibility for loan services. These are savings by richer people and serve to show solidarity and add to ATRB's capital).

Group Loans: Small group loans (5 members), community center loans for five groups (e.g. 25 members), medium community-based enterprise loans for 2-3 community centers (10-15 groups, 50-75 members). Technological/community enterprise savings (after 3 years of saving, groups of 5-10 can apply for a loan to run a community-based enterprise). All users must be shareholders in ATRB.

Special Loans: Widow loan scheme, children's savings and loans that give the right to an education loan or a loan from the youth business promotion fund.

Health Development Fund: Every group saves monthly toward this fund from which any member can take a loan during the serious illness of self or family member.

Training: ATRB offers training in business and community development.

As a principle, ATRB is owned by its users who are members of COWAN and operates in 28 states with some 7,000 women cooperatives groups and a total membership of more than 220,000 (1997)*

*Chief Bisi Ogunleye (1997).

3. MICROFINANCE AND WOMEN'S EMPOWERMENT: EXISTING CONSTRAINTS

The desk study identified a number of constraints for using microfinance as a strategy to reduce poverty among poor women and as a tool for the economic empowerment of women in Africa. These relate to the nature of microfinance services and the way they are delivered and used, and to the limitations in impact assessments of microfinance in terms of poverty reduction, and empowerment of women. These constraints are summarized in Box 2.

Box 2. Constraints identified in the desk review

Constraints in access to financial services by women: Legal constraints, lack of collateral, inconvenient or inaccessible location of financial service outlet, high fees and charges, complex application, women's lack of numerical skills, illiteracy, lack of minimum savings to join ROSCA, short supply of formal and semi- formal microfinance services.

Lack of control over microfinance loans by women users: Loan use is influenced to varying degrees by male household members. Women serve as intermediaries to microfinance institutions. Resentment by male relatives can lead to negative dynamics in the household.

Lack of sustainability of microfinance institutions: Many microfinance institutions are not financially sustainable which may affect their long-term ability to serve users.

Lack of sustainability of micro-enterprise projects based on microfinance: Size of projects too small to generate lasting increase in income and wealth. Many 'income-generating-projects' are not commercially viable.

Shortcomings in definition, measurement and analysis of poverty among women: Poverty definitions based on household surveys do not reflect intra-household consumption patterns or income and asset distribution. Broader poverty definitions that include social indicators exist, but their applicability suffer from lack of sex-disaggregated statistics.

Shortcomings in measurement of women's empowerment: Existing indicators are too general to link microfinance strategies to women's empowerment. Indicators for the assessment of individual microfinance programmes to be tailor-made in order to be meaningful, which is costly.

3.1 Constraints related to the nature of microfinance services

(a) Constraints in access to financial services by women

Women in particular have found it difficult to access financial services provided by the mainstream banking systems. Banking laws may contain discriminatory provisions, and inheritance laws, property rights provisions and matrimonial property rules may also discriminate against women and prevent them from concluding loan contracts or provide conventional collateral. From the point of view of banks, the small scale and seasonality of the financial needs of many women does not make them an attractive client group. As a consequence, many women use microfinance services.

Access to microfinance services may, however, also be difficult. Women may lack the time and money required to undertake repeated journeys to the nearest microfinance institutions. High formal and informal loan application fees can also restrict access, as can biased attitudes by (male) microfinance institution staff. Women's low levels of literacy and numeracy skills may also constitute an obstacle to access. At the same time, women do enjoy easier assess to financial services than men where microfinance institutions specifically target women.

In informal microfinance schemes, the poorest women may be excluded from, for example, ROSCAs because they may find it difficult or impossible to save the amount required, or may be restricted in their access to money lenders by their poor credit history or indebtedness.

There is also a shortage of microfinance services to serve the potential demand. According to the Microcredit Summit Campaign, 1,567 microfinance institutions reach some 30 million clients worldwide. 613 microfinance institutions of these are in Africa reaching slightly over 5 million clients, of which about half are categorized as "poorest women"[10]. While this estimate is neither comprehensive, nor includes microfinance services offered by formal banks or the informal market, the figures point to a wide gap between supply of financial services and potential demand[11].

(b) Lack of control over microfinance loans by women users

Commentators have observed that women do not always control the use of the loans they have obtained, and that male family members strongly influence loan use. In some cases, women are intermediaries between male members of the household and microfinance institution staff. This has been particularly well documented in Bangladesh among the large microfinance institutions. One survey found that 22 per cent of women users had no control at all over their loans, and only 18 per cent had full control, leaving 60 per cent in varying degrees of control[12]. Similar patterns have been observed in other countries. Where microfinance institutions target women users exclusively, the incentive for men to use women as intermediaries is further accentuated. Moreover, men's resentment towards women in their household who have obtained loans has led to cases of domestic violence. On the other hand, the most economically successful families among the poor were those in which both husband and wife were economic actors in their own right working in partnership. These experiences are indicative of existing intra-household power relations. Lack of empowerment of women is thus an area requiring further attention.

(c) Lack of sustainability of microfinance institutions

Microfinance institutions must be financially self-sustainable if they are to provide long-term reliable services to users – women and men. Most literature refers to the "viability" or "financial sustainability" of microfinance institutions as their ability to cover costs from earned revenue[13]. Three levels of viability are identified: (a) subsidy dependent, (b) operationally self-sufficient, and (c) fully financially self-sufficient, whereby the difference between (b) and (c) refers to adjustment for cost of capital and subsidies. Most microfinance institutions fall into category (a) and relatively few into (b) and (c)[14]. Many studies categorize microfinance institutions by their *degree* of operational self-sufficiency or financial self-sufficiency.

There is an on-going debate as to whether the emphasis on financial self-sufficiency leads to a trade-off between financial and social goals, especially with regard to the empowerment of

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[10] Kate Druschel et al: "State of the Microcredit Summit Campaign Report 2001", pages 3 and 12. Figures as of 31 December 2000.

[11] The demand for institutional microfinance services is cited in Robinson (2001) as a crudely estimated figure of 360 million households, page 11. Robinson also explores the size of informal markets concluding that they are "widely prevalent in many developing countries", page 174.

[12] This refers to research undertaken by A. Goetz and R. Sen Gupta in 1996: "Who Takes the Credit? Gender, Power and Control over Loan Use in Rural Credit Programmes in Bangladesh", referred to in Linda Mayoux, (2002) pages 12-13.

[13] The Microcredit Summit Campaign refers to the "Institutional Financial Self-Sufficiency" of an microfinance institution as its ability to cover all actual operating expenses from income generated from its financial services operations, after adjustments for inflation and subsidies, as appears in Gibbons and Meehan (2000), Glossary of Terms. See also Ledgerwood (1999), page 215, or Johnson and Rogaly (1999), page 61.

[14] Robinson (2001) page 56, referring to a 1995 survey conducted by USAID.

women. The Microcredit Summit Campaign which examined this issue in a recent paper[15], found that 'empowering approaches' in providing microfinance, such as short turn-around time between loan approval and disbursement, or respectful treatment of clients, are no more costly that other ways of achieving organizational efficiencies. The paper also points to synergies that can be achieved in the provision of financial and non-financial services. While cautioning that donor funding criteria linked to high degrees of financial sustainability lead many microfinance institutions to perceive empowerment programmes as "luxuries", the paper also presents evidence from a great number of microfinance institutions with a strong focus on empowerment that maintain high levels of operational and financial sustainability[16].

The emergence of minimalist institutions such as FINADEV (Benin) is evidence that bankers and investors consider it possible to provide profitable microfinance services that have a clear focus on women's financial needs. Within the context of the present report it has not been possible to assess, however, whether minimalist microfinance institutions reach high levels of financial sustainability within a shorter time than microfinance institutions that take an integrated approach.

The literature notes that some informal microfinance institutions, such as ROSCAs and other saving clubs, are financially self-sufficient because they rely on volunteer input. This has led to suggestions of adding resources to such clubs as a way of scaling up their activities and widening their impact. However, it is also argued that external resources may undermine members' incentive to continue accumulating their own capital. Informal savings clubs also depend strongly on the discipline and commitment of leaders and members[17], thus making them more vulnerable to financial failure.

Microfinance institutions, governments and donors need to address clearly the sustainability of microfinance institution. Questions such as the acceptable level and extent of subsidy dependency, in relation to the desired scope of services to users, must be resolved.

(d) Lack of sustainability of micro-enterprise projects based on microfinance

Micro-enterprise projects must be viable and sustainable if they are to reduce poverty. A major concern in this respect is the size of projects supported by microfinance loans. Loans obtained by women tend to be small compared to those obtained by men, because poorer women tend to be more risk averse, prefer to draw on own savings, or may have limited access to credit because of their credit history or compulsory savings requirements of a microfinance institution. Thus, their project activities remain on a small scale or, at best, grow very slowly[18].

Many non-viable micro-enterprise projects have been financed, typically by NGOs, in the spirit of promoting self-awareness among women, and of social mobilization. Loans approved for such failing projects were converted into grants leading to a disadvantage for microfinance institutions vis-à-vis the grant-making NGO and a reduction in the level of commitment of borrowers to repay[19].

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[15] Cheston and Kuhn (2002), page 15,16, 28.

[16] Similar evidence of microfinance institutions reaching operational or full financial self-sufficiency is also provided in Johnson and Rogaly (1999), page 61, and among case studies.

[17] Johnson and Rogaly (1999), page 64, and Robinson (2001), page 241.

[18] IFAD, "Gender perspectives- Focus on rural poor", page 11.

[19] Comment contributed by a staff member of ActionAid in Northern India and confirmed by other participants.

Given these constraints, the size and purpose of loans require further examination to enhance the sustainability of microfinance projects. In particular, the purpose of loans, consumption or investment, should be clear. Microfinance graduation mechanisms that can move women users from subsistence activities to long-term wealth-creation activities should be assessed. Project appraisal and loan application procedures of microfinance institutions also require attention.

3.2 Constraints related to impact assessment of microfinance

(a) Shortcomings in definition, measurement and analysis of poverty among women

The definitions, measurement and analysis of poverty mostly focus on income and consumption patterns. However, it is difficult to determine the exact depth and extent of poverty among women[20]. Sex-disaggregated income statistics on women's participation in the formal labour market rarely exist. Income and consumption patterns are expressed in standard of living measurements based on household surveys that do not reflect the intra-household distribution of income and assets, and intra-household consumption patterns. Factors such as household diversity with regard to size and structure, resource allocation within the household (pooling of resources for common welfare or allocation for individual welfare and the associated decision-making process), and responsibilities among household members for meeting daily consumption needs are important aspects in determining women's poverty[21].

The broadening of the understanding of poverty and the shortcomings of conventional income poverty measures have led to efforts to develop alternative indicators that include measures of social deprivation and well-being. Such social indicators include measures for life expectancy, maternal mortality, educational levels, nutritional levels, and access to safe drinking water, and are essential for analyzing the gender dimensions of poverty. They have been applied to construct composite indicators of poverty, such as the UNDP Human Poverty Index[22]. The main constraint in applying such indicators is the lack of sex-disaggregated data.

The absence of accurate measures of poverty among women impedes any broad assessment of the overall effectiveness of microfinance as a strategy to reduce women's poverty, and in reaching poor women. At the level of individual microfinance programmes, these shortcomings have implications for the targeting of microfinance programmes to specific user groups.

(b) Shortcomings in measurement of women's empowerment

The empowerment of women has recently been described as the process by which women take control over their lives, acquiring the ability to make strategic choices[23].

[20] See Bridge Briefing Paper on the Feminisation of Poverty.

[21] For a literature review on poverty, women and resources, see IFAD, 2001, Assessment of Rural Poverty, Western and Central Africa, Appendix II, pp. 87. See also Blackden and Bhanu, 1999.

[22] Division for the Advancement of Women (DAW), 2001, document: Report of the Expert Group Meeting on "Empowerment of Women Throughout the Life Cycle as a Transformative Strategy for Poverty Eradication (EGM/POV/2001/Report), pp. 3, 4 and 94, 95.

[23] Commission on the Status of Women (CSW), Agreed Conclusions 2002 on eradicating poverty, including through the empowerment of women throughout their life cycle, in a globalizing world, E/2002/27. This section is adapted from UN, Economic and Social Council, Document E/CN.6/2002/9, paras 48-69, and the Report of the Expert Group Meeting on "Empowerment of women throughout the life cycle as a transformative strategy for poverty eradication", convened by the Division for the Advancement of Women from 26-29 November 2001, in New Delhi, India (EGM/POV/2001/ Report), paras 69-98.

Empowerment is thus the process of acquiring the ability to make strategic life choices in a context where this ability was previously denied. Empowerment is both a goal and a process. While empowerment is a process of change that can only be driven by women themselves, it can be facilitated by others. Empowerment involves changes on several levels that are mutually reinforcing: individual level, group/community level, as well as at the level of society and its institutions.

Lack of empowerment, visible in lack of access to, or control over resources, physical goods and income, results in deprivation, vulnerability and powerlessness. Since lack of empowerment has been recognized as an underlying cause of poverty, empowerment of women has been proposed as a strategy for addressing poverty.

Very few indicators exist for measuring the empowerment of women. The Millennium Development Goals set out as their third goal gender equality and the empowerment of women[24]. One of the indicators applied to measure the attainment of this goal is the share of women in wage employment in the non-agricultural sector. However, this simple indicator is available only for 69 countries, and does not capture the realities of most poor women, and is too general in nature to gauge a presumed impact on women's empowerment from providing microfinance. The UNDP Gender Empowerment Measure combines women's income–earning power, share in professional and managerial jobs, and share of parliamentary seats. Again, it measures empowerment at the national level through the accumulated effect of a broad array of measurements that does not allow for any conclusions regarding the impact of women's access to and use of microfinance.

Microfinance projects frequently endeavour to include gender aspects in the entire process, from programme design and implementation, to monitoring and evaluation[25]. The difficulty rests in designing objective and verifiable indicators that reflect the intended - and unintended - changes in women's empowerment resulting directly from microfinance schemes. A gender and empowerment assessment introduced by the Norwegian Agency for Development Cooperation (NORAD) measures how a given project has impacted on ten variables believed to influence the process of empowerment of women as well as men[26]. These variables are 'access to basic infrastructure', 'access to resources and/or technology', 'control over resources and/or technology', 'better health', 'opportunities for education and training', 'income opportunities', 'barriers to women's participation', 'women as active partners in the project', 'women's opportunity to organize', and 'women's democratic rights'. These variables may have potential for application in the assessment of microfinance programmes, but adaptation to the specific microfinance context would be needed.

The absence of indicators of empowerment that link the impact of microfinance to users' 'empowerment' remains a constraint in determining whether microfinance is a viable strategy for women's empowerment. The challenge, therefore, is to develop and undertake cost-effective tailor-made surveys to translate empowerment goals into microfinance policies.

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[24] General Assembly Resolution 55/2, September 2000, Millennium Declaration, and Report of the Secretary-General, Road Map towards the implementation of the United Nations Millennium Declaration, A/56/326.
[25] Johnson, Gender and microfinance – Guidelines for good practices.
[26] NORAD, 1999, Handbook on Gender and Empowerment Assessment, page 14.

4. MICROFINANCE AS A STRATEGY FOR REDUCING THE GENDER DIMENSIONS OF POVERTY

This section summarizes selected key issues associated with microfinance as a strategy for reducing poverty among women, and recommendations made at the two consultations and during the on-line discussion as well as those that emerged from the desk review.

4.1 Microfinance as a tool for women's empowerment – key issues and recommendations

Project participants felt that women's economic empowerment was closely linked to other aspects of empowerment, such as social empowerment (status and participation in household, group, community and society), and personal empowerment (referring to self-awareness and self-esteem). The notion of achieving spiritual empowerment was also mentioned. Participants embraced all aspects of empowerment, but discussed separately the impact of financial services *strictu sensu* from the impact of non-financial services that may be offered in conjunction with microfinance programmes.

Lack of empowerment was cited in the on-line discussion as a reason why women in general have better repayment records than men. In turn, microfinance institutions prefer women as users because of their better repayment records[27]. .

Project participants identified a range of positive and negative impacts on women's empowerment resulting from their access to financial services. They highlighted the positive impact on women's economic empowerment. Countless women benefited from savings and credit services to improve their financial situation and/or become successful entrepreneurs. Women also experienced increased self-esteem, courage, peer respect and social acceptance and recognition, and had become community spokespersons and leaders. This growing group of women served as important role-models for others.

On the other hand, participants also observed many negative impacts on women using financial services. The following were mentioned:

- women are, at times, not in control of the credit they obtained which may be appropriated by husbands, brothers, or other more powerful family members;
- women's income is used as an excuse by husbands to disengage from their responsibility for some household expenditures, leaving a greater financial burden on women[28];
- women's credit for productive purposes leads to increased work burdens as the recipient has to work at her business as well as take care of house and family;
- women's business activities take them away from the home which leads some husbands to mistrust their wives;
- women's increased assertiveness as a result of successfully managing money and credit makes some men feel insecure and their resentment can lead to negative

[27] This refers to a quotation from Kristin Helmore and Naresh Singh (2001) made in the on-line discussion.

[28] Similar incidences were reported in the on-line on a microfinance evaluation in Uganda. See also Mayoux (2002), page 13, referring to cases in Africa where men had used the freed income to marry other wives and set up a new household.

dynamics in marriage, resulting in divorce, abandonment, verbal, psychological or physical harassment and violence;

- women's debt burden is unnecessarily increased through supply-driven microfinance, while women's real needs are often ignored.

Microfinance – A quick fix?
A donor representative contributed the following experience to the on-line discussion: *A 68-year old widow in Jakarta has been selling loose tea leaves for 50 years. She gets a loan from a donor supported microfinance programme to expand her business. The microfinance programme is very happy to lend her the money because she is poorer than most other users. As part of an informal impact-oriented assessment of the programme, she is asked what she did with the money, how it affected her etc. After much fearful diversion, the tea seller admits that the loan did not change her profits or her household income apart from increasing her overall debt. In fact she had to give half of the loan to her younger and more powerful sister who did not and maybe never will repay the money because she thought this was a gift from the government. But why did she take the loan in the first place? Well, it was easily available and maybe it would help her. It also turned out that she, independently of the loan, maintained a little savings account with the same microfinance programme but she did not connect the two. There was an oversupply of micro-credit and no incentive in the microfinance programme to assess what could really improve the life of a prospective user. Maybe an invitation to a women's center to talk about problems, learn some basic skills to mediate conflict or similar? But the micro-credit was a quick fix.*

Participating representatives of microfinance institutions were aware of these negative impacts, and recognized the limitations and possible negative, unintended consequences of credits on women's empowerment. Group activities should not only serve as "collection-events" but lead to real group formation in support of empowerment.

The consultations found that non-financial services greatly contributed towards enhancing women's empowerment. Not only do women learn a skill or acquire useful knowledge, but they also gain confidence in themselves, get courage to take decisions, accept new responsibilities, take on leadership roles, and learn how to resolve conflicts. Examples of such non-financial services mentioned during the on-line discussion included lectures on health care offered by Kashf Foundation (Pakistan), with the result that women saved money on visits to health care centers and doctors, and gained self-esteem through enhanced knowledge. Weekly discussions on family affairs organized by Zambuko Trust (Zimbabwe) featured a topic entitled "How to manage your husband and mother-in-law".

Project participants stressed the importance of tailoring microfinance services to fit clients' demands/needs. Credit works to improve women's lives only if women have unmet demands/needs for credit. Other needs should be addressed by other strategies. "When your only tool is a hammer all problems become nails", as one participant stated during the Ghana consultation recognizing that microfinance is not the solution to empowerment issues in general.

Participants recognized that, far too often, poor women – and men - were not consulted in defining their own needs. They encouraged the use of participatory approaches that would involve members of the target group in designing the programmes and services that they believe will improve their situation.

Box 3

Microfinance as a tool for women's empowerment– Summary of recommendations
Problem observed: Many microfinance programmes do not result in empowerment of women, economically, socially or personally. This is because many microfinance programme administrators and other stakeholders are unaware of, or ignore, the complexity of the empowerment issue.
Desired outcome: That women are empowered economically, socially and personally, and that male members of households embrace this development.
Recommendations: • Clarify women's demands/needs in microfinance project design, implementation, monitoring and evaluation. This applies to microfinance institutions as well as governments, NGOs and donors; • Microfinance institutions to use participatory approaches in designing financial product mix and non-financial services for target groups. Consequently, training in participatory approaches to be offered to microfinance institutions and other stakeholders; • Microfinance institutions to improve gender balance, not only among loan officers and other staff, but also at managerial levels and on the Board; • Integrated microfinance institutions to pursue empowerment of target groups as explicit goal, offering non-financial services covering life skills, functional literacy, awareness of rights, decision-making and other topics that will lead to development of personal capacities, greater self-esteem, enhancing social behaviour and status; • Minimalist microfinance institutions to be aware of limitations of microfinance stand-alone services and consider seeking partnership with user groups or NGOs to provide complementary non-financial services.

4.2 Influence of culture and tradition on microfinance effectiveness – key issues and recommendations

According to participants, a variety of factors contribute to the positive impact of microfinance services. Commitments to community, solidarity and mutual support that are prevalent in many cultures, as well as peer presence are important positive aspects. Local government commitment also enhances effectiveness, as does local support for capacity-building. Experiences gained from traditional savings and credit schemes can usefully be applied to microfinance programmes. Participants also suggested that in some societies, women appeared to possess inborn entrepreneurial talent.

On the other hand, a number of factors that negatively affect the impact of microfinance were also mentioned, including local and regional beliefs, and stereotypical attitudes and male prejudices against women. Traditional expectations and upbringing of female children can also create a bias against their empowerment. In some cultures and traditions, certain proverbs create obstacles for women to embrace entrepreneurship. Colonial legacies concerning women's roles also created new stereotypes about gender roles.

In particular, traditional beliefs could prevent users from undertaking new or different types of micro-enterprise activities, or from using new technologies. Similarly, cultural or local perceptions and attitudes could prevent users from going into certain vocations or types of work. In both cases income and employment opportunities are missed. The Amhara Credit & Saving Institution in the Ethiopian Central Highlands reported that such cultural biases keep users in traditional farming and trade activities rather than encouraging them to venture into black smithy, tanning, pottery, embroidery, weaving and other handicrafts, that would have greater income potential.

With new microfinance schemes constantly coming on stream, participants favoured approaches that build on the best of traditional values and microfinance practices of the community.

Box 4

Influence of culture and tradition on microfinance effectiveness – Summary of recommendations
Problem observed: Culture and tradition can impede the full benefits of microfinance to take effect. Some microfinance programmes do not take culture and tradition into account..
Desired outcome: That current microfinance programmes build on positive cultural and traditional aspects, while encouraging users and providers to eliminate stereotypes that limit income-generating potential and empowerment opportunities..
Recommendations: • Microfinance institutions to build microfinance programmes on existing, positive elements of traditional, cultural or local practices, especially the collective and mutual support within communities; • Microfinance institutions to take advantage of positive experience of traditional information systems; • Microfinance users and NGOs to change behaviours and attitudes towards the traditional roles of women and girls; • Seek to change stereotypes about women's roles; • Seek to change stereotypes about certain crafts and vocations.

4.3 How poor is poor? Targeting microfinance services – key issues and recommendations

Participants in the project found that current definitions and perceptions of poverty have important implications for microfinance schemes. The most widely used measure for poverty is the 1 $ a day threshold. Participants discussed both quantitative and qualitative definitions of poverty and how microfinance institutions, user representatives and government planners could use these definitions and data to improve targeted provision of microfinance services.

Complex poverty measures that go beyond income and asset indicators are gaining wider appreciation and use, and include aspects such as life expectancy, nutritional standards, state of health, literacy, quality of shelter, and access to water. Relevant data serve as a basis for determining poverty lines, calculating minimum subsistence levels, and the poverty gap between the target group's actual living standard and the poverty line. Accordingly, depending upon the purpose of the measure and the country-specific conditions, a population can be grouped into strata of, for example, 'poorest', 'poor' 'non-poor', 'middle-income' or 'rich'. Using such measures, a participant from Sudan presented a survey that concluded that 50 per cent of the population in that country could be classified as 'poorest' or 'poor', meaning that they could not meet either their daily subsistence needs or their annual subsistence needs. Poverty measures can be further refined by adding indicators on freedom of choice, the right to participate in decision-making, and social justice. Very seldom do such surveys and measures include gender disparities. Participants questioned the widely held notion that 'men are the breadwinners' and called for additional research[29].

Participants pointed out that, while quantitative definitions of poverty are practical, they reflect a 'condition', and measure poverty by focusing on what the poor lack in material terms. Shifting to a qualitative approach, which would reflect the 'causes' of poverty, the definition would point toward the lack of opportunities or knowledge. Lack of knowledge of one's rights – especially women's rights– was stressed by participants as a sign of poverty, and a factor that contributed to continued poverty. A participant with roots in traditional culture in Nigeria defined poverty as 'a state of mind'. According to her, the emphasis on deprivation, gaps, and deficiencies creates a feeling of powerlessness which, combined with fear of sharing knowledge and thinking that no local idea can be innovative, undermines individual and collective self-esteem and perpetuates the process of impoverishment. A microfinance worker from El Salvador noted that the cultural acceptance of being and staying poor led to women being 'unable to break the cycle of ignorance and poverty'. Participants agreed that, without recognizing individual and community values, resources, potentials and strengths, the process of impoverishment cannot be reversed.

Participants noted that quantitative measures and analyses of poverty generated by governments could be valuable for microfinance institutions in better identifying their respective target groups and developing strategies for reaching them. Microfinance institutions could also carry out studies to better understand their target group, as was done by FINADEV (Benin), which carried out a survey among potential users at the main market of Cotonou, and by Kashf Foundation (Pakistan), which, prior to launching its services, conducted in-depth surveys in order to determine the best locations and product mix of 15 financial and non-financial services as well as outreach activities for the intended target groups.

'Exclusion' policies (conditions or services that are not attractive to richer population groups), and wealth-ranking methods at the village level, including self-ranking, are other tools

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[29] An IFAD study on poverty in Western and Central Africa, IFAD (2001), includes an extensive discussion of the definition of poverty (Appendix I) as well as a literature review on poverty, women and their access to resources (Appendix II). It concludes that households do not pool resources to their optimal use, but there is a gender division within the household in terms of access to, and control over resources. In fact, the household is a place of exchange according to customs and bargaining power. Women's poverty is attributed to gender bias in access to resources. The assumption that female-headed households are poorer and/ or contribute relatively more to overall poverty cannot be confirmed. See Quisumbing, 2001.

for targeting the poorest users (women and men). Several microfinance institutions represented in this project specifically targeted 'productive poor women', whereby the distinction between 'productive' and 'non-productive poor' was not always clear.

According to participants, none of these targeting methods is superior to the others. The mandate or mission statement of the microfinance institution determines whom the institution intends to reach and consequently, strategies must be defined accordingly. Often, the mission statement of a microfinance institution is based on a certain vision or set of values (equality, self-help, religious values) which are also reflected in its working methods and attitudes of staff.

Box 5

How poor is poor? Targeting microfinance services – Summary of recommendations

Problem observed: Many poor women do not have access to microfinance.

Desired outcome: That microfinance services reach the intended target groups, such as poor women.

Recommendations:

- Microfinance institutions to adopt precise definition of its target group, and to develop strategies, selection criteria and methods that carefully target that group. No one target mechanism is better than the other, but depends on nature and objective of microfinance programme;
- Microfinance institutions, NGOs, governments and donors to use participatory approaches in designing programmes and microfinance policies;
- Microfinance institutions, user groups, NGOs and others to address qualitative aspects of poverty and stereotypes;
- Microfinance institutions, user groups, NGOs and others to disseminate information on women role models who broke the cycle of poverty;
- Microfinance staff and others to emphasize existing wealth, resources and strengths of clients to support empowerment.

4.4 The purpose of microfinance programmes - microfinance for cash management and wealth creation – key issues and recommendations

Most microfinance schemes offer credit for consumption as well as investment purposes. Both aspects were dealt with during the on-line discussion and consultations. Cash consumption loans are important for users who face risks, shocks and seasonality as the loans help create a level of stability in their cash flow. In addition to general purpose loans, some microfinance institutions provide loans for specific risks, e.g. widow loans offered by African Traditional Responsive Banking (ATRB) (Nigeria). However, as many users, particularly women, prefer to draw on their own savings in times of need, savings facilities are equally important, and many microfinance institutions offer a combination of savings and loan facilities.

4.4.a. Cash

Many microfinance institutions offer a combination of deposit, savings and loan services for business purposes allowing the user to maintain a more stable cash flow and enabling her to separate business expenditures from household expenditures. For example, small loans provided by Citi Savings and Loans Company Ltd. (Citi S&L) (Ghana), for micro-enterprise purposes enabled users to increase the scale of existing business activity, typically in petty trade, food preparation or food retail. While this particular microfinance scheme was still in its early stages, most women indicated that the loans had helped them cope with irregularities in income or household expenditures, such as those for medicines and school fees, without affecting their business. Such loans are neither pure consumption loans nor investment loans, but provide working capital that helps microfinance users in becoming less dependent on seasonal changes, diversify their income and, in general, make them less vulnerable. At the same time, participants doubted that small credits would lead to long-term wealth creation.

Some participants questioned the practice of many microfinance institutions that block a user's compulsory savings as a loan guarantee. The purpose of savings is to have access to them when needed. If the savings are blocked, the user may default on a loan repayment. Using her savings as a cushion against sudden risks will allow the user to continue her income-earning activities from which she will repay the loan.

4.4.b. Investment

Investment loans aim at long-term wealth creation by helping micro-entrepreneurs to significantly increase the scale of operations, start up new ventures, and facilitate the transition from informal activities to business entities. FINADEV (Benin), SEDA (Tanzania) and Zambuko Trust (Zimbabwe) are typical examples. All microfinance institutions that participated in the on-line discussion or consultations offer such loans.

In order to help microfinance users move towards long-term wealth creation, microfinance institutions representatives stressed the importance of graduation mechanisms to larger loans. Microfinance institutions' long-term commitment to and relations with their users were also seen as critical in wealth creation.

Building or mortgage societies can also contribute towards investment and wealth creation. Their services help poor people to achieve security through home ownership, and to accumulate wealth that may not generate income but may be used as collateral.

4.4.c. Insurance

A further example of a microfinance service in support of wealth creation is the provision of insurance. Kashf Foundation (Pakistan), acting as an agent for a national insurance agency, offers insurance against death, terminal illness and accidents. African Traditional Responsive Banking, (Nigeria), while not technically an insurance provider, but serving a similar purpose, runs a health fund to which all members contribute, and from which they can draw a loan in case of illness. HIV/AIDS is perceived as a major risk in many African countries, for microfinance users, their households, and microfinance institutions, and steps are being taken to insure against financial default. Zambuko Trust (Zimbabwe), for example, charges a small levy on all loan applications, which is used for the purchase of insurance against a user's inability to repay his/her loan due to HIV/AIDS. Zambuko Trust also raises awareness about AIDS and does not discriminate against HIV positive loan applicants[30].

Box 6

The purpose of the microfinance programes – Summary of recommendations
Problem observed: Some loans not used for intended purposes, e.g. investment loans used for consumption, thus intended changes in user income and wealth not realized.
Desired outcome: Microfinance services mix and policies match user demands; microfinance institutions and user have the same expectations from microfinance programme.
Recommendations: • Microfinance institutions to perform surveys among potential user groups in order to establish user profiles and to obtain precise knowledge of target group's needs, preferences and capabilities. Provide microfinance programmes and services accordingly; • Microfinance institutions to indicate clearly the purpose of microfinance programmes and how they address users' consumption requirements, cash flow and wealth generation needs; • Microfinance institutions to improve their ability to appraise micro- and small-enterprise projects to avoid non-viable projects; • Microfinance institutions to provide graduating mechanism to larger loans; • Microfinance institutions to build long-term relationships with users; • Microfinance institutions or other entities to introduce insurance-type schemes to alleviate effects of external risks on users' ability to repay loans (health risks, natural disasters such as drought).

4.5 Evaluating the impact of microfinance programmes – key issues and recommendations

The impact of a microfinance programme can be described as the positive and negative consequences produced by the programme. They include intentional and non-intentional consequences that are directly or indirectly attributable to the programme. The project did not attempt to assess the overall extent of the impact produced by microfinance programmes in Africa, nor did it attempt to determine whether certain changes would be more desirable than others, for example more stable cash flow versus initiation of long-term investments. Rather, the project focused on the policies and tools available to microfinance institutions to reach their declared objectives and whether those policies and tools resulted in the intended positive consequences among the target groups. From the perspective of reducing poverty among women and empowering women, project participants identified a wide spectrum of mostly positive changes that can potentially result from microfinance programmes, as presented in Box 7.

[30] See also Joan Parker, Ira Singh and Kelly Hattel on the role of microfinance in the fight against HIV/AIDS.

Box 7

Examples of potential positive impacts of microfinance on women users
Economic development
Savings mobilization among women, creation of small women-owned businesses, creation of paid employment for women, accumulation of start-up capital for larger businesses, identification of new customers for products, access to more distant markets, improved work conditions for women through better technologies, increase in women's incomes.
Empowerment of women
Economic empowerment manifested in women's economic independence. Personal empowerment manifested in higher self-esteem, confidence, bargaining power within the family, awareness of one's rights, ability to take decisions and accept responsibilities. Social empowerment manifested in women's improved status in the family and community, greater recognition of women in society, women taking part in community decision–making process, women acting as role models for others.
Skills development and capacity-building among users
The acquisition by users of general, functional and technical skills such as basic numeracy skills, business-related skills, life skills, knowledge about health. Capability to manage own finances and micro-enterprises. Appreciation of learning and demand for more education.
Improvements in the well-being of the family/household
Households less vulnerable to economic and other risks and shocks, more stable cash flow, better ability to plan, improvement in education of children, better nutritional and health standards, improved access to water, electricity, sanitation and better housing.

Project participants noted that microfinance services do not automatically have positive impacts. Microfinance institutions must carefully identify the intended and potential unplanned impacts of their microfinance services on users and, accordingly, put in place the appropriate mix of services, targeting methods and policies to generate those impacts. Project participants found that many microfinance institutions focus more on their own financial sustainability than on positive impact on user groups. One participant presented research from Uganda that compared the preferences of microfinance institutions with those of microfinance users on an array of microfinance policies. The principal findings of that research are presented in Box 8 below.

Box 8

Preferences of microfinance institutions and microfinance users on key microfinance policies[31]		
Key policy	**Preference of microfinance institutions**	**Preference of microfinance users**
Loan period	Shorter	Longer, with grace period
Loan size	Smaller	Larger, depending on type of business
Delivery mechanism	Group lending more cost effective, greater, faster outreach. The bigger the group the better for the microfinance institutions	Small groups
Type and location of client	Urban clients– easier to reach. Literate women- easier to serve	Large demand from rural areas and from illiterate and poor women
Type of services	Specialized credits. Minimalist approach to training	Need for non-financial services
Collateral (group collateral / compulsory savings)	Group guarantee, minimizes costs of repayment risk	Smaller, controlled group size
Repayment frequency	Shorter (weekly) frequency minimizes default	Longer frequency reduces stress and generates more profit
Access to savings	Limited access ensures microfinance institutions more income	Broad access desired to meet risks, crisis and expand business
Type of economic activities	Bias towards trade	Trade generates quick profit. Fear of taking risks in other businesses
Method of interest calculation	Flat rate easy to administer and gives more income to microfinance institutions	Confusing to clients, clients want to lower rates
Commission and fees	Result in higher income	Effectively raise interest rate

This comparison shows that microfinance institutions typically seek to offer microfinance services that are less costly and easier to administer, allowing for lower interest rates and higher returns per dollar disbursed. In contrast, users prefer larger loans, offered in rural locations, longer repayment periods and lower charges. The participants concluded that while preferences of microfinance users and microfinance institutions must be compatible with the financial sustainability of the microfinance institutions, the choice of microfinance policies offered would depend on the mission and objectives of the microfinance institutions. Participants agreed that participatory approaches to designing the microfinance service mix and policies would foster

[31] The presented data originates from a baseline study on lending methodologies of microfinance institution in Uganda, conducted by the Council for Economic Empowerment for African Women in 1999.

trust between the microfinance institution and its users, and lead to long-term relationships more likely to generate the intended impact.

Participants underlined the need for regular impact evaluation of microfinance services to assess changes in levels of income and empowerment of the target group. Accurate measurement of progress among microfinance users required a baseline study, a mid-term study (to allow for possible adjustments) and a final evaluation. The evaluation must be comprehensive and analyze positive as well as negative impact resulting from the microfinance scheme. Final evaluations should not only be seen as a tool for stock-taking for the Board and/or donors, but as a learning tool for the microfinance institution, providing an opportunity to reflect on mission and objectives, and to obtain feed-back from users.

Participants also discussed the use of various evaluation tools and indicators. Attention was paid to the 'AIMS Practitioners Tools Kit' developed by Small Enterprise Education and Promotion Networks (SEEP)[32], which includes household survey, client exit survey, loan/savings use, client satisfaction and empowerment measured by means of focus group discussions. SEDA (Tanzania) reported positive experience in using these tools. The participating microfinance institutions also applied other tools.

Participants identified a number of challenges in conducting evaluations or impact assessments. Evaluations require specific skills and know-how and can be costly, and participants suggested that they are more valuable if the microfinance institution takes the initiative for their preparation than when they are requested by donors.

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[32] Impact Assessment for Microfinance developed by the Small Enterprise Education and Promotion Networks. See also other tools in Anton Simanowits (2001) or at www.ids.ac.uk/impact or www.imp-act.org

Box 9

Evaluating the impact of microfinance programmes – Summary of recommendations
Problem observed: No significant increase in income or empowerment of women users of microfinance services
Desired outcome: Reduced poverty and enhanced empowerment among targeted microfinance users.
Recommendations: • Microfinance institutions to build microfinance programmes on existing, positive elements of traditional, cultural or local practices; • Microfinance institutions, NGOs, donors and other entities to improve microfinance programme design, implementation, monitoring and evaluation; • Microfinance institutions to use participatory approaches in designing microfinance programmes and policies; • Microfinance institutions to improve their ability to appraise micro- and small-enterprise projects to avoid non-viable projects; • Microfinance institutions to be aware of how their programmes address users' cash flow and consumption requirements and/or lead to wealth generation. Introduce graduating mechanism; • Microfinance institutions, NGOs and cooperating organizations to improve non-financial services for enterprise development support; • Government, NGOs, donors to consider subsidy to microfinance programmes that reach the most remote/rural poor target groups; • Microfinance institutions to undertake baseline and mid-term study in order to measure impact in final evaluation; • Microfinance institutions to adopt indicators for all applicable aspects of empowerment (economic/social/personal).

4.6 Support measures – key issues and recommendations

Participants identified a range of support measures and priority actions that, in their view, would help to improve microfinance as a strategy for poverty reduction and empowerment of women. These should be provided mainly by governments and donors. Microfinance institutions, NGOs and other stakeholders that provide microfinance and/or accompanying non-financial services also play important roles. Box 10 summarizes recommended support measures to enhance the policy frameworks for the operation of microfinance programmes, and Box 11 summarizes recommended support measures aimed at capacity-building for microfinance providers and users.

Box 10

Support measures for improving policy frameworks for microfinance programmes – Summary of recommendations

- Improve regulatory frameworks for microfinance institutions, preferably building on 'self-regulation'.
- Facilitate closer collaboration between government and microfinance institutions. This would make microfinance institutions more visible and assist government in engaging microfinance institutions in relevant government policy areas and strengthen the level of commitment from both sides.
- Provide support for networking among microfinance institutions as well as among users, providers and other stakeholders. Such networks should be pro-active in helping to improve the advocacy and lobbying abilities among microfinance users, and help microfinance institutions share and exchange information and experience. Networking could take place through meetings (regional and/or in-country), or over the Internet. Maintain web-site and designate resource persons. Networking could also be used to help popularize African traditional savings and credit methods and practices.
- General support to microfinance institutions:
    - Support research and documentation and the dissemination of research results;
    - Subsidize microfinance programmes that specifically target the poorest women in rural areas for which operational costs are greatest;
    - Support insurance-schemes that protect microfinance users and microfinance institutions against risks, for example those pertaining to health.

Box 11

Support measures for capacity-building for microfinance providers and users – Summary of recommendations
For microfinance institutions • Training for microfinance providers in management, socio-economic analysis, gender analysis, monitoring and evaluation. • Training in communication and ethics. • Support in the use of participatory approaches and methodologies to enhance communication.
For microfinance users • General training in literacy, functional literacy and other areas aimed to enhance personal and social empowerment of users. • Leadership and management training • Training in entrepreneurial skills including marketing. • Dissemination of technical information related to users' areas of activities and needs.

Participants also recommended the organization of training workshops, development of training materials for microfinance users, promotion of South-South cooperation, support for increased professionalism in microfinance services, and creation of facility for information exchange. They also called for the development of training materials, to be developed in a participatory approach with users. Training should be tailor-made to serve the needs of particular user groups. More training of trainers on microfinance use was also needed.

5. LEVELS OF INTERVENTION TO IMPROVE MICROFINANCE EFFECTIVENESS

The previous chapters summarized the constraints identified by the project related to microfinance services, their design and delivery, as well as constraints in carrying out an overall assessment of microfinance as a strategy for poverty reduction and empowerment. Representatives of users, microfinance institutions, NGOs, governments and donors are widely aware of the constraints related to microfinance as a tool for African women's empowerment. Many microfinance institutions are actively addressing these concerns in their operations, but may not always be fully equipped to take on the complexity of the challenges.

The recommendations and support measures summarized in Chapter 4 above may serve as a basis for interventions to improve the effectiveness of microfinance programmes along four cross-cutting levels, namely: a) the capacities and capabilities of microfinance users and microfinance institutions, including microfinance institutions' policies and procedures, b) the mission of microfinance institutions, c) the environment in which microfinance users live and work and microfinance institutions operate, and d) the beliefs, culture and values of microfinance users, and staff, management and board of the microfinance institution. Below follows a brief analysis of the constraints and associated recommendations when planning interventions along these four levels[33].

1. Interventions at the level of capacities and capabilities

The capacities and capabilities of potential women users determine to a large extent their ability to take advantage of microfinance services. Similarly, the capacities and capabilities of the staff, management and board of microfinance institution determine their ability to deliver microfinance schemes, including non-financial services, that are likely to benefit women users. Microfinance institutions' capacity is also reflected in their policies and procedures. The project identified a number of constraints and corresponding recommendations that relate to capacities and capabilities and accorded very high priority to capacity-building for users, as well as microfinance institutions.

[33] These levels are adapted from Robert Dilts' neurological levels for communication, learning and change referred to in Joseph O'Connor (1998), pages 48-52 and 183-185.

Level of intervention: Capacities and capabilities of microfinance users and providers; policies and procedures applied by microfinance institutions
Stakeholders to take action: Primary stakeholders: Microfinance institutions and microfinance user groups; Secondary stakeholders: NGOs, governments, donors.
Summary of problem analysis • Microfinance policies do not always meet user preferences, thus limiting access and impact of schemes. • Microfinance staff not equipped to serve poor women users. • Microfinance loans not used for intended purpose. Some microfinance loans too small to lead to sustained growth. • Microfinance oversupply can lead to greater debt burden of women. • Women's non-financial needs overlooked. • Microfinance users may lack capabilities in literacy, numerical skills, application procedures, business skills, leadership skills, etc.
Recommendations • Conduct surveys to understand user needs and demands for various types of financial and non-financial services, and adjust policies and procedures accordingly. • Use participatory approaches in designing microfinance service mix. • Clarify women's demands/needs in design, implementation, monitoring and evaluation of microfinance schemes. • Support the improvement of skills of microfinance institutions' staff (in participatory approaches, gender analysis, appraisal of applications for micro-projects & small enterprises, evaluation techniques). • Enhance networking among microfinance institutions. • Support microfinance research and dissemination of results. • Provide insurance schemes for external risks, such as natural disasters, health-related risks. • Provide support for non-financial services to users, thus improving their capabilities and skills. • Improve non-financial services for enterprise development support. • Facilitate access to technological information. • Enhance networking among microfinance users, and among providers and user groups.

2. Interventions at the level of microfinance institutions' mission

The purpose, or mission of a microfinance institution refers to its ultimate aim, vision or reason for existence. Its mission is mostly described in its mission statement, is manifested in its legal status (such as self-help group or stock-company) and in other ways the microfinance institution presents itself. Together, these characteristics signal the microfinance institution's mission, including whether it sees itself as a mostly socially or commercially-oriented institution, serving specific groups, geographical areas, or adopting a certain philosophy. The microfinance institution's mission will influence the way in which it designs and conducts microfinance services.

The discussions during the project systematically linked the mission of the microfinance institutions to a number of key parameters, including definition of target group, design of microfinance schemes and non-financial services. Both the desk study and the consultations found that the goal of provision of financial self-sufficiency may lead microfinance institutions to compromise their original mission. The consultations furthermore emphasized that good evaluation practices could help microfinance institutions reflect on the continued validity of their mission.

Level of intervention: microfinance institutions' mission
Stakeholders to take action : Primary stakeholders: microfinance institutions' management and board members; Secondary stakeholders: user groups, NGOs, government, donors intending to create microfinance institutions.
Summary of problem analysis • Intended target group not reached. • Many poor women do not have access to microfinance or to the mix of microfinance services that they need. • Intended impact on users not achieved. • Microfinance institutions may seek financial self-sufficiency at expense of original mission.
Recommendations • Adopt precise definition of target group in accordance with microfinance institutions' mission. • Use participatory approaches in design of microfinance schemes. • Be aware of limitation of minimalist microfinance services. • Conduct evaluations to learn if and how goals have been achieved and mission still valid. • Consider subsidizing microfinance schemes in remote areas.

The link between the mission of the microfinance institution and the visions and motivations of women users or potential users of microfinance services is also important. Understood as their sense of self and how they perceive their mission in life, the motivational factors of users might include: survival or 'making ends meet', better health conditions of children, better education of children, growth (personal/social/income), entrepreneurial dreams, greater status. These factors are likely to influence how women make use of microfinance services. While these relationships were underscored during the project discussions, especially concerning women's empowerment, the recommendations made in this regard addressed the desired changes at the level of beliefs, culture and values that were found to be at the root of the motivational factors (see under 4. below).

3. Enabling environment

Enabling environment refers to the external environment in which microfinance users live and work and in which microfinance institutions operate. It includes aspects such as legal frameworks, regulations governing microfinance institutions, local government regulations, and physical infrastructure. These factors are beyond the direct control of microfinance users and microfinance institutions, but affect the effectiveness and impact of microfinance services. A number of constraints at this level were discussed, and participants made recommendations addressing some of these constraints.

Level of intervention: enabling environment
Stakeholders to take action: Primary stakeholders: governments; Secondary stakeholders: microfinance institutions and user groups acting as lobby groups.
Summary of problem analysis • Discriminatory provisions in laws and regulations concerning inheritance, property rights, matrimonial property rights. • Discriminatory provisions in banking laws. • Complicated or unsatisfactory regulatory framework for microfinance institutions. • Physical location of microfinance institutions and other service providers (external to microfinance users). • Lack of sex-disaggregated statistics. • Lack of income and standard of living surveys that reflect intra-household income, consumption and asset distribution. • Lack of measures and indicators for women's empowerment. • Land tenure systems that discriminate against women. • Social factors such as migration, widowhood, divorce. • Overall short supply of formal and semi-formal microfinance services.
Recommendations • Enhance protection of women's rights of equal access and choice. • Improve regulatory framework for microfinance institutions. Microfinance institutions to consider self-regulation. • Create networks among government, microfinance institution and user group representatives. • Proide logistical support to microfinance institutions. Subsidize microfinance institutions that provide microfinance in remote locations. • Generate sex-disaggregated data. • Carry out surveys that account for intra-household distribution of income, assets and consumption. • Adopt gender-sensitive indicators for economic, social and personal empowerment.

4. Beliefs, culture and values

The beliefs, culture and values of microfinance users, their household members and communities concerning being poor, controlling and managing resources, possessing money, holding savings, taking credits, and being an entrepreneur are essential for women's access to and use of microfinance. Similarly, the staff, management, and board of the microfinance institution and their supporters possess certain beliefs and values about the purpose of microfinance services that influence the way in which they design and deliver microfinance services.

Level of intervention: beliefs, culture and values	Stakeholders to take action:
Microfinance user representatives in collaboration with community leaders. Governments, microfinance institutions.	

Summary of problem analysis

- Traditional beliefs and values surrounding household resource allocation and control over money.
- Other underlying beliefs, cultural aspects and values that negatively affect women's position and power in the household.
- Stereotypes concerning women's roles.
- Stereotypes concerning certain crafts and vocations.
- Perception of poverty as a state of mind and cultural acceptance of poverty and powerlessness.
- Women's lack of awareness of their rights.
- Biased perceptions among staff of microfinance institutions against women users.

Recommendations

- Pursue empowerment strategies in parallel to other non-financial services by microfinance institutions and other groups.
- Involve men in microfinance activities that target women.
- Change attitudes towards girls' upbringing and education.
- Address stereotypes concerning women's roles.
- Publicize successful women microfinance users as role models who escaped from poverty and resisted restrictive perceptions.
- Include discussion of rights in non-financial services.
- Seek gender balance in staffing of microfinance institutions at all levels, including management and board.
- Build microfinance schemes on positive components of existing traditional savings and credits schemes.

Existing beliefs, culture and values are fundamental for women's access to and beneficial use of microfinance. In order to improve microfinance as a strategy for poverty reduction among poor women and as a tool for the enhanced empowerment of women in Africa, intervention at this level is essential and a prerequisite for successful intervention at other levels.

Abbreviations

ATRB	African Traditional Responsive Banking
Citi S&L	Citi Savings and Loans Company Ltd of Ghana
COWAN	Country Women's Association of Nigeria
DAW	Division for the Advancement of Women, United Nations
IFAD	International Fund for Agricultural Development
NORAD	Norwegian Agency for Development Cooperation
NGO	Non-governmental organization
ROSCA	Rotating savings and credit associations
SEDA	Small Enterprise Development Agency
UN	United Nations

List of Annexes:

Annex A: Overview of topics of on-line discussion

Annex B: Agenda of the sub-regional consultations

Annex C: Lessons learned from the on-line discussion methodology

Annex D: List of references and suggested further sources

Annex A: Overview of topics of on-line discussion

The on-line discussion considered the following topics and questions:

1.	Welcome; Introduction of participants	12-13 June
2.	How effective is microfinance in alleviating poverty among women? Is microfinance attractive to poor women? Effect of microfinance for the user	12-20 June
3.	Who is the user? Profile; HIV/AIDS	21 June--6 July
4.	Focus on the microfinance service provider; Presentation of microfinance institutions among participants; Concerns of the microfinance institution; Combination of services, Building on existing traditions; Can microfinance create wealth?	7-17 July
5.	Microfinance as a development tool - policy implications of micro-finance; Cash management versus creation of long term wealth; Subsidy to non-financial services component; Challenges to microfinance institutions	18-29 July
6.	Sharing experiences of empowerment	30 July
7.	Conclusions	30-31 July

Annex B: Agenda of the sub-regional consultations

Day 1: Wednesday, 17 and 24 April, respectively

Plenary:	**Introduction** and background to the project ▪ Objectives and procedure of the meeting ▪ Participants' introduction and expectations
Plenary:	Presentation on the process and outcomes of the **on-line discussion** and issues which emerged from it
Plenary:	**Agreeing on terms, definitions and parameters**
Plenary:	**Microfinance as a tool of empowerment for women** Presentations[2] and discussion on the definition of empowerment and whether and how microfinance is an appropriate response.
Working Groups:	Topics: ▪ Influence of local, traditional and cultural factors on the effectiveness of microfinance ▪ Microfinance and violence against women – is there a connection? ▪ Globalization and microfinance ▪ Microfinance and the realities of HIV/AIDS.

Day 2: Thursday, 18 and 25 April, respectively:

Case studies:	**Field visits** followed by discussions in working groups and plenary.

Day 3: Friday, 19 and 26 April, respectively:

Plenary:	**How poor is poor?** Presentations and discussion on the perceptions and definitions of poverty, whether microfinance schemes target the poorest of the poor, and realistic user targeting.
Plenary :	**Creating and measuring impact through microfinance** Presentations and discussion on why and how to evaluate the impact of microfinance, and the impact of different microfinance policies on end users and on the sustainability of microfinance institutions.
Plenary:	**Recommendations:** Discussion and recommendations for priority elements of a **"minimum package"** for capacity building in microfinance.
Plenary:	**Participatory evaluation** of the consultation.

[2] All presentations were by participants in the consultations.

Annex C: Lessons learned from the on-line discussion methodology

The use of on-line discussion was a new experience. The following points are highlighted for consideration in future use of this methodology.

Purpose of discussion and design of on-line discussion:

The purpose of the this On-line discussion may be compared to that of a needs analysis performed in a focus group or in a structured brainstorming session. The closed electronic conference offered several ***advantages***: more diverse views could be solicited, cost-effective, easy circulation of themes, participants were free to express themselves within the conference, participation could take place any time. Among the ***disadvantages***: only written communication was used (considering that communication is formed by 55 per cent body language, 38 per cent voice and 7 per cent language).

Participation:

A large pool of registered participants is required in order to generate a lively and meaningful discussion. The ratio between number of registered and active participants in this discussion was roughly 6:1 (74 registered to 12 contributing one or more comments). A total of 106 comments were made. They were considered to be very comprehensive in nature.

To arrive at the desired number of active participants, the efforts put into identifying and inviting potential participants was considerable. Individual invitations were issued as well as announcements made on selected Web-sites or in existing E-mail networks.

Many participants, especially in developing regions, had difficulty in connecting to the Internet/E-mail (physical access, location, cost, no line, etc). This required additional, alternative contacts (telephone/fax) in order to keep participants motivated.

Briefing and motivation of participants ahead of and during discussion:

Invitation letters were very detailed about background and purpose. Still it appeared that some participants were unclear about the purpose of the discussion. The development of a mini aid-memoire including goal and agenda might be an alternative option. At the same time the mid-way posting of preliminary findings and agenda for the remainder of the Discussion did not generate any particular participant reactions.

Telephone contacts to key participants had a significant effect on their motivation for contributing comments. Similar e-mail contacts also generated reactions but not as encouraging as the telephone contacts. The effectiveness may also be associated with the participant's experience and comicrofinanceort level in receiving messages from 'unknown' persons and expressing her/himself over the e-mail.

Duration:

Duration of 6-8 weeks appeared reasonable. Some participants took part in only one part of the discussions. A firm completion date gave participants the sense of reaching a goal.

Annex D: List of references and suggested further sources

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