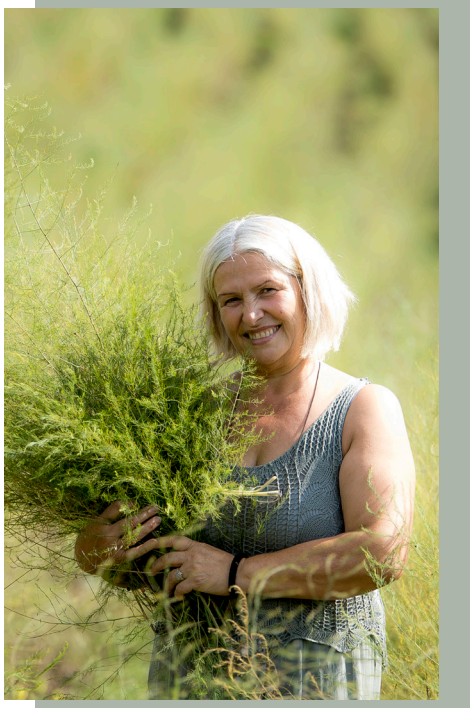
Keeping the Promise of Financial Inclusion for Women



July 2019

FINCA® | Impact Finance

Keeping the Promise of Financial Inclusion for Women

Summary. *Microfinance started with the discovery that low-income women were the world's most dependable borrowers, owing to their strong repayment discipline. Despite decades of steady progress in reaching the unbanked, however, women still lag behind men in access to financial services. Deeply-rooted social inequality pushes women into less profitable businesses while limiting their access to more efficient banking technology. In the face of these challenges, FINCA Impact Finance (FIF) subsidiaries are demonstrating that serving women can be a sound business strategy based on high-quality loans, lower costs and opportunities for sustainable growth.*

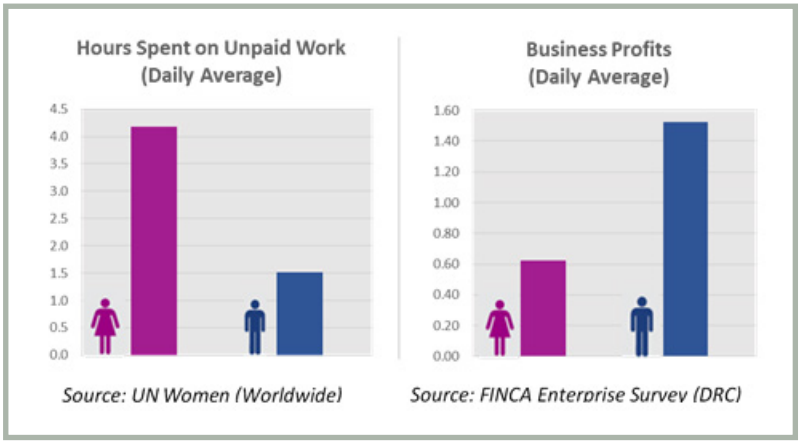
Recent innovations in products and service-delivery are building on FIF's legacy of women-centered finance in Latin America, while extracting lessons and insights from new approaches in markets like Kosovo and Afghanistan. Small loan sizes, relaxed collateral requirements and attractive pricing are especially important for female borrowers. Where gender-based discrimination is most severe, creative measures are needed, like FIF's all-female branch in Kabul. In all these examples, women have proven that they are responsible borrowers, diligent businesspeople and loyal customers.

Introduction – The Unfinished Work of Women's Financial Equality

According to the latest Findex Survey, the number of unbanked people is shrinking, driven by emerging technologies like mobile banking and the sustained efforts of many organizations around the world to reach traditionally-excluded customers. While there is still a lot of unfinished work to improve the usage and impact of financial services, the basic task of getting everyone access to some kind of account is now within sight.

As we note this progress, we should not forget that the original pioneers of microfinance were women, often in the world's poorest communities, who joined together in village banks and solidarity lending groups to borrow as little as a few dollars. On the strength of their individual and group discipline, women proved to be reliable borrowers as well as thrifty savers, sparking a global movement to reshape entire financial systems and drive them down-market.

And yet, despite years of effort and experience on the part of FIF and many others, women still lag behind men in accessing and using financial services. In some places, the uptake of new technologies (which tends to favor men, at least in the short term) is making that gap even worse. This persistent disparity is more than a challenge: it represents an unfulfilled promise – one that now stretches across generations.



Source: UN Women (Worldwide) *Source: FINCA Enterprise Survey (DRC)*

Are Women Harder to Bank?

Women's continued financial exclusion is a reflection of the broader inequality that they face in all areas of life. The UN estimates that a woman typically spends half her day performing unpaid family work. The value of this unrecognized contribution is somewhere between 10 and 40 percent of GDP. This burden slows women down before they even get out of the house, so it is not surprising that their business activities generate much lower profits than men, as vividly demonstrated in our recent research from DR-Congo.

Given these disadvantages, women naturally tend to borrow and save in smaller amounts. While our customer retention data shows that women are the most loyal and responsible borrowers, they are not the most profitable customers, nor will they be any time soon. At the current rate of progress, it will take 217 years to close the overall gender gap in society, according to the World Economic Forum. Meanwhile the economics of banking still require scale and efficiency that are difficult to achieve with small transactions.

Overcoming this dilemma is not easy, but some elements of the solution are clear. First, serving women means reaching down-market, where cash flows are smaller and more erratic. Product development should be centered on customers who manage scarce resources, and who have to make tough daily decisions about how to spend money and survive.

As care-givers, female customers need easy, time-saving solutions. Every touchpoint with the bank, from account-opening to cash withdrawals, should be useful and efficient. These improvements will also benefit men, but the innovations should be tailored to the needs of our most time-pressed customers, i.e. women. Other areas of special concern for female customers, as noted by the G20, include privacy issues, limited mobility, and a tendency to engage in informal and cash-based transactions, which inhibit their ability to build a credit record.

Serving women also requires a maximalist approach to cost-containment in order to deal with the higher per-unit cost of small transactions. Branchless and mobile banking, for example, cannot be avoided, even if they worsen equality in the short term. We just have to find a way to overcome the obstacles that women face, like restricted access to smartphones or lower levels of financial literacy. Digital financial inclusion should be built around specific use-cases that enhance women's economic agency and improve their day-to-day life, such as paying utilities, school fees, and saving money.

76% of borrowers
Female Borrowers

25% of women
Heads of Household

60% of women
Main Source of Income

Source: FINCA Household Survey

Building on our Legacy in Latin America

With nearly 100 percent female outreach, Village Banking™ has exemplified women's financial inclusion and empowerment over three and a half decades. For all its success, however, the model needed to evolve and be complemented with a wider range of products in order to keep pace with a changing market. Latin America–where FIF has its roots– offers a window into the past and future of this legacy.

With its mutual loan guarantee, Village Banking™ is not suitable for people with larger loans. Failing to engage these potential customers means missing an opportunity for efficient portfolio growth. But shifting to a greater emphasis on individual and SME lending raised concerns that it would dilute our focus on serving women.

The evidence, however, is clearly on the side of diversification. Today, nearly a third of all loan clients in the region are individual borrowers – yet women still make up 76 percent of our client base. And while the average individual loan size is nearly $3,000, we still serve Village Banking™ members with loans that are typically less than $350.

For its part, the hallmark of "traditional" Village Banking™ continues to be the deep way that it engages women, who select their own members, take mutual decisions and assume full responsibility for the operations of their group. But women today have less time for meetings and paperwork. To stay relevant, Village Banking™ must be revitalized – stripping out the administrative minutiae, while retaining the solidarity and deep engagement that make it work.

FIF calls this model "touch-tech," which uses technology for record keeping and transmission of data, so staff and clients can focus on more value-added activities such as planning and problem-solving. Services are designed for remote access, and clients will be empowered to make use of technology for a seamless experience. But staff will still be physically present in the community to provide one-to-one support whenever it is needed.

LAC is an ideal region to implement the touch-tech model, because it has already shown a knack for embracing change without sacrificing the core tenets of mission outreach. Among the region's female borrowers, 60% are the main source of income for their families and most of them live in households within 160% of the poverty line, the highest of any region where we operate.

Women's Enterprise Loans in Kosovo

Sound business analysis and a relationship-based approach to banking can also be effective in reaching women while building a strong loan portfolio. FINCA Kosovo, a SMART-certified microfinance institution, recently launched a specialized loan product designed exclusively for women borrowers. The *Loan for Women Entrepreneurs in Business and Agribusiness* ("Women Entrepreneur Loan") was launched on International Women's Day in 2018. Building on its expertise in agricultural and SME lending, FINCA Kosovo was able to easily configure the Women Entrepreneur Loan from existing products. Eliminating disbursement fees helped to create a distinctive offering. Collateral is not required for loans up to EUR 5,000, and each loan comes with personalized business training opportunities.

Having a women-centric loan product gives greater focus to the marketing strategy, which conveys tailored messaging to female farmers and entrepreneurs through

trusted media channels and women's business associations. Even the simple act of monitoring the Women Entrepreneur Loan as a distinct product opens a clear window into the organization's performance in serving its female clientele.

The product's commercial performance has been strong. Already it has reached more than 4,500 customers, providing them with $11M in credit, with a 30-day portfolio-at-risk of 1.3%.

Women-Only Branches in Afghanistan

Where gender inequality is extreme, more audacious measures are needed to make the bank accessible to women. FINCA Afghanistan recently pioneered FINCA's first women-only branch, in order to overcome strict cultural norms that limit women's freedom of movement and association. The *Women's Special Branch* (WSB) is exclusively dedicated to meeting women's financial needs, while creating a space for them to socialize and receive mutual support.

The WSB is staffed exclusively by women, from the security guards to the branch manager. In this way, the bank is able to operate within accepted cultural norms regarding women's life outside the home. By deliberately cultivating social cohesion and trust among clients and staff, it goes beyond the traditional notion of a bank, however, leaning into its role as a catalyst and advocate for women's empowerment.

> "The Women's Special Branch tells women that we will meet them where they are. By its visibility, it also sends a signal to the public that women are valued participants in the economic life of their community."
>
> *Zar Wardak*, Vice-President (MESA Region)

The *Women's Special Branch* broke even within 9 months, driven by higher-than-average staff efficiency. Each WSB loan officer serves 166 clients, versus the branch average of 154. After one year of operation, it had achieved 61 percent growth in clients and 82 percent growth in outstanding loans while maintaining a 30-day PAR of 0.5 percent. On the strength of these results, two more WSB's are planned for the next year, and new products are being considered, including a flexible SME product, savings and home improvement loans.

FINCA Afghanistan had already achieved outstanding results in female outreach by taking basic steps to target women, such as employing women as front-line staff. Despite operating in a country where less than seven percent of women have a bank account, sixty percent of FINCA Afghanistan's clients are women. Outside of LAC, only Jordan and Malawi have higher shares of female clients.

FINCA's recent experience with the *Women's Special Branch* reverberates across the FIF network, and raises a challenge to all of our stakeholders: *how far should we be willing to go in the service of women's financial equality?* The answer from Afghanistan is *all the way.*

This white paper was written for FINCA Impact Finance by Scott Graham, director of customer research and field data services for FINCA International, a US-based not-for-profit corporation. FINCA International is the founder and majority shareholder of FINCA Impact Finance.