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“Mobilizing Domestic Resources for Development: Through the Lens of Poor Women”¹

INTRODUCTION

Women as well as men are actors and stakeholders in economic and social development and yet the agency of women as a dynamic force in development remains constrained and often hindered. Women often juggle their working time between the market sector and non-market economic activities. In recent decades, increasing numbers of women in most countries have taken on the role of income earners . This is evident in the increased female share of paid employment in industry and services - (23% to 38% for Italy during the period 1980-97; 34% to 49% in Slovenia for the same period; and 24% to 44% in Sri Lanka) (UN 2000). Women are also preponderant in farming and in informal sector small-scale and microenterprises. When compared to men, women spend, on average, 50% to 70% as much time on paid, market work, but nearly twice as much time on unpaid work.

Yet, women’s voices and lived experiences have been largely missing from debates on finance and development. Macroeconomic policies continue to take for granted these non-market economic activities that mostly take place within the household and the community, thereby implicitly assuming that women’s (unpaid) labour can be stretched unlimitedly, as Professor Diane Elson described it.

Examining the interaction between market and non-market activity is crucial for a full assessment of the gender implications of the development process and the means of financing it. Financing development involves the transfer of funds between countries, sectors, institutions, households and individuals, through the wide range of institutions and structures that serve as channels, intermediaries and/or facilitators for savings and investment activities. The policies and actions of governments, multilateral institutions and the private sector can alter the options, constraints and opportunities faced by men and women--- whether as participants in the market economy or as contributors to the nonmarket economy. *Economic decisions of governments and international bodies*

¹ The views expressed in this paper are those of the author and do not necessarily represent the views of UNIFEM, the United Nations or any of its affiliated organizations. The author is Associate Professor of Economics at American University, Washington DC.

influence not only the mobilization of resources but also the distribution of access to and control over these resources and their use allocation.

ENGENDERING PUBLIC SECTOR FINANCE

It is important to develop an enabling environment for financial sector growth that *empowers women*, promotes equitable income distribution and protects workers' rights and the environment. A growing number of countries today, has taken a positive step in this direction by implementing a gender budget analysis, thereby addressing an important need for a more *gender-sensitive* allocation of public sector budget towards investments in education, health, nutrition and social security programs (UNIFEM 2000). These are collaborative ventures of civil society, especially NGOs, UNIFEM, the Commonwealth Secretariat and government that provide a mechanism for women to hold their governments accountable to them as citizens and voters (UNIFEM 2000, Budlender 2000).

Implementation of international conference commitments, national policy statements and obligations under human rights treaties can be linked to government spending and revenue raising decisions. Moreover, gender-sensitive budgetary analysis provides a deeper understanding of the gender-based inefficiencies and inequalities that exist within the government and society and a systematic way of addressing them through public finance.

Taxation Policies

Several studies such as those in Australia, United States and Sweden have shown that the unit of taxation (the individual or the household), the balance between direct and indirect taxation, the progressiveness of the tax schedule and the availability of specific tax rebates or deduction such as childcare expenses have significant gender effects. For example, the proportion of tax which is indirect such as sales tax and value added tax (VAT) as compared to direct taxation on both personal and business income have differential impact on the welfare of women and men as well as on high income and low income households.

Developing countries including India, Philippines and parts of sub-Saharan Africa are heavily reliant on indirect taxation and derive a lower proportion of total tax collection from direct taxation. This is partly a result of the decline on tariff revenues under trade liberalization. Indirect taxation is also due to political and external pressures that limit the implementation of both a progressive tax system on both businesses and capital gains as well as households as well as to the inefficient administration of tax audit and collection that makes tax avoidance easy.

This issue is relevant to women and low income groups because of its implication on the distribution of income and relative prices. Since low income groups tend to consume a higher proportion of their income than do high income groups, it can be

assumed that low income earners would have a higher average tax rate than high income earners if all taxes were indirect. This impact will be reduced if taxes are imposed selectively on luxury and non-essential goods while basic food, essential services and other items are exempt. Indirect taxes on the latter tend to reduce the proportion of total consumption requirement met by market purchases as they become more expensive. This will likely increase the demand for women's unpaid work as households produce substitutes for these market goods.

The type of tax exemptions - which categories, institutions, individuals, and activities are affected - has gender and distributional implications as well. While gains from capital and currency transactions have not been subject to taxation, tax deductions for such expenses as child care costs are woefully lacking for most families in many countries. This implies that when a woman enters the workforce, she and her household not only pay a portion of her income to taxes, but must also pay those costs resulting from her decision to work.

Systems of tax benefits for private retirement savings also operate along existing gender inequalities and can reinforce or reduce them. For example, tax subsidization of retirement savings can be gender biased if women have fewer opportunities to be employees in full-time jobs with pension benefits, experience more frequent labor force interruptions due to care-giving responsibilities, and earn less than men on average. As a result, women accrue lower benefits under such retirement schemes.

ENGENDERING DOMESTIC FINANCIAL SECTOR

A well-functioning financial system that facilitates the mobilization of domestic resources is essential for achieving sustainable human development. Governments play a crucial role not only in facilitating efficiency and innovation in financial services, but also to steering the development of its financial sector towards serving their countries economic and social development goals and enhancing the welfare of all individuals - women, men and children.

The challenge for governments to develop an enabling environment for financial sector growth in a way that promotes sustainable development and gender equality is not easy. Financial markets are prone to pervasive market failures and the private interests of financial institutions can, and have, diverged from public and social interests (Stiglitz 1993, 1999). This makes the need for establishing effective regulatory and supervisory institutions to, inter alia, reduce excessive risk taking and moral hazard a critical step towards strengthening the domestic financial sector.

But while financial institutions are prone to excessive risk taking, they tend to be conservative when it comes to serving the poor and in particular, women. Financial institutions often choose to ration their financial services; e.g. savings and credit facilities

and provide services only to certain individuals, households or businesses (Germidis et al 1991, Floro and Yotopoulos, 1991, Ghate 1992, Murdoch 2000). Indeed, many formal financial institutions -- pension funds, investment companies, commercial banks, development banks and other financial institutions --have failed to serve whole social groups including poor women. Prevailing gender norms and persistent gender inequalities tend to make these financial institutions bypass many financial services needs of women - as entrepreneurs, farmers, wage workers, household managers, savers and borrowers.

When considering government policy that enhances both the efficiency and welfare outcomes of domestic resource mobilization, a **gender-aware analysis** requires us to think about women and men as both suppliers of savings and users of credit and as having distinct, multi-faceted needs for financial services. Financial and fiscal policies and institutional reforms need to take these gender-based differences into account in the effort of countries to strengthen as well as widen and deepen their financial sectors and to improve their tax systems.

Effective, gender-sensitive savings mobilization requires a broader understanding of the gender-specific roles, needs and constraints. Given their divergent social and economic circumstances within and outside the household, women and men have different savings pattern as well as needs for financial services. Although the literature on gender and savings is sparse, a small but growing body of literature strongly suggests that there are gender differences in saving decisions as well as in risk attitudes in several developed and developing economies (Bajtelsmit and Van Derhei 1997; Sunden and Surette 1998; Bajtelsmit and Bernasek 1996, Hungerford 1999, Floro and Seguinto 2000). These studies also show that the options and constraints that women face differ from those of men and hence, their saving behavior may also differ.

It is now increasingly recognized that the poor, especially women, have a much greater savings capacity than previously thought (Fong and Perrett 1991, Germidis et al 1991, Murdoch 2000). These savings can come from remittances from migrant workers as well as from sales of cash crops and small and microenterprises. Several studies, particularly of the informal savings groups among women in different countries, argue that the general propensity to save among poor women is stronger than among their male counterparts (Fong 1991, Doss 1996).

Although the capacity of poor women to save is clearly limited, the existence of informal savings clubs and organizations in many countries, particularly among women, indicate their strong propensity to save. This may occur only during times of periodic surpluses but when they do, the actual amount saved can be surprisingly large, relative to income (Adams and Fitchett 1993). Yet, financial institutions fail to provide adequate savings facilities to poor women. Bankers, for example, normally assume that the interest paid on savings will always prove to be a major incentive for savings. Available evidence

argues that for many women, particularly in poor households, security of savings and access to credit is a more important savings inducement (Fong and Perrett 1991, Abiad 1995). Other concerns such as the privacy of accounts and proximity and easy access to deposited funds are also crucial.

In Asia and Latin America, economic globalization and increasing frequency of financial and economic crises in the recent decades have served to underline the deficiencies and excesses of markets and financial systems . The processes of economic restructuring and market expansion are uneven; they have created new patterns of wealth poverty, shifts in the patterns of employment and paid/unpaid work, savings, and credit behavior among household members; and they have eliminated and create new opportunities and constraints (Bardhan and Klasen 1998, Beneria 2001). Labor market structures have been de-stabilized, de-regulated and reorganized, leading to the reduction in the more stable forms of regular employment and the growth of informalized work or temporary and part-time employment.

Indeed, the emerging employment patterns among the poor are varied and complex. They range from some form of wage labor to work in different types of micro-enterprises, neighborhood workshops and home-based piece-rate work under subcontracting arrangements, referred to as homeworking. The growth in the number of homeworkers, predominantly women, is taking place amidst the process of globalization and decentralization of production (Chen et al 1999). As competition and the need for cost minimization intensifies, both global corporations and domestic firms have increased their involvement with informal production through outsourcing and subcontracting, resulting in the development of “vertical **subcontracting** chains” that extends the link between the formal and informal sectors. These changes have brought greater attention to the heightened vulnerability of low income households and the urgent need to address poverty in a more systematic and comprehensive manner. It also emphasizes the need to better understand the link between gender, work, and finance, specifically in meeting the goals of poverty eradication and gender equality.

Informal financial institutions especially in the developing countries proliferate but the intrinsic limitations of these institutions to expand their services and to diversify and pool risks suggest that there is a need for a gender-aware, comprehensive resource mobilization plan involving coordinated efforts of government , community organizations including women’s groups, and the private sector, particularly financial institutions, in order to meet gender-specific needs for convenient and reliable savings and credit facilities. Such a mobilization could lead to increased savings and productive investment.

Resource mobilization raises the questions of for whom and for what are these funds used. Women’s lack of access to credit is widely recognized as one of the key constraints that limit women’s performance in productive activities (Goetz and Sen Gupta 1996, Ackerly, 1997). Many poor women do not hold land rights and typically have lower earnings (Agarwal 1995, Otero and Rhyne 1994). This means they cannot provide adequate collateral. Women’s businesses tend to be small and the requirements for obtaining bank credit -- in terms of time to process loan applications and to gather

necessary documentation and the high margins charged on loans -- often discourage women from approaching these institutions for their financial needs.

Even when women do apply for loans and their financial characteristics are the same as men, discriminatory attitudes and practices on the part of lenders create barriers. The prevailing gender norm that women are supplementary income earners, even when contributing a substantial portion of the household income, appears to permeate decision making in many financial institutions (Manning and Graham 2000). Because of this attitude and because of the social and economic devaluation of women's productive work, women have only limited use of the funds mobilized through financial intermediation.

For example, some financial institutions still require a husband's or male relative's signature for the loans that women are responsible for repaying (Bakker 1994). Although scarcity in data and methodological issues limit the number of empirical studies on this area, available evidence indicate that gender-based biases tend to be present in some financial sector lending rules and operation (Manning and Graham 2000).

In Africa and South Asia, women work in strategic productive activities, notably agriculture and the food sub-sector, but the financial instruments and services provided by most banks and other financial institutions (such as credit provision and insurance) are skewed in favor of the cash crop and export-oriented sectors and non-agricultural activities in the urban areas. Subsistence producers and women farmers are often left out of the financing circuit which make them unable to make land improvements and increase their production (Agarwal 1995). The issue of food security entails addressing the present gender and economic inequities that limit rural women's access to land, credit, technology and information base of farming as well as to non-farm employment opportunities.

Microcredit and microfinance projects have become one of the key strategies for addressing women's poverty. These mini-loans provide the opportunity for women to have their own businesses, increase their productivity and earnings and hence achieve greater empowerment. They also help women escape their indebtedness from moneylenders, middlemen and traders and thus improve women's bargaining position.

Indeed, microcredit programs throughout the developing world, especially in South Asia and Africa, have played a significant role in the promotion of women's economic rights, self-employment and income generation, especially in poor households (Mayoux 1998, Otero and Rhyne 1994). For this and other reasons, the international community should actively support the development and growth of microcredit programs and micro enterprise development in their effort to achieve social development goals particularly poverty reduction and gender equality.

But many informal sector workers, particularly those working on piece rate basis, are not covered by these programs and therefore have to find other means to help them smooth their consumption. The financial nexus-- both credit and savings -- for the poor is

likely to be critical in the context of declining job security and rising income variability especially in the aftermath of financial crises and therefore needs to be examined carefully.

Microfinance schemes require a more gender-sensitive programming and management approach in order to ensure that they do not undermine women's empowerment (UNIFEM 2000, Goetz and Sengupta 1996, Ackerly 1997). It is important to avoid implementing credit programs that reinforce stereotypical notions of Afeminine tasks or roles and that tend to keep women subordinate within households and communities. Microcredit programs can also trap women in a *Amicro-finance ghetto* and risk constraining them unless they develop specific mechanisms for promoting women's empowerment and for making their staff more gender-sensitive (AWID 2001).

For example, the Shakti Foundation in Dhaka, Bangladesh has created incentives in its programming to encourage women borrowers to be familiar with the market, to gain requisite knowledge, and skills for better-paid, more stable forms of employment and to discourage the use of women as a means for their husbands to obtain credit (Ackerly 1997). In this manner, the organization makes use of credit as a means of addressing both social and economic hierarchies that constrain the empowerment of women. It is also important to develop microfinance programs that effectively serve the most vulnerable of the poor, and not the Arichest of the poor or the Apoorest of the rich (Navajas et al 2000, Graham et al 2000). For these reasons, governments should not automatically assume that all types of micro enterprise programs enhance women's capabilities or increase women's status and bargaining power.

As important as microcredit programs are, they do not address women's need for other financial services that go beyond credit -- such as insurance, savings mobilization, and technical assistance. This brings about the challenge of understanding the impoverishment of women, men and their households amidst the transformations taking place in the world through changes in production and concomitant labor market structure, trade liberalization and increased integration in global financial markets.

More attention needs to be paid to gender, non-market production of goods and services, and the significance of the informal sector within transforming and developing economies. This neglect has arisen because financial models tend to focus exclusively on market relations, disallowing the crucial linkages between the market and nonmarket (reproductive) sectors, and between the formal and informal sectors. Since women are over-represented in the informal sector and in nonmarket production of goods and services, this means ignoring an important dimension of the impact of macroeconomic events on women.

The effect of changes in employment patterns and income levels on savings and credit behavior, and the link between savings decision and gender as well as credit and gender are complex and little understood. Yet these issues are important in the development of policies and financial services that serve toward sustainable, "people-

centered, gender-sensitive development” (Monterrey Consensus Draft, 2002, p. 2) and enhancement of the welfare of all individuals - women, men and children.

The development of financial services that serve women on a major scale will require the provision of an integrated saving, insurance as well as credit services in an easily accessible form and the inclusion of women’s voice and gender considerations in planning and decision-making (Beijing Platform for Action, para.167 (b) including finance ministries. Complementary legal and economic reforms that increase women’s access to requisite resources such as land, market knowledge and technology as well as educating women about their rights are essential subsidiaries to such reform.

Gender-sensitive financial reforms, gender-sensitive budget analysis, and participatory public-private sector partnerships are important and needed to eliminate discrimination against women in the delivery of financial services. They are also essential in strengthening the ability of the domestic financial sector to provide lending windows and other accessible financial services to the poor, particularly women (Twenty-third Session of the General Assembly, June 2000, and the Convention on the Elimination of All Discrimination Against Women (CEDAW)). This is the important and urgent challenge faced by governments, policymakers and financial sectors today if domestic resource mobilization is to promote sustainable development, gender equality and women’s empowerment.

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