

Female Smallholders in the Financial Inclusion Agenda

Financial inclusion of smallholder families is considered one of several key conditions needed to spark sustainable agricultural development and food security. However, an analysis of national smallholder surveys in Tanzania and Mozambique with a gender lens reveals female smallholders remain financially excluded relative to men—despite women’s significant demand for financial services. This gender gap in financial inclusion is greatest in the wealthier smallholder households and suggests that even when wealth conditions improve only the male members overcome financial inclusion constraints. This highlights the importance of making sure that more adequate choices of formal financial products are available for female smallholders.

Development practitioners are focusing on smallholder families’ financial inclusion because they recognize that it enables sustainable agricultural development. The latter is recognized as a Sustainable Development Goal because of its effectiveness in raising incomes among poorer rural households through both an increase in agriculture productivity and a diversification into nonfarm activities, which allows greater food security (Christiaensen, Demery, and Khul 2011; Davies et al. 2010; USAID 2010).

To achieve smallholder financial inclusion at scale we need to ensure female smallholders—half of the large smallholder population—have opportunities to use adequate formal financial services. This Brief explores the gender gap in financial inclusion among smallholder families in Tanzania and Mozambique through unique survey data that are representative of smallholders at the national level. We observe that not only are female smallholders more financially excluded than men, they also have lower levels of incomes, education, and economic diversification. We also find that female smallholders make fewer investments in agriculture despite their higher dependence on this activity as a source of income. Furthermore, these disparities between men and women increase sharply from the poorer to the wealthier smallholder households.

What does this mean for financial services providers (FSPs) and policy makers? Evidence points to the significant potential demand that female smallholders represent for FSPs. Based on this analysis, we make suggestions on how to tailor financial services to better serve female smallholder needs. We also discuss some implications for policy makers that are seeking to further coordinate interventions that promote financial inclusion among female smallholders.

Data analyzed are from CGAP’s national surveys of smallholder households that were conducted in Tanzania and Mozambique in 2014–2015.¹ The surveys are unique in that they allow for a nationally representative look at smallholders, which represent a subset of the better-researched agricultural or rural households observed in other surveys. We also use data from CGAP’s smallholder financial diaries, which capture individual smallholders’ financial transactions over time. Although these data are not representative at the national level, they can be used to develop product design insights.²

The financial lives of female smallholders

The smallholder national surveys reveal that most credit and savings services used by individual smallholders in Tanzania and Mozambique come from informal sources. On average, 37 percent and 31 percent of individual smallholders in Tanzania and Mozambique, respectively, reported using credit or savings informally from family and friends the year prior the survey. This is followed by use of community savings and credit groups with 8 percent for Tanzania and 10 percent for Mozambique.

Although the overall use of formal financial services is very low, banks are positioned to reach this customer segment. Six and 7 percent of smallholder individuals in Tanzania and Mozambique used credit or savings services from a bank. This drops to 3 percent for microfinance institutions and 2 percent for credit unions or cooperatives in both countries.

Disaggregating these results by gender and household wealth shows that the gender gap in financial inclusion widens sharply in wealthier smallholder households

¹ The CGAP national surveys of smallholder households are representative of smallholders at the national level with a sample of about 3,000 individual smallholder household members in each country. Many of the answers to questions about livelihoods and finance were captured for every individual older than 15 years old, which allows for a unique sex-disaggregated analysis within smallholder households. For more details in the methodology see Anderson, Marita, and Musiime (2016) and Anderson and Leach (2016).

² CGAP conducted smallholder financial diaries among several communities in Tanzania and Mozambique. Although the diaries are not representative at the national level, they provide a more granular view of smallholder financial behavior that can help generate product design ideas. The sample comprises 93 households in Mozambique and 86 households in Tanzania and records every cash inflow and outflow transaction by individual household members, as well the type of financial instruments used. For more information on the methodology, see Anderson and Wajjha (2016).

Box 1. Design insights for providers serving female smallholders

CGAP's smallholder financial diaries reveal some product design insights that can help respond better to female smallholder needs. For example:

Goals. Female smallholders in the sample prioritize household and family expenses like groceries, education, clothing, and transport more than men. It is important to identify what women's goals are. Developing financial products that help meet those goals, such as commitment savings for education or convenient payment for transport services, can provide a better value proposition for female smallholders.

Service term structure. Female smallholders in the sample experience longer periods of illiquidity than men, given that they have fewer moments in the year with high peaks in net income. This suggests women may benefit from longer-term loan repayment schedules. Longer loan tenor could help women seize bulkier investment opportunities, which they likely cannot realize given their current dependence on informal loans—known to be short term. Likewise, more convenient and safer longer-term savings accounts can also help women cope with extended illiquidity periods.

Timing of service offerings. Women's high and low peaks in net income can occur at different times than those for men. This is important to consider when deciding to offer different financial products and request certain transactions from women. Appropriate timing in product offerings should increase the product's suitability for women (e.g., requesting savings deposits at the time of their high-income peaks or accepting credit applications and savings withdrawals at the time of their low-income peaks).

Product preferences. Diaries data suggest female smallholders may prefer savings over credit. However, further analysis is required to determine whether this is simply a result of less credit being available to women. These products are mainly offered through informal mechanisms and suggest a large market potential for formal providers. However, the latter need to develop new products and delivery models that offer a better value proposition than the ones offered by informal providers.

relative to poorer ones.³ Both women and men in the poorest smallholder households show the same levels of financial exclusion and rely almost entirely on informal credit and savings services. However, in the wealthier smallholder households, men start sourcing more savings and credit services from formal providers, particularly from banks, relative to women. This trend reflects women's difficulties in using formal finance even when household wealth conditions improve and male household members begin using formal finance.

As smallholder households become wealthier, there is a widening gender gap in the use of digital financial services. In Tanzania, more men than women own a mobile phone within the wealthier households, which contributes to women using fewer digital financial services relative to men. However, even when there are no gender differences in mobile phone ownership among smallholders—as is the case in Mozambique—men use their phones more than women to access digital financial services and conduct business transactions. Merely owning a mobile phone does not seem to ensure women will use it to access digital financial services.

This does not mean female smallholders have less demand for financial services relative to men. We find their demand is equal. Throughout all household wealth levels, the share of men and women that have outstanding loans and active savings is the same, and

female smallholders in wealthier households make up for the relative lack of formal financial services by relying more on informal ones.

Female smallholders' reliance on informal sources of finance represents a large latent demand that formal providers could serve. This is something that providers are increasingly doing for men in wealthier smallholder households. Box 1 shows examples of some ways financial products could be tailored to female smallholders' needs and how these needs can, in some instances, differ from those of men.

Underlying causes for female smallholders' financial exclusion

Female smallholders in Tanzania and Mozambique compared to men persistently lag in educational attainment indicators and access to identity cards (IDs) required by financial providers. In addition, women seem to be less able than men to make productive use of land. These constraints are influenced by social norms—like early marriage, childcare, and housework—that dictate how women spend their time and resources.⁴

While rural and urban women share constraints imposed by social norms, rural smallholder women face the additional challenge of low penetration of

³ The sample in the national smallholder household surveys was divided into three wealth quantiles at the household level (i.e., first quantile as the poorest and third quantile as the richest) based on their Progress out of Poverty Index, which determines the likelihood that a particular household is living below the poverty line based on observable characteristics.

⁴ For an overview of common constraints to women's financial inclusion, see Jensen (2010); Demirgüç-Kunt, Klapper, and Singer (2013); FAO (2012); Slavchevska et al. (2016); and Zilanawala (2016).

formal financial services in rural areas (Demirgüç-Kunt et al. 2015). This is in part due to the higher costs in providing financial services in rural areas with low population densities. It also reflects the difficulties that the financial sector's current business models face when serving small-scale agriculture, which is predominant in developing countries (Conning and Udry 2007; FAO 2017).

The path of livelihood diversification

One of the key differences between female smallholders and women elsewhere relates to the composition of their livelihoods, which include a mix of agricultural and nonagricultural activities. The growing gender gap in financial inclusion observed as smallholder households become wealthier is associated with men being able to diversify away from agriculture faster than women (see Figure 1). That is, in these wealthier households, men continue to participate in agriculture while also engaging in nonfarm activities that complement and increase household income. Also, men use loans for productive investments in farm and nonfarm ventures more than women do. In contrast, women tend to use loans to cover everyday expenses more than men do.

Female smallholders' incomes in wealthier households depend more on agriculture than that of men's, because women do not diversify into nonfarm activities. Furthermore, despite women's greater dependence

on agriculture, their aggregate agricultural income is lower than men's income throughout all household wealth levels, which is consistent with a gender gap in agricultural productivity observed in other studies (O'Sullivan et al. 2014).

This suggests that women face greater constraints to engage in other profitable activities both outside as well as within agriculture, and the inadequacy of the financial services they currently use is one of these constraints. This highlights the importance of promoting a greater choice of formal finance that better responds to the needs of female smallholders. However, even if better formal financial products are available, the social norms that restrict how women use their time and resources will also determine whether they take a path toward greater income, productivity, and economic diversification. These constraints are mutually binding and should be addressed in a coordinated manner.

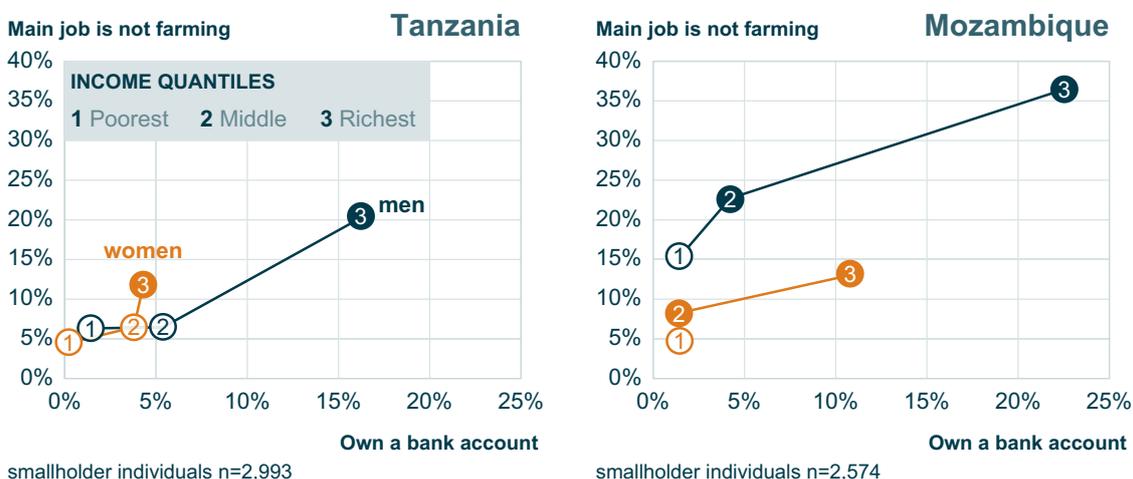
Implications for practitioners and policy makers

In Tanzania and Mozambique, even as formal FSPs make progress in serving smallholder households, female smallholders continue to be disproportionately financially excluded. Using a gender lens in the analysis of smallholder financial behavior reveals that rural expansion of financial institutions has not automatically reached female smallholders.

Figure 1. Share of male and female smallholders that own a bank account and report main job is not farming, by wealth quantile for Tanzania and Mozambique

Women in richer households are less likely than men to diversify into nonfarming jobs and to own a bank account

Men in wealthier households are able to diversify away from farming as a primary source of income while also increasing their access to banks. In contrast, a high proportion of women in those wealthier households retain farming as their main source of income and rely much less than men on formal finance.



● Full dots mean that the difference between men and women in this quantile is statistically significant at the 90 percent level and above.

Source: CGAP national surveys of smallholder households.

The challenge of financial exclusion of female smallholders represents a business opportunity for formal FSPs. The dominant use of informal financial services by women reflects a large latent demand that FSPs can target, and the use of a gender lens can help providers recognize important unmet financial needs among female smallholders even when they form part of households that are relatively wealthier and have male members who are financially included.

Furthermore, the difficulties faced by women to increase incomes, improve agricultural productivity, and diversify into nonfarm activities highlight the limitations of the informal financial services they rely on and the importance of making sure suitable choices of formal financial products are available to them in a sustainable manner.

Providers will need a more nuanced understanding of female smallholders' goals, livelihoods, and cashflows, which can be very different from those of men. There are several tools that can help practitioners develop more client-centric strategies and products, which can be applied with a gender lens to serve female smallholders. (See CGAP Customer-Centric Guide [<http://customersguide.cgap.org>].)

Beyond innovations in product design and tailored delivery strategies, promoting greater financial inclusion among female smallholders will likely entail multi-sectoral policies that can address many constraints faced by women related to discriminatory social norms, lack of education, IDs that meet know-your-customer requirements, agricultural productivity, and so forth. This means implementing coordinated interventions with both public and private sector stakeholders that have a presence in rural areas. This also means that there is a need to shift from strict sectoral support approaches to more integrated ones where both the agriculture and nonagriculture sectors are considered.

The path of livelihood diversification depicted in the literature that show how financial inclusion enables agricultural development and, in turn, promotes livelihood diversification and poverty reduction is consistent with the experience of male smallholders in Tanzania and Mozambique. However, it is not clear whether female smallholders who remain financially excluded would follow the same development path once they are included. The question remains: Would female smallholders follow the prevailing paradigm or do they have one of their own that is different? Further efforts are needed to define the impact of financial inclusion on female smallholders and how this affects their development pathway.

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