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Financial Market Liberalisation and the Marginalisation of Women: the Example of Zambia

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Introduction

Using the example of Zambia, this paper considers whether the liberalisation of financial markets leads to rural women's increased participation in economic development. This question is here seen as a key test for liberalisation theory. It is an examination of whether macro-economic enthusiasm has any basis in micro-economic realities.

In particular the paper focuses on the current process of privatising the parastatal commercial bank ZANACO. This privatisation is one of the IMF conditions that the Zambian government was required to meet before being given HIPC status, and therefore qualification for debt forgiveness. Increased liberalisation has been part of IMF conditionality for the past twenty-five years that Zambia has been heavily dependent on balance of payment support. As a consequence, financial markets in Zambia are now extremely liberalised, with easy entry into Zambia for foreign banks, a floating exchange rate, and no foreign exchange controls. The central bank now has a high degree of autonomy from government, and the base interest rate largely reflects the balance between capital supply and demand.

The underlying rationale for this liberalisation of financial markets is that a free market in money will make local and foreign capital more available and accessible. In Zambia, financial capital is the one factor of production which has always been in critically short supply. By comparison, there is a plentiful supply of various natural resources, including land, water and minerals. Unusually for many developing countries, there is a plentiful supply of educated and skilled human resources in many fields. There is also a large surplus of cheap labour.

As in most of Africa, it is women rather than men who are the food producers. It is estimated that in Zambia women are responsible for 80% of all agricultural production. Women are also particularly active as traders and marketeers, especially in the food market. But, for reasons discussed in this paper, women have always been particularly cut off from access to financial markets, both in access to short-term credit and in access to capital investment.

This paper argues that the general liberalisation of financial markets has enabled and prompted banks to adopt policies of profit maximisation which are detrimental to national economic development. In particular, liberalisation has had the effect of making banking services and credit facilities less available to women, and to small-scale rural producers, who are the key to increasing food production in Zambia.

The Subordination of Women in Rural Zambia

Women in Zambia, as in all of Africa, live in a very patriarchal society. It is a society where decision-making, both within the government and within the home, is almost entirely in the hands of men. Of course the patriarchal claim is that men take decisions in the general interest of the family, and the nation as a whole. However, the actual situation of women in Zambia provides clear evidence that men tend to take decisions in the male interest, and for the continuation of the patriarchal system. This leaves women as the most poor and marginalised section of the community. [1]

Here we shall look at the influence of patriarchal governance for the micro-economy of a small rural farm, which is where half of the Zambian population live. In a country where polygamy is legal, the male head of household may have one or more wives, all bought with the bride price of 'lobola'. Not only does the land belong to the husband (although allocated by the chief, in whom ultimate tribal ownership is vested), but his wives are also effectively 'owned' by the husband. From a traditional perspective, both land and wives are viewed as capital.

Yet it is the wives who are the main food producers. Traditionally, they are responsible for producing all the subsistence food for the household. They also provide most of the labour for their husband's fields, for producing a cash crop, usually maize. In addition, wives produce their own cash crop, often as surplus from their subsistence production of vegetables and groundnuts, which can provide them with their own independent cash income.

A common domestic problem is that the husband takes the crop to the market, and misuses the resultant money, in ways that are destructive to the farm economy. For example he may waste money on beer, or on prostitutes, or spend money on lobola for an additional wife. He may come back with luxury items such as clothes or a television, which the farm cannot afford and which have no investment value. In other words, he uses the surplus labour of his wives for uneconomic or even destructive ventures. He has done this without the permission of his wives, and against their wishes.

In principle, the arithmetic of polygamy should entail a surplus of unmarried men, especially young men, who cannot find wives. However, because of the high proportion of young males who migrate to urban areas in search of work, there is actually a surplus of unmarried women in rural areas. In rural Zambia, about 20% of all households are headed by single women who are either unmarried, widowed, divorced or effectively separated. But these 'female heads of household' are not free of male exploitation. They mostly live on much smaller farms, on land perhaps allocated by a father, uncle or brother, since the chief normally allocates land only to men. Not living in as full family unit, female heads of household in Zambia are almost always short of land, short of labour for traditional male tasks (e.g. house building), and over-burdened with the labour of bringing up small children. They are even less able to accumulate capital than their married counterparts. They are the poorest of the poor.

The Need of Rural Women for a Financial Market

From the above picture of the economic life of rural women in Zambia, their need for financial services immediately becomes apparent. Firstly, they need to be able to *control* the money they earn from agricultural production and trade. They need a safe place to *store* money, where the husband cannot get at it, to waste it. This is the key to women being able to *save* money.

[1] See, for instance, Zambia Association for Research and Development, 1998, *Beyond Inequalities: Women in Zambia.* ZARD-WIDSAA, Lusaka and Harare.

Women need to be able to invest savings in their own economic enterprise, as an alternative to investing their labour in their husband's economic enterprise. They need some independent control of their economic enterprise. Usually this entails women setting up their own collectives or cooperatives for producing, selling and trading.

Such collectives are the route not merely towards making savings, but also for arranging their own seasonal loans, and perhaps eventually to attract outside investment. Therefore, they need a sympathetic and supportive credit organisation. This is the key to their increased social independence and their increased economic empowerment. By the same token, it is the key to their increased and more efficient economic production. Nationally, it is the key to increased agricultural production. This is the huge untapped agricultural potential of Zambia that provides the key to national development.

In most countries, we would say they need a *bank*. But in Zambia, a bank is what they don't get. What they do get is some limited access to their own local women's credit associations, or otherwise to the Women's Finance Trust. These, operating on the same principle as the Gremin Bank, have little outside or foreign capital injection, and operate mainly on the pooled savings of the very poor, all trying to pull themselves up by their own grassroots.

It might be thought that the mainstream banks avoid rural women because of the high risk of lending, and poor recovery rates. Not so. Women's credit associations always report a very high rate of recovery, exceeding 95%. By comparison, the big city banks commonly have to write off a much larger percentage of irrecoverable bad debt, given as large loans to the urban rich.

If poor rural women are the category most in need of capital, they are also the category which is most discriminated against in access to capital. We now turn to consider how and why this is so.

How Commercial Banks Discriminate Against Poor Women Farmers

There are two reasons why poor rural women are not able to get credit from a commercial bank: firstly that the banks discriminate against women, and secondly that they discriminate against the rural poor. Therefore poor rural women are doubly discriminated against. Let us consider the features of these two forms of discrimination.

Commercial banks are socially conservative institutions. In a patriarchal society, banks tend to accommodate themselves within the social order, rather than challenge it. This conservatism is nowhere more evident than in the positioning of banks within the patriarchal order, where men are seen as the owners of land and capital, and as the owners of their wives. Until recently, in Zambia, it was not even possible for a woman to open a bank account without the written permission of her husband. In this respect the banks were operating forms of discrimination which ran counter to the (pervasively ignored) clause in the 1991 Constitution, which prohibits discrimination against women, at least outside the areas of customary law and marriage law.

More important is the indirect discrimination against women. The rules of the bank require that a loan be set against collateral. This rule, in Zambia, means that there are no women, at least amongst the rural poor, who can access a loan from a bank. The bank itself deems that the marriage property, which in this case would be land and farm buildings, belongs to the husband. Therefore, if a rural woman wants a loan, she has to get it through her husband. However, her main purpose in seeking a loan in her own name is to circumvent the high probability that her husband will either refuse to make a loan application in his name, or otherwise misuse the loan when the bank allows him to get his hands on it.

In other words, in the area of banking, modern capitalism has gone into alliance with traditional patriarchy, to maintain male domination over the ownership and control of capital. In so doing, it is complicit in the perpetuation of underdevelopment.

A rural woman is also discriminated against because she is poor. In a capital-starved economic environment such as Zambia, banks do not trouble themselves to provide any service of lending capital to poor people, especially in rural areas. They make very easy profit from lending money in large amounts to big companies in the city, and especially to government via treasury bills. Poor people are discouraged from opening bank accounts by very high service charges, very low rates of interest for depositors (as against borrowing rates), and by very high minimum deposits required for operating an account. Minimum deposits for a savings account are currently around the kwacha equivalent of $100, which would represent a very high level of savings for a poor farmer, and an impossible threshold for a poor *female* farmer.

This situation arises especially because the bank's policy of profit maximisation is interpreted narrowly, where each individual branch is required to be profitable. For this reason the big multi-national banks in Zambia have very few branches outside the areas of big business. Barclays, in particular, has recently completed a programme of closing down branches in small rural towns and suburban areas, in order to concentrate on the big city market where easy money can quickly be accumulated.[2] In Zambia, commercial banking is a massively profitable exercise, and the most profitable sector of the economy outside the mines. These profits are mostly externalised, and certainly not re-invested in providing credit for the rural poor.

In other words, the commercial banks – and especially the big multinationals of Barclays and Standard Chartered – follow the policy that 'money talks'. In what they see as a high-risk and politically unstable environment, their priority is to obtain high returns in the short term. They are not in the business of providing low profit financial services in the interest of long-term national economic development. Given the ethos of commercial banks, this is entirely understandable. But it is very strange for western development economists to claim otherwise, as if a 'free market in money' will naturally and automatically cause access to credit to 'trickle down' to the most needy, the rural poor.

On the contrary, a free market in money causes capital to concentrate on the high and quick-return of urban trade and industrial production, to the exclusion of capital-starved rural agriculture. But in Zambia, it is rural agriculture that presents the best prospect for long-term and sustainable national development, as well as for equitable development.

We now turn to look at fate of one bank in Zambia that attempted to provide financial services to the rural poor – the People's Bank.

Providing Credit to Poor Women Farmers – The People's Bank

Clearly a liberalised money market in Zambia has not made credit available to poor women farmers, or even poor female farmers. Currently, even large commercial farmers are being cut off from access to credit by ruinously high interest rates of 35%, driven up by the government's insatiable demand for domestic borrowing. The commercial banks' role is to

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[2] For example, within the past two years Barclays has closed down twenty small branches in Zambia: 8 in the rural areas and 12 in the suburban areas of big towns.

mop up all available liquidity from the money market, and to lend it to the government at a very high rate caused the government's insatiable demand.[3]

The free market in money has had the effect of making money more available to the government, and less to ordinary citizens. Nor is there any evidence that the government is using this money for investment in rural development. On the contrary, there is plenty of evidence that the ruling government elite is using this borrowed money for their high salaries and allowances, luxury vehicles and unnecessary trips abroad. In other words, it is being used for the conspicuous consumption of the rich, instead of investment in the poor.

We should now ask ourselves what sort of institution, rather than a commercial bank operating in a liberalised money market, is actually necessary to provide financial services to poor rural women farmers. This question requires us to look back to a parastatal bank formed in 1972, in a money market which was then subject to tight government control. The Zambia National Commercial Bank (ZANACO) was formed in 1972, at the height of the socialist reforms of the then UNIP government. From the point of view of the national economy, the purpose of this new bank was to achieve more control over the commercial banking sector, where all other commercial banks were mere outposts of multinationals.

ZANACO established a preferential system for providing government capital to the newly established parastatal companies (formed mainly from the nationalisation of private companies), as well as to provide the government with income from banking revenues. Equally important, ZANACO was to provide access to financial services to ordinary Zambian citizens, who had previously been cut off by the 'big business' interests of foreign banks. For this reason, ZANACO soon became popularly and deservedly known as the 'People's Bank'.

The People's Bank began with a more service-oriented approach than the other commercial banks, being explicitly concerned the encouraging the emergence of Zambian indigenous business, in an economy which had previously been dominated by foreign capital and foreign personnel. By the same token, it was aimed to enable and encourage the accumulation and utilisation of domestic capital, rather than the externalisation of profits by foreign interests. For the ordinary Zambian customer, the bank had the following advantages:

- More branches in rural areas, to provide banking services to farmers and small businesses;
- More branches in peri-urban and suburban areas;
- Small minimum deposits in savings accounts, to encourage small-scale savings;
- Small loan facilities;
- Loans to parastatal employees, guaranteed by the employer, and sometimes mediated by trade unions;
- More risk-taking in loan giving, to encourage the emergence of small Zambian (indigenous) businesses.

Therefore in some areas the bank policy contradicted the principles of profit-maximisation, especially in the administrative costs of small savings and loans, the number of far-flung rural branches, and the higher level of risk taking. Being a government bank, it was equally interested in *increasing access to financial services*, for the purposes of *national development* and a *more equitable distribution of wealth*. All of these aspects of policy may be regarded as uneconomic from a strictly commercial point of view.

[3] Currently the base rate set by the central bank is 25%. Commercial banks are charging 30% on loans, but pay only 3% interest on savings accounts. Excess liquidity is mopped up by Treasury Bills, currently paying about 20%.

The People's Bank therefore provided better access to poor rural women, by comparison with the (zero) access provided by the foreign-based commercial banks. However, this improved access was entirely because of the pro-poor bias, and not because of any pro-women bias.

With the increased advancement of women in Zambia, there was the prospect of the People's Bank dropping those aspects of its regulations that indirectly discriminated against women, and even the adoption of affirmative action for increasing women's access to credit. As a government bank, it would be subject to directives on government policies for gender equality and affirmative action.

But rather than developing this potential for providing financial services for the rural poor, the People's Bank has now gone the other way. It has fallen into the clutches of the IMF and the World Bank.

The IMF Demand for Privatisation of the People's Bank

The innocent reader might have expected that the IMF and the World Bank would have been keen to encourage the People's Bank extension of access to financial services, and provision of a developmental counter-weight to the big-business and foreign interests of the foreign-based commercial banks.

If so, then the innocent reader is to be cruelly disappointed. Selling ZANACO to a foreign bank is one of the main conditions established by the IMF and the World Bank, as the basis for achieving HIPC status (achieved by Zambia in March 2005), in order to qualify for debt forgiveness. Consequently, the Zambian government is in the process of selling off 49% shares in ZANACO to a foreign commercial bank. (The IMF, rather strangely, uses this word 'privatisation' for the process of selling the bank to a foreign public company. Perhaps 'alienisation' might be a more appropriate term).

This invasion of a government bank by a foreign bank will certainly lead to ZANACO having to adopt more commercial (i.e. profit maximisation) policies. Foreign investors, by definition, are interested in maximum return on their investment, and are not interested in very long-term investments in rural agriculture that have the prospect of low rates of return in the short term. The new investors will certainly be foreigners, because there is little development of any local Zambian bourgeois class with sufficient capital to invest in a bank. The local bourgeoisie are generally borrowers, not investors.

Nor are foreign investors interested in lending money at less than the market rate of interest established by overall demand, as established by big business. Profit maximisation policies, as we can see from the example of the existing foreign-based banks in Zambia, will lead to the withdrawal of access to financial services to rural areas, and therefore to poorer clients, amongst them a disproportionate number of women.

Given these obvious connections between 'privatisation' of the People's Bank and the consequent withdrawal of access to financial services for ordinary citizens, what is the IMF rationale for selling the bank to foreign interests? Firstly there is the overall argument that business is not the business of government, and that parastatal companies are inevitably inefficient, having the inertia of a rule-bound bureaucracy rather than the entrepreneurial vigour of a commercial profit-maximising enterprise.

While admitting that there is plenty of world-wide evidence for this argument, we should also note the earlier argument in this paper, that profit-maximisation policies of foreign banks are not entirely appropriate for Zambia. For long term national development and economic growth, which also serves the long term interests of the financial sector, banks need to be looking at the long-term developmental effects of extending access to financial services, even where there is no short-term prospect of profit. The bottom line is that a foreign bank is not interested in local national interest, except in the area where this coincides with profit maximisation.

Secondly, there is the IMF argument that a government-controlled bank is a particularly attractive site for government corruption. There is certainly plenty of evidence for this in ZANACO. During the era of President Frederick Chiluba (1991-2001), the government was effectively in the hands of a gang of thieves, who systematically looted the national treasury, ZANACO included. The bank was used as a conduit for funds stolen from the government coffers, to be externalised to foreign banks abroad. It was also forced into providing unsafe loans to the secret police, from where funds were then plundered by government officials.[4]

However, corrupt government is not, in itself, a sufficient reason for privatising the bank. If the main problem is direct government control over the bank, where the state president can even appoint a thieving crony as managing director, then the proper and more direct remedy would seem to be to establish managerial autonomy, and proper supervisory and regulatory mechanisms. Furthermore, handing the bank over to a foreign-based public company is not necessarily a solution to the problem of corruption (as is testified by the notorious examples of massive corruption in BCCI and Enron, to mention only two).

A parastatal bank can be established with relative autonomy from the government, to operate as a commercial entity, but being obliged – especially because of its supply of government capital - to follow broad government policies and principles. Specifically, it can be required to pursue government policies on increasing access to market services, supplying credit to small-scale producers, encouraging local entrepreneurs, and pursuing long term objectives on national economic development.

The ZANACO situation therefore argues against any simple belief or dogma that increased foreign competition, and increased liberalisation of the money market, will increase general access to financial markets. Instead, the evidence actually suggests foreign-based banks have the opposite effect. This paper therefore concludes by identifying some of the actual likely effects of liberalising financial markets in a country such as Zambia.

How Liberalisation of Financial Markets Discriminates Against the Rural Poor

Zambia is a dual economy. Firstly there is a rich copper producing industry, which has attracted massive foreign investment, and which accounts for 85% of all exports. It is the income from copper production, and from secondary industry and trade, which fund the sumptuous lifestyle of the small Zambian elite, and which also maintain the urban proletariat in perennial poverty.

Secondly there is rural agriculture. Rural farmers are mostly living in poverty. Production is inefficient and low. Agricultural production swings, by the season, from national food surplus to national food deficit, depending on whether the rains are sufficient. Dependence on rain is a direct result of lack of investment in irrigation. Zambia has plentiful ground water, but the once extensive pre-colonial systems of irrigation have long since fallen into disrepair.

Lack of investment is also manifest in the lack of rural roads and lack of farm technology. The good major road network is geared to imports and exports, but the rural agricultural road

[4] Both of these types of cases are currently in court, with charges being levelled at, amongst others, former President Frederick Chiluba, former Finance Minister Katele Kalumba, former head of the Secret Police Xavier Chungu, and former Managing Director of ZANACO Samuel Musonda.

network is rudimentary and non-existent in some areas, and often impassable in the rainy season. 70% of land is uncultivated, most of it as natural forest. A small commercial farm sector is mainly concerned with export of non-food crops.

The key to economic development in Zambia is investment in the agricultural production of the rural poor. Zambia has the potential for being the breadbasket of Southern Africa. But since independence, as in colonial times, surplus capital created by the mines has been sucked out of the country by the copper companies, by the rich Zambian elite, and by the banks.

The question, therefore, is whether foreign banks and other purveyors of financial services are interested only in continuing the old colonial pattern of sucking out the economic surplus. Or whether they are interested in a self-sufficient operation in Zambia. Or whether they are interested in bringing in foreign capital, especially for investment in agriculture.

If we look at the liberalisation policies which have been increasingly foisted on Zambia by the IMF since the mid 1980s, we can see a pattern of measures which enable and encourage investment in the rich copper economy and its satellite industries and trading companies. By the same token, we see the avoidance of investment in agriculture, and the continued sucking out of economic surplus from Zambia, facilitated especially by an increasing imbalance in the terms of trade.

Foreign-based banks have their shareholders abroad, and they therefore need to externalise their profits. Profit maximisation and externalisation is facilitated by two fundamental aspects of the liberalised financial market:

- Interest rates determined by supply and demand, with no subsidised credit for agriculture;
- No exchange controls, therefore allowing banks to externalise all their profits, and to act as a conduit for the externalisation of profits for all other companies.

In this liberalised market, there is of course no hope for the poor rural woman farmer. No bank even spares her a thought. In a liberalised economy, a commercial bank is not even willing to give her seasonal credit, let alone a longer-term investment loan. Even if a bank offered her seasonal credit, there is no way she could possibly afford the high rate of interest. Even if there were no crop failure, the rate of interest on the loan would be higher than the rate of return on the capital borrowed.

Conclusion

In a developing country such as Zambia, the liberalisation of financial markets has the effect of marginalising the participation of women in the economy, as part of a generally negative effect on national development.

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