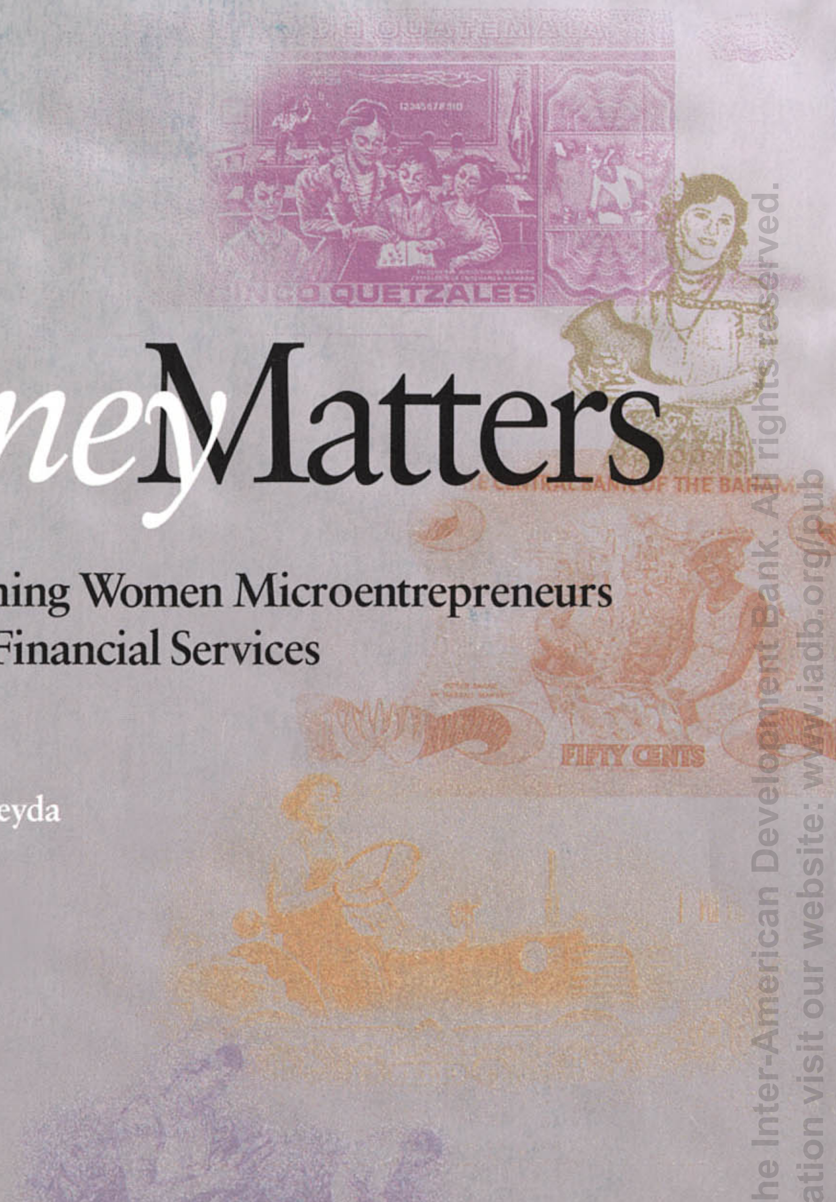
Money Matters

Reaching Women Microentrepreneurs with Financial Services

Gloria Almeyda



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United Nations Development Fund for Women

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Foreword

Microenterprise makes a major contribution to aggregate employment, production, and national income in Latin America and the Caribbean, and to the promotion of entrepreneurial talent, resilience, and flexibility in confronting a dynamic global economy. Microenterprise is also an important vehicle for low-income people to escape poverty through market-driven, productive activities. As owners, or as workers, the livelihoods of the poor are directly tied to this key sector of the economy. The success of ongoing economic reform programs in the region depends on broadening the distribution of the benefits of economic growth to include low-income women and men. Support for microenterprise development will go a long way toward achieving the twin goals of growth and equity in Latin American and Caribbean economies.

The Inter-American Development Bank is one of the leading international institutions supporting microenterprise development. The Bank's support began with the Small Projects Program[1] in the late 1970s, and has steadily increased since that time. To date, it is estimated that IDB-sponsored microenterprise programs have reached approximately 600,000 microentrepreneurs, and have created and strengthened over 1,800,000 jobs.

Women-owned businesses represent one of the fastest growing segments of the microenterprise sector. Their share among business owners varies widely by country but overall 30 to 60 percent of all microenterprises in the region are owned and operated by women.

[1]The Small Project Program (SPP) was created in 1978 "to afford access to credit for such persons or groups of persons who wish to execute projects that will enable them to improve their living conditions and who most often lack access to commercial credit or development credit on customary terms and conditions." SPP loans are up to US$500,000.

These businesses are also major sources of employment for women workers and family members.

Access to productive employment is key to improving the status of women in the region and to achieving greater equality between genders. For the past ten years, the IDB has made a concerted effort to improve the participation of women in the microenterprise programs it supports. Policy changes in the late 1980s opened up the Bank-funded programs to all sectors of microentreprise activity (including retail trade where women are most active), and to concrete efforts to reach out to women and women's organizations and to increase gender awareness among those involved in integrated credit and microenterprise development programs. As a result, women's access to microenterprise support services has been steadily growing in the programs funded by IDB and in the region as a whole.

The overall share of women among beneficiaries of IDB-funded microenterprise programs has consistently exceeded 50 percent during the past six years. However, we cannot be content with this numerical achievement—qualitative improvements are also important. Research such as that reported in this publication is essential for further improving our microenterprise programs and other areas of the Bank's work that are crucial to promoting gender equality in the countries we serve. The support of specialized organizations, such as the United Nations Development Fund for Women (UNIFEM), which collaborated with us in this project is also key to improving the Bank's ability to address gender concerns.

Today, the conditions that have shaped the IDB's microenterprise programs in the past are changing rapidly. Economic reform programs have led to structural changes and greater economic dynamism in the economies of the region. Liberalization of the financial sector, including the demise of many state-owned development banks, and changes in the investment climate and regulatory environment in the region have created new challenges as well as opportunities. Sweeping reforms to remove interest rate ceilings, to reduce or eliminate directed credit, and to reduce barriers to entry in the financial sector as well as improvements in bank prudential regulation and supervision were carried out in the late 1980s and 1990s throughout the region. This substantially changed the structure of, and opportunities in, the financial sector, paving the way for increased competition in the sector and increased interest in new market niches, including small and microenterprise. But these changes are not enough to guarantee expanded access to financial services for women microentrepreneurs.

Appropriate institutional mechanisms must be developed to ensure that sustainable financial and business development services reach those enterprises that tend to be marginalized by virtue of their small size, or the gender or ethnicity of their owners, and that these services have a positive impact. The IDB is at present seeking to integrate microenterprises into the formal financial systems by helping formal institutions (such as banks) deepen their client base and reach down to microenterprises and helping institutions that target microenterprises specifically (such as NGOs) to formalize and expand their services. This book shows us how to promote the formalization process better and how to make sure that women are included in it.

Through the analysis of various kinds of institutions—banks, credit unions, and NGOs—this study identifies the positive and negative factors and conditions affecting the supply of financial services to microentrepreneurs in general and women microentrepreneurs in particular. It finds that the current supply of financial services (credit and savings) to women microentrepreneurs is more diverse than had generally been assumed until now, and thereby opens a window on the future of women's access to financial services. It is hoped that this study can contribute to designing better responses to women microentrepreneurs' demand by helping to create more efficient and viable institutions providing them with useful financial services into the twenty-first century and beyond.

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This book is the result of the dedication of the researchers and principal investigators who carried out the study in each country: Andrea Blackwood (MIB, University of the West Indies, Jamaica), Elssy Bonilla (CEDE, Universidad de los Andes, Bogotá), Luz Elena Burbano (Insotec, Ecuador), Alejandra Mehech (Pontificia Universidad Católica de Chile), Magdalena Rathe (Ecocaribe, the Dominican Republic), and Saul Weisleder (Alternativas de Desarrollo, Costa Rica). The support of the directors and staff of the banks, credit unions and NGOs that participated in this study made the research completion possible.

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During 1994 findings of the studies were presented at a national seminar in each country, and regional seminars for South America (Colombia), the Caribbean (Jamaica), and Central America (Costa Rica) and a closing seminar in Washington, D.C. The participating individuals and institutions as well as the IDB staff in the local field offices are recognized for their cooperation.

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Acronyms

ADEMI	Asociación Dominicana de Microempresas *Dominican Microenterprises Association*
BANDES	Banco del Desarrollo (Chile)
BECH	Banco del Estado de Chile
CU	Credit Union
EDT	Enterprise Development Trust (Jamaica)
FDD	Fundación Dominicana de Desarrollo *Dominican Development Foundation*
FED	Fundación Ecuatoriana de Desarrollo *Ecuadorean Development Foundation*
FFI	Formal financial institutions
FINAM	Finanzas Nacionales e Internacionales para la Mujer (Chile)
FINCA	Fundación Integral Campesina (Costa Rica)
JDF	Jamaican Development Foundation
NGO	Nongovernmental organization
PROPESA	Corporación de Promoción para la Pequeña Empresa (Chile) *Corporation for the Promotion of Small Enterprises*
UNIFEM	United Nations Development Fund for Women

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Introduction: Women Microentrepreneurs and Financial Services

In Latin America and the Caribbean, microenterprise is a major source of employment and income.[1] For women, especially poor women, microenterprise ownership has emerged as a strategy for economic survival and advancement. Business ownership by women is extremely diverse, but in all countries of the region women are concentrated in the smallest firms. The majority of women microentrepreneurs are poor. According to the Economic Commission for Latin America and the Caribbean (ECLAC, 1993), about 30 percent of the economically active population in Latin America works in the informal sector. In Colombia, about 52 percent of microentrepreneurs make less than three times the minimum salary (minimum salary US$100 per month); women's income in the informal sector is about one-third less than men's (Bonilla *et al.* 1994). Despite these disadvantages, microenterprise and self-employment represent an important economic opportunity for women.

One of the most essential factors contributing to success in microentrepreneurship is access to capital and, more broadly, access

[1] This paper follows the IDB's definition of microenterprises as a business of 10 employees or less, with assets of less than US$10,000. Microenterprises are characterized in general by their lack of legal registration, low levels of technology, and their dependence primarily on nonsalaried, family-related employees. They tend to exist in the informal sector.

to financial services. For this and other reasons, credit for microenterprise development has been a significant area of international assistance over the past two decades. Despite the pressure of advocacy groups to expand women's access to credit, little is known about women as clients of formal financial services. Studies that have documented women's significant participation in microenterprise programs run by nongovernmental organizations (NGOs) have not compared these experiences to activities financed by the mainstream financial sector.

This study sought to fill the information gap by commissioning six country studies, each of which reviewed a range of research issues in regard to low-income women's access to financial services for their microenterprises.[2] These studies permit a comparative analysis of different institutions within the individual countries and across the Latin American and Caribbean region. The studies examined the role that different types of institutions—commercial banks, credit unions, and nongovernmental organizations—play in providing financial services to microentrepreneurs in general, and to women microentrepreneurs in particular. The six countries included were Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, and Jamaica.

This first chapter introduces the framework used to analyze women and microenterprise finance. It gives a brief history of the advances that have been made since the 1980s in the supply of financial services to low-income women microentrepreneurs and provides the framework for presenting the results of the institutional case studies.

Women Microentrepreneurs in Latin America and the Caribbean

Over the past two decades, women have rapidly increased their (monetized) economic contribution in the region and now constitute about 29 percent of the labor force as measured by official statistics

[2] Each country study is available upon request from the Women in Development (WID) Unit of the IDB. The titles and principal investigators for each study are identified in the bibliography and are as follows: Andrea Blackwood (Jamaica), Elssy Bonilla (Colombia), Luz Elena Burbano (Ecuador), Alejandra Mehech (Chile), Magdalena Rathe (Dominican Republic), and Saul Weisleder (Costa Rica).

(Buvinić and Lycette, 1994).[3] An estimated 40 percent of women in the 30-44-year age group are part of the labor force. Because microenterprises constitute a major source of self-employment for poor women and because many of these enterprises are not captured in the official labor statistics, it is likely that women's participation in the labor force is actually higher than these statistics indicate.

In each of the six countries studied, women manage a considerable percentage of microenterprises.[4] In Chile, Colombia, Costa Rica, and Jamaica, women operate more than 30 percent of microenterprises. In the Dominican Republic (where 8.5 percent of microenterprises are jointly owned by men and women), 51 percent of non-jointly owned enterprises are owned by women (Table 1.1).

Women microenterprise owners play an important role as employers, frequently providing employment for other women. For example, 73 percent of the employees of female-headed microenterprises in the Dominican Republic are women (Cabal, 1992). In Ecuador, about 40 percent of the economically active female population works in the informal microenterprise sector. In Colombia, microenterprises account for 51 percent of national employment (women are 43 percent of the total labor force; Bonilla *et al.* 1994), 26 percent of salaried employees, 93 percent of independent workers (48 percent in the informal sector), and 33 percent of employers (Ministerio de Desarrollo, 1994).

Table 1.1 shows that, in all countries except Costa Rica, trade accounts for the largest proportion of women's microenterprise activities, followed by services, then manufacturing. In the Dominican Republic and Jamaica, trade activities account for over 60 percent of women's microenterprises. The share of women entrepreneurs in service activities varies from 19 percent in Costa Rica to 38 percent in Jamaica (including restaurant, hotel, social, personal, professional, and business services).

The informal sector offers women such employment advantages as flexibility, mobility, low-fixed overhead, and the ability to substitute a high degree of personal labor for capital inputs (Scott, 1994).

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[3] Buvinić and Lycette used statistical data from CELADE, "Demographic Bulletin, Latin America, Economically Active Population 1970–2000," Santiago, Chile, 1992. They indicate that official statistics underestimate women's real participation in economic activities.

[4] Additional data on women's participation in the microenterprise sector are presented in each of the local studies.

TABLE 1.1 Distribution of Microenterprises by Economic Activity and Gender *(percentage)*

	Microenterprises Distribution by Subsector & Gender			Subsector—Gender Distribution		
	Women	Men	Total	Women	Men	Total
CHILE (1) Self-Employed Workers						
Trade	48	33	38	41	59	100
Manufacturing	24	16	19	41	59	100
Services	25	23	24	34	66	100
Other	2	28	20	3	97	100
Total	100	100	100			
Estimated No. of Microenterprises	303,521	654,721	958,242	32	68	100
COLOMBIA (2) Self-Employed Workers and Proprietors						
Trade	43	42	28	32	68	100
Manufacturing	28	14	42	49	51	100
Services	28	39	27	25	75	100
Other	1	5	3	11	89	100
Total	100	100	100			
Estimated No. of Microenterprises	376,266	800,694	1,176,960	32	68	100
COSTA RICA (3) Self-Employed and Proprietors						
Trade	37	31	33	55	45	100
Manufacturing	44	38	40	56	44	100
Services	19	31	27	24	76	100
Total	100	100	100			
Estimated No. of Microenterprises	46,457	93,895	140,352	33	67	100
DOMINICAN REPUBLIC (4)						
Trade	66	54	65	55	45	100
Manufacturing	13	25	16	33	67	100
Services	13	10	8	55	45	100
Hotel & Restaurants	8	7	8	56	44	100
Other	1	4	3	24	76	100
Total	100	100	100			
Estimated No. of Microenterprises	151,140	150,480	301,620	51	49	100

(continued)

	Microenterprises Distribution by Subsector & Gender			Subsector—Gender Distribution		
	Women	Men	Total	Women	Men	Total
JAMAICA (5)						
Trade (5a)	61	46	52	38	62	100
Manufacturing	2	14	10	7	93	100
Restaurant, Hotel	14	15	14	29	71	100
Services (Social, Personal)	22	15	17	39	61	100
Professional and Business Services	2	10	6	8	92	100
Total	100	100	100			
Estimated No. of Microenterprises	27,946	61,054	89,000	31	69	100

(1) Instituto Nacional de Estadistica, Mujeres de Chile, 1994, cited in Mehech *et al.* (1994).

(2) Informal sector 1990 data for self-employed workers and entreprises (less than 5 workers) in 10 largest cities.
Source: N. Rubiano (1994), cited in Vanessa Cartaya (1992).

(3) 1989 data for self-employed workers and proprietors (less than 5 workers).
Source: Sans y Trejos, Las Formas de Incersion en el Mercado de Trabajo en C.R., IICE, 1993, cited in Weisleder *et al.* (1994).

(4) The total of small and microenteprises is about 330,000 of which 8.5 percent are jointly owned. See Patricia Cely, Microempresas y Pequeñas Empresas de Mujeres en R.D. (1993), Tables 2.1 and 2.4.

(5) Statistical Institute of Jamaica, Microenterprise Survey (1992), cited in Blackwood (1994).

(5a) Women's participation within the Trade sector: Wholesale 37.8%, Retail 44.6%, Petty Trade 78.4%.

Although they are a heterogeneous group within and across countries, women's enterprises share some general characteristics:[5]

- They are concentrated in sectors that have low barriers to entry and low levels of remuneration.
- They are concentrated in trade, services, and light manufacturing activities.
- They are smaller than other businesses, averaging fewer than five employees.
- Their owners have relatively little previous working experience.
- They use traditional technologies.

[5] See Rhyne and Holt (1994) and Restrepo and Reichmann (1995). For a broader characterization of women in the informal sector see ECLAC (1993).

- Most employees are family-related.
- They are often home based (significantly, in the countries studied, an increasing proportion of households are headed by women).
- Business growth strategies are affected by household responsibilities.
- Owners tend to have lower levels of education and literacy.[6]

These characteristics are common in the microenterprise sector as a whole but they tend to be much more pronounced among women-owned businesses. For example, a recent analysis by Restrepo and Reichmann (1995) shows that, among 694 Latin American microentrepreneurs (59.2 percent women) who were clients of five affiliates of ACCION International, a higher percentage of women than men had no schooling.[7] Moreover, more men had secondary education. Sixty percent of the women entrepreneurs had childcare responsibilities, and 12 percent were single heads of households. Commerce activities had the largest proportion of women. Of total microentrepreneurs (men and women) in commerce activities, 67.1 percent were women; of those in manufacturing, 51.7 were women. In services, women represented a much smaller proportion of the total (24.2 percent).

Average monthly incomes of microentrepreneurs in the Restrepo and Reichman study varied from $45 to $400 for women, and from $81 to $400 for men; for single women heads of households average monthly income was 30 to 69 percent lower. The study found that women in commerce tended to have higher incomes than those in manufacturing activities. Among men and women microentrepreneurs, those in commerce had the highest savings levels. Thirty percent of the female entrepreneurs' microenterprises constituted their first work experience; only 25 percent had been wage earners previously (most as domestic workers);

[6] This varies across countries, however. In Chile, for example, the majority of both men and women microentrepreneurs reach secondary levels. In contrast, only about 43 percent of microentrepreneurs in the Dominican Republic have primary education.

[7] The research included borrowers of five NGOs in Colombia, Guatemala, Bolivia and Brazil. The researchers cautioned about the need to do further research about the socioeconomic level of these programs' clients in comparison to other microentrepreneurs in the informal sector. (Restrepo and Reichmann, 1995, p.12).

and 35 percent had been engaged previously in their family's or community's informal activities.[8] In contrast, 57 percent of the males had been employed before owning a microenterprise. Restrepo and Reichmann's analysis highlights that a large majority of the women entrepreneurs (80 percent) depended on additional income to sustain their families.

The social position and conditions of women influence their demand for financial services.[9] In addition to institutional factors and the barriers which microentrepreneurs in general (men and women) face, women face a number of cultural and social factors that may affect their ability to seek and use financial services. These include exclusion from public life, the type of activities around which they orient their businesses (trade, restaurants), illiteracy, and lack of experience with formal institutional environments.

In examining this issue, this study sought to identify gender-related factors that affect the demand for financial services by male and female microentrepreneurs. Women's business strategies may be different from men's. For example, in the Dominican Republic, Cabal (1992) found that women microentrepreneurs depend less than their male counterparts on formal sources of finance. What keeps women microentrepreneurs outside the "frontier of formal financial institutions"?[10]

Women Microentrepreneurs and Institutional Financial Services: A Brief History

Women's Demand for Financial Services

Over the past 10 years, researchers and practitioners have surveyed what is known about credit projects, programs, and policies affecting

[8] Note that 10 percent not accounted for in original source (Restrepo and Reichman, 1995).

[9] See, for example, studies by Rubio (1991) and Cely (1993) on Dominican Republic women microentrepreneurs, Buvinic and Berger (1990) for their findings in Peru, Fundación Arias (1993) for a diagnosis of Central American women microentrepreneurs, Bennett and Goldberg (1993) for experiences in Asia, and more recently, a World Bank research discussion paper (Rhyne and Holt, 1994).

[10] For a discussion of the "frontier of formal finance," see Von Pischke (1991).

enterprises owned by low-income women in Latin America.[11] This research has shed light on how interventions can be made more responsive to women. It has focused primarily on the social and economic importance of low-income women's microenterprise activities and on the factors affecting both the demand and supply of credit.

The demand for credit among women microentrepreneurs has been widely recognized and discussed in the development literature (Berger, 1989; Lycette, 1984; Lycette and White, 1989; Weidemann, 1992; Bennett and Goldberg, 1993; Morris and Meyer, 1993a; Teyssier, 1993; Rhyne and Holt, 1994). Based on the profile of businesses owned by low-income women, Berger (1989) identified the following characteristics of women's demand for credit:

- Women tend to have a lower debt capacity since their businesses are undercapitalized and in activities with low profitability.
- Women are more averse to risk and consequently demand fewer, smaller loans.
- Low-income women prefer other types of financing over debt for business purposes.[12]
- Women own less property and, consequently, are less likely to meet collateral requirements.
- Application procedures require the co-signature of the husband, which increases transaction costs (men are less likely to be required to have spouses' signatures).
- Women face socio-cultural constraints.
- Due to their multiple household and economic responsibilities, women face serious time constraints and therefore are negatively impacted by transactions costs.
- Women have different sources of information.

An important finding running through much of this earlier research has been that access to financial services (credit and savings) has been

[11] One of the pioneer research activities was the "International Seminar on Women's Access to Credit in Latin America: Suggestions for Development Programs," held in Quito, Ecuador in 1986. It was sponsored by USAID, the Instituto Latinoamericano de Investigaciones Sociales, and the Comité Ecuatoriano para el Desarrollo de la Microempresa, and organized by the International Center for Research on Women. The papers presented were published in Spanish as *La mujer en el sector informal*, edited by Marguerite Berger and Mayra Buvinić (Caracas: Nueva Sociedad, 1988). For the English version, see Berger and Buvinić, 1989.

[12] See Cuevas (1992) for a discussion of the dynamics of enterprise development and financial markets.

Table 1.2 Dominican Republic: Sources of Finance for Small and Microenterprises by Owner *(percentage)*

Source	Women	Men	Joint ownership	Total
Never received credit	81.4	74.8	66.4	77.2
Family/friends	7.2	8.4	10.7	8.0
Moneylenders	1.6	2.6	4.5	2.3
Banks/finance companies	4.3	8.1	9.4	6.5
NGOs	1.6	2.3	4.1	2.1
Suppliers	3.7	3.5	4.3	3.7
Other	0.1	0.3	0.6	0.3
Total	100.0	100.0	100.0	100.0

Source: Cabal (1992).

very limited, especially for women microentrepreneurs. The case of the Dominican Republic helps to illustrate this point. Table 1.2 shows that, among the microenterprises surveyed, women use less credit than men overall, and the difference is even greater for credit provided by financial institutions. According to Cabal (1992), Dominican women-owned enterprises were relatively less likely to grow than those owned by men—in terms of sales and number of paid employees—but those that grew, did so at about the same rate as men-owned microenterprises. The survey further showed that enterprises with access to credit (other than from relatives and friends) grew more than those without.

Research on financial services for microenterprises (and, for low-income people in general) has focused primarily on issues related to production credit. Discussions of financial services seldom include in-depth analysis of other types of household or microenterprise finance such as savings services. Yet savings constitute the major source of financing for microentrepreneurs and may be the most important financial service that can be offered to women (Rhyne and Holt, 1994).

Although the mobilization of rural savings has been extensively covered,[13] little is known about savings practices among low-income

[13] See, for example, the publications of the Department of Agricultural Economics and Rural Sociology of the Ohio State University, including Adams (1993), Cuevas (1992), Morris and Meyer (1993a,b), and Poyo (1992).

urban populations. The majority of the research on savings focuses on women's participation in savings clubs or rotating savings and credit associations (Morris and Meyer, 1993a). Data from a survey on microenterprise in Chile (Table 1.3) show some 60 percent of women and 78 percent of men used their own savings to finance economic activities. Data for the Dominican Republic (Table 1.2) imply that 81 percent of women and 75 percent of men relied on their own savings for funding their microbusinesses.

A recent study by Robinson (1994) based on her work in Asia identifies the following benefits of institutional savings to households:

- liquidity;
- returns on deposits;
- savings for living expenses during low-income periods;
- savings for investments such as education, house construction, electrification;
- savings for social and religious purposes;
- savings for consumer durables;
- savings for retirement, ill health, or disability;
- savings instead of or in addition to credit; and
- savings to build credit rating or as collateral.

Other studies have found correlations between savings and credit decisions and the gender of the decision maker. Household financial

Table 1.3 Chile: Sources of Finance for Microenterprises
(percentage)

Source of financing	Women	Men
Never asked for credit	60	78
Financing from suppliers	0	6
Loans from friends and relatives	20	6
Loans from NGOs	5	0
Loans from formal financial institutions	5	5
Other resources	10	5
Total	100	100

Source: Mehech *et al.* (1994).

decision making deals with the allocation of business revenues between household and business; whether to borrow or to save in order to acquire business assets or household assets (e.g., housing) and how much to invest; and how to choose among limited options for accessing financial services (savings and credit). Thomas (1992) provides evidence from a variety of settings that suggests men and women within the same household do not make the same choices in relation to expenditures and human capital investments.[14] Morris and Meyer (1993a, p. 1) found that "rethinking of the investment activities of women to include domestic household responsibilities has resulted in positive rather than negative evaluations of women's use of credit for consumption needs." Bruce (1989) also concludes that women need mechanisms to protect income and other resources for use in meeting critical needs.

Supply of Financial Services for Women's Microenterprises

It has been widely perceived that formal financial institutions (FFIs) are reluctant to supply credit to microenterprises. In response to this, NGOs have been put forward as the most effective institutions to fill this perceived gap. Lycette (1984) linked the reluctance of FFIs to provide small loans to women (and men) microentrepreneurs to the high unit cost in FFI lending; the risk perceived to be associated with these loans; such competition inhibiting regulatory policies as fixed interest rates, "directed" lines of credit, and barriers to entry; and collateral requirements that limit financial innovation.

Based on a review of credit programs from the 1970s and early 1980s, Lycette and White (1989) identified features that were instituted at that time by NGOs to target women in small businesses and microbusinesses. Their review outlined several recommendations to make credit available, including expanding eligibility to potential borrowers who operate retail trade and services businesses, offering several repayment options, reducing collateral and expanding its definition to include substitutes such as group lending, and use of information and distribution channels accessible to women. Policy recommendations centered on the need for reform of financial

[14] See also Hilhorst and Oppenoorth (1992).

markets, the development of intermediary credit institutions and programs, and legal reforms affecting permission to borrow and gain access to guarantees.

Weidemann (1992) reviewed successful credit experiences and identified the characteristics of institutional credit important to poor microentrepreneurs in general and women in particular:

- education of borrowers about credit responsibilities;
- simple loan forms and rapid approval processes;
- loans for trade and service activities as well as for manufacturing;
- small, short-term working capital loans with frequent payments;
- alternatives to traditional collateral such as solidarity groups or character references;
- interest rates sufficient to cover operating costs;
- the prospect of larger loans in the future for clients with good repayment records;
- decentralization of operations so that banking is located close to the clients and decisions are taken quickly;
- convenient hours of operations; and
- banking rigor and disciplined operations.

Rhyne and Holt (1994) summarized the measures institutions should take to make savings schemes most adaptable to women:

- offer savings with few or no restrictions on liquidity;
- emphasize security of deposits;
- pay positive real interest rates on deposits;
- provide service in convenient locations and hours;
- accept small deposits; and
- maintain real value of savings with competitive interest rates.

The design of financial technologies based on these recommendations avoids women-based targeting while understanding and making accommodation for the particular financial service needs of women microentrepreneurs. This is a more inclusive approach to providing financial services to women microentrepreneurs, with a wider range of institutions providing a wider range of services. The following section presents a broad-based framework for a sustainable supply of financial services to microentrepreneurs.

New Approaches to Microenterprise Finance

Currently, research on microenterprise finance centers on viability and outreach, principles that are essential to the development of sustainable financial systems (Christen *et al.*, 1994; Bennett and Goldberg, 1993; Gonzalez Vega and Miller, 1993; Krahnen and Schmidt, 1994; Otero and Rhyne, 1994; Von Pischke, 1991).

Otero and Rhyne (1994) summarize the principles of financial viability derived from successful microenterprise credit programs in the past decade as: (a) lenders know the market—the poor are willing to pay for access and convenience; (b) special techniques reduce administrative costs; and (c) special techniques motivate repayment. These principles have been applied by NGOs that are successfully reaching thousands of microentrepreneurs, of whom a large percentage are women. An increasingly popular innovation utilized by many NGOs, such as Actuar in Colombia, is to provide small loans through solidarity groups. This helps to cut unit lending costs and to motivate repayment through group pressure.

Christen *et al.* (1994) broaden the spectrum of microenterprise finance to **microfinance**, i.e., financial services that enable women and men to better manage both their enterprise and their household strategies. The majority of people in developing countries lack access to formal financial services. The scope for improvement in this area, therefore, encompasses a wide variety of people, enterprises, and activities. Microenterprise finance has excluded households with the exception of those that are linked to microenterprises. **Microfinance,** on the other hand, provides a wide range of financial services to a wider range of individuals.

This new direction has important implications for developing a broader conceptual framework for low-income women microentrepreneurs and their access to financial services:

- The change in emphasis to "institutional viability" and "systems development" rather than the current emphasis on a multitude of disparate "credit projects for women" contributes to a more continuous and reliable supply of financial services. Moreover, viable institutions are then equipped to manage a variety of credit projects.

- Long-term financial viability of institutions requires efficiency and effectiveness in managing resources. Increased efficiency in financial technologies reduces costs—contributing to the feasibility of supplying the financial services demanded by women microentrepreneurs.

- Emphasis on coverage and knowledge of the market implies understanding the characteristics of the customers. Because women constitute a large percentage of the microentrepreneurial sector, there is a need to learn more about their characteristics (as producers, investors, and buyers of goods and services) and to design appropriate financial technologies to meet their financial needs.

- The concept of **microfinance** incorporates the complexity of women microentrepreneurs' financial decisions about business and household objectives. Thus microfinance provides a broader framework for a variety of financial services.

Advocates of financial systems development attest that the quantity and quality of financial intermediation available in a given economy are important determinants of development (Krahnen and Schmidt, 1994). On the credit side, finance contributes to development through intermediation and transformation of capital in terms of loan size, term structure, and risk. On the savings side, Von Pischke (1991) proposes deposit mobilization as a powerful means for expanding the financial market frontier. As with credit, savings instruments need to be appropriately designed for low-income savers in terms of minimum amounts required and restrictions on withdrawals and risks (interest rates, inflation). The development of financial systems contributes to a more efficient and continuous supply of financial services that allow women microentrepreneurs to take advantage of economic opportunities.

How does the question of women's access to financial services fit into the new institutional approach to microfinance? FFIs traditionally have been viewed as biased against lending to small businesses and microbusinesses (Lycette, 1984; Otero and Rhyne, 1994; United Nations Expert Group on Women and Finance, 1994). According to international donors and other analysts, the formal financial sector has lacked an operational model for lending to this clientele. Thus studies on women's use of financial services have focused largely on special credit programs operated by NGOs rather than on FFIs.

Assessing the supply of microenterprise services by FFIs in Latin America and the Caribbean is difficult because research on women's access to financial services is limited. Of a total of 257 articles reviewed by Morris and Meyer (1993b), only 24 were based on urban-related data for this region; of the 24, only three included data from a state bank (Arias, 1985 and 1989; Buvinić and Berger, 1990). No other document included information from commercial banks or any description of cases in which women participated in Latin American or Caribbean credit unions. Morris and Meyer (1993a) recommended additional research on the participation of women in financial markets, improved program design for offering financial services to women, financial behavior patterns according to gender, and innovations of financial systems.

To expand the research on women microentrepreneurs and financial services, this study undertook a comparative study of banks, credit unions, and NGOs. It found that, contrary to the perception that FFIs do not provide services to this clientele, some FFIs are quite significant suppliers of financial services to women microentrepreneurs.

Research Issues and Methodology[15]

In order to identify and assess the factors that shape the supply of financial services for women microentrepreneurs, we studied 24 formal and semi-formal institutions (banks, credit unions, and NGOs) in Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, and Jamaica.[16]

Placing the case studies within a country context made it possible to examine country-specific issues related to microentrepreneurs and institutions. The cross-country comparison of similar types of

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[15] See Appendix for a fuller discussion of research issues and study methodology.

[16] The countries were selected based on their interest in participating in the study.

institutions helped to identify factors that influence the supply of financial services among different institutional models. In assessing these institutions, the focus was placed on identifying whether they had financial technologies that are appropriate for low-income women microentrepreneurs.

To assess the institutional features and financial technologies that provide access to women microentrepreneurs, the study addressed five research issues derived from the review of the published literature on women and financial services and microenterprise.[17] The research questions addressed by the case studies centered around the following issues:

- Institutions' policies and practices and the extent to which institutions provided loans with features tailored to women microentrepreneurs' demand (such as small loan size, collateral substitutes, and repayment terms appropriate to their businesses), or provided loans for trade and services activities as well as for manufacturing;[18]

- Institutions' perceived risk because of the typical lack of collateral and the absence of acceptable substitutes. Lack of collateral is one of the main barriers women microentrepreneurs encounter in accessing formal credit;[19]

- NGOs' leading role in developing credit methodologies that effectively and efficiently respond to women microentrepreneurs' demand;[20]

- Institutions' mobilization of savings among low-income

[17] A methodological guideline prepared for the study contains a discussion of each research issue and the institutional questionnaires (available from the WID Unit, IDB).

[18] Institutional policies and practices are discussed in several studies conducted for the IDB by Interdisziplinare Projekt Consult (IPC), Frankfurt, Germany. See also Krahnen and Schmidt (1994).

[19] For a discussion of credit risk, see Von Pischke (1991); Levitsky (1993); Hilhorst and Oppenoorth (1992).

[20] See Bennett and Golberg (1993). Also, ACCION International has an extensive bibliography on NGOs and microenterprise.

communities. Savings constitute a major source of funds for microentrepreneurs. In addition, savings are used for household-related investments and for liquidity management;[21]

- Cultural and social factors that may affect women's ability to seek and use financial services. A woman's perception of her own enterprise may affect her demand for credit. Intrahousehold relations influence the patterns of money flow, allocation, and control (Beneria and Roldan, 1987).

The main results are summarized in Chapter 2, which compares institutions within each country and across the region by institutional types. The detailed results for each type of institution—banks, credit unions, NGOs—are disaggregated in Chapters 3, 4, and 5, respectively. These four chapters (2–5) reveal the participation and variety of the institutions in the local supply of financial services, as well as the characteristics of their financial instruments with respect to women microentrepreneurs' demand profile. Chapter 6 presents the final conclusions and recommendations.

[21] See Morris and Meyer (1993a); Holt (1991); Robinson (1994).

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Overview: The Institutional Case Studies

Today financial services are more inclusive of women than even a decade ago. NGOs with credit services have grown and continue to include a significant percentage of women among their clients. In addition, a group of private commercial banks and credit unions now provide small loans to women for any type of business activity. They have instituted more flexible collateral requirements, and they invest their own funds in microenterprise development. Banks and credit unions offer small savings accounts in addition to other financial services. These services respond to women's economic and household activities, which are often one and the same. Although banks' investments in the microenterprise sector are small relative to their overall lending, their microenterprise portfolios are—among the institutions studied—equivalent to, or larger than, those of most NGOs and credit unions.

This chapter profiles the institutions studied, describes their credit and savings operations, describes microentrepreneurs' demand for financial services, and discusses the unique characteristics of the various types of institutions included in this study. It addresses the following questions: What kind of financial instruments do the various institutions within a country provide? How do their scale and characteristics compare? How do financial instruments compare among countries? How do these institutions contribute to expanding the frontier of microfinance? What factors specific to each type of institution contribute to serving the microenterprise sector? What are the instutions' particular comparative advantages and limitations? How do banks compare to credit unions and NGOs in serving microentrepreneurs in general and women in particular?

Institutional Profiles

In each country, a group of financial intermediary institutions[1] was selected for inclusion in the study. These institutions included FFIs, credit unions, and NGOs in order to compare the financial structures and technologies used to supply financial services (savings and credit). The criteria for FFI participation included some experience in providing credit for microenterprises (although not necessarily with international donor-related projects) and an ability to mobilize savings from low-income sectors as evidenced by their geographic coverage and operations. In the case of credit unions, the criteria also included a relatively advanced level of operation within the country and an open common bond.[2] For NGOs, the main criterion was their relative level of coverage in the country as measured by the number of loans granted and their institutional capabilities.[3] NGOs specifically oriented to serving female borrowers such as Fundación Mujer (Costa Rica) and FINAM (Chile) were included to explore the features that allow them to reach female borrowers

[1] Generally accepted definitions of financial intermediation may be summarized as: (a) formal financial institutions (FFI) supervised by a government agency monitoring financial discipline in the sector; (b) semi-formal financial institutions (SFI) supervised by the government but not by the same agency supervising financial institutions nor with the same degree of stringency—this is the case with savings and credit cooperatives/credit unions and some NGOs; and (c) informal financial arrangements comprising groups and associations without formal legal status and organized on the basis of social and cultural characteristics in response to economic needs. See Adams and Fitchett (1992).

[2] In a credit union, the "bond" refers to the factor members have in common, such as place of work or religious or professional affiliation. "Open bond" credit unions are oriented to any individual from a community or geographic area.

[3] Two NGOs with high levels of delinquency were included in order to study possible default on women's loans.

and to compare them to other operations that target microenterprises but not necessarily women.

Table 2.1 presents basic institutional profiles by country and type of institution (bank, credit union, and NGO). Each profile includes information on mission, ownership, ranking within sector, geographic coverage, and number of offices and employees. The geographic coverage of the institutions varied. Except for the two smallest—BHD (Dominican Republic) and Banco Federado (Costa Rica)—the banks studied all have offices nationwide. In the case of credit unions, Coocique (Costa Rica) and San Jose de las Matas (Dominican Republic) are based in rural/semi-urban areas. FINCA (Costa Rica) is the only NGO that operates primarily in rural areas; all the others operate primarily in urban areas. Samples used for microenterprise loans were taken from the capital area. The study was therefore based primarily on urban data.

The case studies include eight formal financial institutions (FFIs): six private banks, one state-owned bank, and one credit union/cooperative-owned private bank. These banks were selected based on their savings mobilization among middle- and low-income people—Banco del Estado-BECH (Chile), Caja Social (Colombia), Bank of Nova Scotia (Jamaica);[4] their small businesss and microbusiness credit operations—Banco del Desarrollo-BANDES (Chile), Banco del Pacífico and Banco Pichincha (Ecuador), Banco Federado (Costa Rica); and/or their interest in expanding their small and microbusiness operations—Banco BHD (Dominican Republic). All these banks are profitable and well-positioned within their local banking sector, although they show a wide disparity in size (Table 2.2). For example, the largest bank in the group, BECH of Chile, reported assets of over $6 billion while the smallest bank in the sample, Banco Federado of Costa Rica, reported assets of $28 million in 1992.

The case studies include five credit unions (CUs): Cupocredito (Colombia), Coocique (Costa Rica), San Jose de las Matas (Dominican Republic), Progreso (Ecuador), and City of Kingston (Jamaica).[5]

[4] In some cases institutions with large savings mobilization were invited to be part of the study but unable to participate. For example, Workers' Bank in Jamaica was undergoing a major administrative restructuring at the time.

[5] In Spanish, "credit unions" are called "Cooperatives de Ahorro y Credits," literally "Savings and Credit Cooperatives."

Table 2.1 Profiles of the Institutions Studied (1993)

CHILE	Banks		Nongovernmental Organizations (NGOs)	
Institution:	Banco del Desarrollo (BANDES)	Banco del Estado (BECH)	PROPESA	FINAM
Mission:	To incorporate the population not served by the banking sector.	To foster economic development through coordination of state entities responsible for macro economic policy.	To foster employment and improve income of poor sectors.	To incorporate women of all strata intoeconomic production and to improvetheir access credit.
Founders and/or Owners:	Group of private investors	State bank	Group of businessmen and Accion Intl.	Professional and business women
Date created:	1983	1953 (previously a national mortgage credit bank)	1988	1989
National ranking by assets:	12th of 44 banks	1st among 44 banks	Top among NGOs in microenterprise credit.	First NGO created to foster credit to Chilean women.
National ranking by savings:	13th of 44 commercial banks	1st among 44 commercial banks		
National ranking by credit:	11th of 44 commercial banks	1st among 44 commercial banks		
Geographic coverage:	National	National	Santiago	Santiago
Number of offices & branches:	43	181	One office	One office
Number of employees:	968	8,351	49	10

Table 2.1 Profiles of the Institutions Studied (1993) *(continued)*

COLOMBIA	Banks	Credit Unions (CUs)	Nongovernmental Organizations (NGOs)
Institution:	Caja Social	Cupocredito	Actuar
Mission:	To provide the financial services to low-income populations and to attack the causes of poverty.	To contribute to the solution of members' needs, to protect their income through solidarity and mutual aid.	To finance, train, organize and promote credit among low-income self employed workers without access to formal credit.
Founders and/or Owners:	Private Jesuit Foundation	Over 290,000 members shareowners	Group of businesspeople
Date created:	1911	1962	1983
National ranking by assets:	12th of 29 commercial banks	1st among top 40 CUs (total of 1700)	1st among NGOs in microenterprise credit.
National ranking by savings:	5th among 29 commercial banks	1st among top 40 CUs (total of 1700)	In 1994 became financial corporation.
National ranking by credit:	12th among 29 commercial banks	1st among top 40 CUs (total of 1700)	1st among NGOs in microenterprise credit.
Geographic coverage:	National	Bogota and central region (more recently national)	Bogota
Number of offices & branches:	128	104	12
Number of employees:	1,800	1,400	198

Table 2.1 Profiles of the Institutions Studied (1993) *(continued)*

COSTA RICA	Banks	Credit Unions (CUs)	Nongovernmental Organizations (NGOs)		
Institution:	Banco Federado	Coocique	Avance	Fundación Mujer	FINCA
Mission:	To promote progress through the provision of financial services to member cooperatives.	To foster savings with good returns to members using these collective funds to invest in members' credit promoting self-development and mutual help.	To provide financial services (at real costs) to lower-income populations.	To support women microentrepreneurs.	To collaborate in the development of rural communities through organization and strengthening of small producers associations.
Founders and/or Owners:	Private bank owned by 52 CUs (156,000 members)	Over 41,00 members shareowners	NGO formed by group of business-people.	Foundation	Founded with support of FINCA Intl.
Date created:	1988	1965	1986	1988	1984
National ranking by assets:	7th among 21 private banks	1st among 52 affiliated CUs	Largest in micro-enterprise		Largest rural NGO.
National ranking by savings:	n.a.	1st among 52 affiliated CUs	n.a.		
National ranking by credit:	n.a	1st among 52 affiliated CUs	Largest in micro-enterprise		
Geographic coverage:	National (through CUs and other cooperatives)	Regional (San Carlos Canton, pop. 189,000)	San Jose	San Jose	207 village banks
Number of offices & branches:	One in San Jose	5 branches, 1 mobile branch.	One office	One office	
Number of employees:	60	141	24	12	19

Table 2.1 Profiles of the Institutions Studied (1993) *(continued)*

DOMINICAN REPUBLIC	Banks	Credit Unions (CUs)	Nongovernmental Organizations (NGOs)	
Institution:	Banco BHD	San Jose de Las Matas	ADEMI	Fundación Dominicana de Desarrollo (FDD)
Mission:	To provide all types of financial services.	To resolve the community of San Jose's economic problems through the mobilization of members' savings to provide them loans.	To confront the unemployment and under-employment of the marginal populations, increasing family income through ME credit.	To be an instrument of the private sector to contribute to the development of the disadvantage communties.
Founders and/or Owners:	Private bank owned by stockholders.	Over 6,000 member shareowners	NGO founded by a group of business people	NGO founded by private corporations
Date created:	1989	1951	1983	1966
National ranking by assets:	4th among 14 commercial banks	1st among 17 CUs	1st of 7 largest NGOs in microenterprise credit	n.a.
National ranking by savings:	6th among 14 commercial banks	1st among 17 CUs	n.a.	
National ranking by credit:	6th among 14 commercial banks	1st among 17 CUs	1st of 7 largest NGOs in microenterprise credit	2nd of 7 largest NGOs in microenterprise credit
Geographic coverage:	National	San Jose de las Matas (40,000 inhabitants)	National	Urban and rural areas
Number of offices & branches:	13 branches	One office	22 branches nationwide	17 regional offices
Number of employees:	483	26	180	70

Table 2.1 Profiles of the Institutions Studied (1993) *(continued)*

EQUADOR	Banks		Credit Unions (CUs)	Nongovernmental Organizations (NGOs)
Institution:	Banco Del Pacífico	Banco Pichincha	Progreso	Fundación Ecuatoriana de Desorrollo (FED)
Mission:	To serve the country with a new vision of financial services.	To provide financial services to people of all income levels.	To provide credit lines that contribute to the economic improvement of the members and families, to promote savings, and solidarity through its operations.	To develop the productive capacity of low-income populations through development projects in the microenterprise sector.
Founders and/or Owners:	Private bank	Private bank	Over 32,000 members shareowners.	Private foundation
Date created:	1972	1907	1969	1968
National ranking by assets:	2nd among the 6 largest banks	3rd in assets among 6 largest banks	3rd largest among top 22 CUs (of total 210)	Largest NGO in ME finance
National ranking by savings:	1st among the 6 largest banks	3rd in credit among 6 largest banks	3rd largest among top 22 CUs	n.a.
National ranking by credit:	2nd among the 6 largest banks	3rd in savings/deposits among six largest banks	3rd largest among top 22 CUs	1st amongt NGOs with ME credit
Geographic coverage:	National	National	Capital and surrounding marginal areas	National
Number of offices & branches:	60	60	Main office, 3 agencies and 4 "windows"	15 branches ("filiales")
Number of employees:	3,155	2,336	43	53

Table 2.1 Profiles of the Institutions Studied (1993) *(continued)*

JAMAICA	Banks	Credit Unions (CUs)	Nongovernmental Organizations (NGOs)	
Institution:	Nova Scotia Bank	City of Kingston	Jamaica Development Foundation (JDF)	Enterprise Development Trust (EDT)
Mission:	To provide full range of retail commercial, corporate and investment banking services.	To promote thrift as a means of providing a source of a affordable credit and to provice a variety of quality financial services for the social and economic well being of the members.	To promote entrepreneurship accross Jamaica through the provision of credit, innovative financing, technical services, training and market driven support services.	Provision of credit to individuals with a view to improving the socio-economic condition of the clients, their families and communities.
Founders and/or Owners:	Subsidiary of Canadian Scotiabank	Over 33,000 members shareowners.		
Date created:	(founded in 1889) with a wide crossection of Jamaica stockholders.	1967	1981	1991
National ranking by assets:	2nd among 11 banks	1st among 86 CUs		
National ranking by savings:	2nd among 11 banks	1st among 86 CUs		
National ranking by credit:	2nd among 11 banks	1st among 86 CUs		
Geographic coverage:	National	Capital City	National	Capital City
Number of offices & branches:	47 branches nationwide	One main office	4 branch office	One office
Number of employees:	1,508	86	74	14

Credit unions were selected for the study based on their leading position in their communities in terms of size of membership and assets, their ability to mobilize savings, and their microfinance activities. The level of microenterprise financing by credit unions in Latin America and the Caribbean has been estimated at about 20 percent of credit union portfolios (Magill, 1994). Like banks, credit unions are characterized by varied levels of development and participation within their financial systems. For example, Cupocredito is part of a system of more than 1,000 Colombian credit unions with an increasing share in financial intermediation among medium- and low-income sectors (Vesga and Lora, 1992). In contrast, San Jose de las Matas belongs to a core group of 17 Dominican credit unions that undertook a major operational restructuring (Poyo *et al.*, 1993).

The visibility of microenterprises' access to financial services in Latin America and the Caribbean can be attributed primarily to the efforts of NGOs,[6] of which the case studies include 11: FINAM and PROPESA in Chile; Actuar in Colombia; Avance, Fundación Mujer, and FINCA in Costa Rica; ADEMI and Fundación Dominicana de Desarrollo (FDD) in the Dominican Republic; Fundación Ecuatoriana de Desarrollo (FED) in Ecuador; and the Jamaican Development Foundation (JDF) and the Enterprise Development Trust (EDT) in Jamaica.

The administrative structures and services of these NGOs vary. One group, which covers the largest number of microenterprises, is composed of Actuar, ADEMI, Avance, FED, and PROPESA, all affiliated with ACCION Internacional.[7] In their respective countries, these NGOs cover the broadest number of microenterprises. A second group, which consists solely of FINCA, uses "village banking" methodology and operates primarily in rural areas. A third group is comprised of FINAM, Fundación Mujer, FDD, JDF, and EDT. Due to the level and type of their operations, NGOs in the third group still

[6] In Latin America and the Caribbean, organizations (and their affiliates) such as Women's World Banking, ACCION Internacional, and FINCA have been leaders in promoting projects that increase women's access to credit.

[7] After the data collection (September-December 1993), Actuar created a financial corporation, Finansol. The data presented here do not reflect this new institutional structure. At the time of the study, Avance (Costa Rica) was undergoing major administrative restructuring.

Table 2.2 Selected Indicators of Financial Structure December 31, 1992 ***(US$Millions)***

	Assets	Capital	Capital/ assets (%)	Total Outstand-ing Loans	Loans/ assets (%)
Banks					
Banco del Estado, BECH (Chile)	6,322.4	1,057.0	16.7	3,078.6	48.7
Banco del Desarrollo, BANDES (Chile)	692.7	42.0	6.1	571.1	82.5
Bank of Nova Scotia (Jamaica)	495.0	30.1	6.1	150.4	30.4
Banco del Pacífico (Ecuador)	309.2	50.4	16.3	154.6	50.0
Banco Pichincha (Ecuador)	275.1	31.3	11.4	123.6	44.9
Caja Social (Colombia)	251.4	33.8	13.4	161.2	64.1
Banco BHD (Dominican Republic)	72.1	6.8	9.4	36.3	50.3
Banco Federado (Costa Rica)	28.1	5.1	18.1	21.8	77.5
CREDIT UNIONS (CUs)					
Cupocredito (Colombia)	96.5	45.1	46.7	72.3	74.9
Coocique (Costa Rica)	17.8	3.2	18.0	7.8	44.0
City of Kingston (Jamaica)	7.0	5.8	85.7	4.3	61.1
Progreso (Ecuador)	4.7	2.4	51.1	3.0	64.1
San Jose (Dominican Republic)	4.6	1.0	21.7	3.4	73.9
NGOs					
ADEMI (Dominican Republic)	8.7	3.8	43.7	6.7	77.1
Actuar (Colombia)	5.5	1.2	20.9	4.3	77.6
Jamaican Development Foundation (JDF)	4.9	2.8	57.0	3.8	77.4
Fundación Ecuatoriana de Desarrollo (FED)	2.4	0.5	20.8	1.5	61.9
Fundación Dominicana de Desarrollo (FDD)	2.3	1.0	43.5	1.2	51.5
PROPESA (Chile)	1.6	0.5	32.8	1.1	67.6
FINCA (Costa Rica)	1.2	0.5	41.6	1.1	91.5
FINAM (Chile)	0.5	0.2	37.0	0.3	58.2
Enterprise Development Fund-EDT (Jamaica)	0.5	0.4	81.6	0.2	46.7
Fundación Mujer (Costa Rica)	0.3	0.2	52.5	0.3	84.6

Source: Country studies.

Exchange Rates (loca currency per US$1) as of December 31, 1992:

Chile	P$380	Dominican Republic	RD$12.5
Colombia	P$811	Ecuador	S$1,642
Costa Rica	C$137.4	Jamaica	J$22.8

depend on external funds to cover their administrative expenses. Of these, FINAM and Fundación Mujer are specifically geared toward women. Table 2.2 lists the 11 NGOs by size of assets (as of December 1992). The largest, with almost $9 million in assets, is ADEMI (Dominican Republic), while the smallest is Fundación Mujer (Costa Rica) with $300,000 in assets.

Table 2.2 gives a picture of the basic financial structure of each type of institution. For example, a basic indicator of the financial structure of an institution is its ratio of capital to assets. For banks, the capital/assets ratio is under 20 percent for all the institutions, reflecting more uniform banking standards required by international and local banking regulations. For credit unions, the capital/assets ratio varies from 18.0 percent to 85.7 percent, reflecting different financial management approaches with respect to savings, deposits, and capital shares. For the NGOs, the ratio ranges from 20.8 percent for FED to 81.6 percent for EDT.

Supply of Credit Services

Scale, Depth, and Types of Credit Services

Women's participation is evident in the microenterprise loan portfolio of each of the institutions (Table 2.3). Based on the number of outstanding loans, women obtained 41 to 59 percent of bank microenterprise loans; 30 to 48 percent of credit union microenterprise loans; and 25 to 64 percent of NGO loans (excluding those that target only women).[8] Women's representation across institutions closely mirrors the share of women-owned microenterprises in Chile, Colombia, and Ecuador. In contrast, in the Dominican Republic, women represent an average of 34 percent of microborrowers among the institutions studied, less than their 46 percent share of microenterprises at the country level.

The 1992 data presented here help to identify the range of coverage and relative size of loans (Table 2.3). Outstanding loans were used as a proxy to estimate the level of coverage in each country and

[8]Samples for banks and credit unions that had not disaggregated their data by sex, were drawn from outstanding loans under $5,000.

the level of participation of the different institutions.[9] However, when using outstanding loans as a proxy, it is important to note that banks and credit unions have longer-term loans (12 to 36 months) than NGOs, which generally make very short-term loans (one to three months). Inclusion of the largest NGOs in microfinance in each country helps give perspective to the relative contribution of each of the other institutions examined in that country.

To make data comparable across countries, average outstanding loan as a percentage of GDP per capita is used as a proxy for depth of outreach. This allows for comparison with other recent studies such as Christen *et al.* (1994). Comparisons of results across countries indicate the following:

- *Microcredit market share and coverage.* The volume and number of microenterprise loans made by the banks and credit unions studied are comparable to those made by the NGOs, and each kind of institution makes an important contribution to the local microfinance market. For example, BANDES' outstanding loan portfolio is more than double that of PROPESA, the largest Chilean microenterprise NGO. In Colombia, Cupocredito's portfolio is almost twice as much as that of the bank and the NGO studied combined. In Ecuador, the number of loans of Banco del Pacífico is more than the number of loans provided by the credit union and the NGO together. In the Dominican Republic, the NGO ADEMI is the leading provider of microenterprise credit. Market coverage is enhanced by the participation of the various type of institutions.

- *Average loan size.* As a general pattern, the study showed that microenterprise loans from banks tend to be somewhat larger and loans from NGOs smaller. However, how wide the range in average loan size is varies among countries. In Chile, for example, where

[9] For the purposes of this study, the size of average outstanding loans was used as a proxy for estimating the income level of borrowers. Christen *et al.* (1994, p. 9 and p. 22) in their study of 11 successful microenterprise credit programs used loan size as a proxy for income level as the only measure available consistently across programs although initial loan size could have been significantly higher. Loans outstanding were broken down into five sub-ranges under $10,000. Ranges used were: under $500; $500–$1,000; $1,000–$2,500; $2,500–$5,000; and $5,000–$10,000. The extent to which banks made loans within these size ranges was then taken as an indication of those institutions' ability to make loans to microentrepreneurs.

TABLE 2.3 Estimates of Microenterprise Portfolios (loans under US$5,000)

Country	Banks		Credit Unions (CUs)
CHILE	BANDES (1)	BECH (2)	
Loans Outstanding (000)	$3,450	$5,573	
Number of Loans	3,492	691	
Average Outstanding Loan	$988	$8,065	
Ave.Loan/GDP per capita	34%	274%	
Women Part. No. Loans	50%	59%	
COLOMBIA	CAJA SOCIAL (3)		CUPOCREDITO
Loans Outstanding (000)	$5,056		$17,369
Number of Loans	3,756		25,274
Average Outstanding Loan	$1,346		$687
Ave.Loan/GDP per capita	91%		46%
Women Part. No. Loans	41%		44%
COSTA RICA	FEDERADO		COOCIQUE
Loans Outstanding (000)	$3,100		$1,560
Number of Loans			1,000
Average Outstanding Loan	(Wholesale loans to credit unions/coops)		$1,560
Ave.Loan/GDP per capita			86%
Women Part. No. Loans			30%
DOMINICAN REP.	BHD		SAN JOSE
Loans Outstanding (000)	$2,000		$3,000
Number of Loans	194		1,616
Average Outstanding Loan	$10,309		$1,856
Ave.Loan/GDP per capita	1454%		262%
Women Part. No. Loans	n.a.		32%
ECUADOR	PACIFICO (4)		PROGRESO
Loans Outstanding (000)	$2,149		$3,000
Number of Loans	9,004		3,433
Average Outstanding Loan	$239		$874
Ave.Loan/GDP per capita	18%		65%
Women Part. No. Loans	44%		48%
JAMAICA	NOVA SCOTIA		C. OF KINGSTON
Loans Outstanding (000)	(Specific information on microenterprise loans not available)		$1,069
Number of Loans			4,909
Average Outstanding Loan			$218
Ave.Loan/GDP per capita			14%
Women Part. No. Loans			37%

Source: Country Studies.

Note: The line "Loans Outstanding" for banks and credit unions present the portion of total outstanding loans in microenterprise activities. For total outstanding loans see Table 2.2.
(1) Microenterprise Program.
(2) Small Loan Program.

Data based on outstanding loans as of December 31, 1992 (US$)

Nongovernmental Organizations (NGOs)			Country Indicators: Gross Domestic Product (GDP) Per Capita—1992 (6)	Country Indicators: Country Women's Participation in Microenterprise
PROPESA	FINAM			
$1,086	$292			
3,565	1,190			
$305	$245			
10%	8%		$2,940	
44%	93%			38%
ACTUAR				
$4,300				
24,685				
$174				
12%			$1,487	
45%				42%
AVANCE	F. MUJER	FINCA		
$873	$300	$1,181		
786	526	4,081		
$1,111	$570	$289		
61%	31%	16%	$1,822	
51%	100%	25%		35%
ADEMI	FDD			
$6,900	$1,300			
9,525	2,210			
$724	$588			
102%	83%		$709	
37%	36%			46%
FED				
$1,500				
4,554				
$329				
24%			$1,346	
56%				37%
	JDF (5)	EDT		
	$1,154	$245		
	669	262		
	$1,725	$935		
	111%	60%	$1,561	
	n.a.	64%		31%

(3) Estimate based on borrowers with less than 2 minimum salaries and outstanding loans in trade, manufacturing and services.
(4) Loans granted in the Microenterprise program (Community Development Program). Includes 4 year outstanding loans.
(5) Average outstanding loan estimates based on data from Kingston branch office.
(6) Source: IDB, Socio-Economic Data, January 1995.

BANDES' average outstanding loan as percentage of GDP per capita is 34 percent and PROPESA's is 10 percent, the range is considerably smaller than in Colombia, where the ratio of average outstanding loan to GDP per capita is 91 percent for Caja Social and 12 percent for Actuar. In the Dominican Republic, the poorest country in the study, the institutions researched have some of the highest loan sizes in each institutional category when compared to the other countries. As the data indicate, some of the most advanced NGOs (PROPESA, FED, Actuar) had some of the lowest average loan sizes and had higher participation of women among their clients.

■ *Diversity of Institutions.* The microenterprise sector in each of the six countries is a heterogeneous group—in terms of type of economic activities, size of businesses, and level of development. Their demand for financial instruments also varies according to their business profiles. The participation of different types of financial institutions (banks, CUs, NGOs) in the supply of financial services (both specialized and not specialized in microenterprise finance) helps create competition and develop market niches. Each local market responds to the local environment both at the macroeconomic and regulatory level and at the institutional level. Microentrepreneurs in Chile, Colombia, and Ecuador have more options for financial services than those in Costa Rica, the Dominican Republic, and Jamaica. Banks offer a variety of services for commercial purposes (checking accounts, money transfers, letters of credit) required by some of the most developed microenterprises. Credit unions are the main financial institutions in some towns, such as Cupocredito in Colombia, Coocique in Costa Rica, and San Jose de las Matas in the Dominican Republic. FINCA is the only NGO among those studied with a large level of operations in rural areas and agricultural credit.

■ *Competition in the Microfinance Market.* Countries with various types of institutions in the supply of microcredit have both more product varieties and more competitive rates of interest. In Chile, Colombia, and Ecuador the rates of interest among the various institutions—NGOs, CUs, and banks—are more competitive and tend to be similar. For example, in Colombia, among the institutions studied annual effective rates ranged from 34.4 percent in the credit union to 35.3 percent in the bank and the NGO. In contrast, in countries like the Dominican Republic there were broader ranges—effective annual rates among institutions varied from 32 percent in the bank to 47 percent in the credit union to over 60 percent in the NGOs.

■ *Activities Financed.* Banks and credit unions with a microenterprise loan portfolio finance all types of activities and play an important role, particularly in financing fixed assets with longer-term loans. Longer-term loans expand the options in the supply of financial services for microenterprises. NGOs provide microenterprises primarily with short-term loans for working capital; banks and credit unions contribute to a broader range of loans in the microenterprise market. Results also indicate that the NGOs with credit programs for microenterprises in manufacturing are less advanced in terms of market coverage and sustainability than NGOs primarily serving microenterprises in trade and services, which generally require short-term loans for working capital. Their credit methodology appears to be better suited for the demands of this clientele. In countries with limited diversity of microenterprise finance, women microentrepreneurs in manufacturing have less access to adequate financial services than those in trade (e.g., Costa Rica and Dominican Republic).

■ *Quality of the Loan Portfolio.* Women borrowers' average delinquency rates tended to be lower than men's in the smaller microloans and similar to men's in the higher ranges. It is notable that FED, the NGO with the lowest delinquency rate, had the highest percentage of women clients. Although not enough information is available to draw firm conclusions on this issue, it is important to note that some NGOs with a larger percentage of their portfolios in manufacturing-related loans had higher delinquency rates than NGOs with a larger portfolio in other activities such as trade.[10] Comparative data on the quality of portfolio vary by country and institutions. For example, in Ecuador, Banco del Pacífico had a 3.5 percent delinquency rate compared to 0.6 percent for FED and 0.3 percent for Progreso CU

[10]At the time of the study, Avance and FDD were solving serious loan delinquency problems.

(delinquency over 90 days). In Colombia, Caja Social had 3.5 percent and Actuar 3.1 percent.

These results provide evidence that some of the most important features that make credit accessible to lower-income women microentrepreneurs, such as size of loans and activities financed, are incorporated into the supply of financial services provided by some FFIs (Chile, Costa Rica, Colombia, and Ecuador) and credit unions. Commercial banks and credit unions together with the NGOs contribute to the expansion and deepening of the local supply of credit to microenterprises.

The cross-country data on which this study is based allow several factors to be identified across a range of financial markets. The diversity of supply is summarized in Table 2.4, which shows that banks and credit unions can play leading roles in microenterprise finance.

Factors Shaping the Supply of Credit to Microentrepreneurs

Among the factors that determined the institutional capacity to innovate and develop loan products suitable for microentrepreneurs are: their mission to provide financial services to underserved populations (see mission statements in Table 2.1); their ability to mobilize savings, especially from small savers; their recognition that the microenterprise sector plays an important role in production and employment in their local economies; and their financial and administrative costs—including constraints on intermediated funds and consequent opportunity costs due to reserve requirements and directed investments in preferred subsectors at below market interest rates. These factors affect the environment in which financial instruments are employed and help to determine which technologies will succeed in reaching low-income populations and, consequently, women microentrepreneurs—and which will not.

Institutional Mission. The institutional mission to serve lower-income groups is revealed by their charter; attitudes of the board and management; credit and savings instruments that are adequate for lower-income groups (size of loans, minimum savings requirements);

the location of offices and/or branches in lower-income neighborhoods; the development of more efficient technologies to decrease cost of processing loans; and collateral requirements.

Efficiency. Some gains in loan-processing efficiency can be achieved solely by changes in policy. Caja Social and credit unions provide examples; they use savings behavior and credit history as ways of obtaining information about their borrowers and as guarantees, thus making loan processing faster and less costly. Operational efficiency gains can be earned by investing in technological improvements. But such advances in technological capability must be associated with organizational innovations in order to be successful. An example is Banco del Pacífico, which has equipped its loan analysts with personal computers connected on line with a processing center. At Caja Social (Colombia), small loans and microloans are now processed at central credit processing centers rather than at each branch, thus expediting the loan approval process. Branch staff collect the necessary data, but loans are actually approved at the central centers.

The heterogeneity of the institutions studied and the lack of adequate data (in some countries, secrecy laws forbade the institutions from providing all the data requested) made it impossible to compare the sustainability of microloan operations across types of institutions. Banks and credit unions are financial intermediaries—with savings, credit, and other operations—while NGOs are dedicated completely to credit operations. Literature about the cost of microenterprise lending is based on NGOs' experience not applicable to all the institutions in this study. Specific analysis of operational costs fell outside the scope of this study.[11]

Among the banks studied, microenterprise loans are less than five percent of the total outstanding portfolio and are often granted as "personal loans," making the evaluation of operational efficiency cumbersome. For example, data available for Chile show BANDES' total personnel and other expenses specific to the microenterprise program as a percentage of each loan portfolio. The ratio

[11]Other types of institutional analysis such as Subsidy Dependence Index (Yaron, 1992) would not be appropriate since the FFIs and credit unions studied do not depend on subsidies for their operations.

Table 2.4 Institutional Diversity: Comparison of Microenterprise Loan Portfolios
(based on outstanding loans under $5,000, as of December 31, 1992)

COUNTRY	Largest Volume Amount	Largest Number Loans	Largest Average Loan	Lowest Average Loan	Percentage of Women Clients in Microenterprise Portfolio among Institutions Studied in the Country (%)
CHILE	bank BANDES	NGO PROPESA	bank BANDES	NGO FINAM	51*
COLOMBIA	credit union Cupocredito	credit union Cupocredito	bank Caja Social	NGO Actuar	43
COSTA RICA	credit union Coocique	NGO FINCA	credit union Coocique	NGO FINCA	35*
DOMINICAN REPUBLIC	NGO ADEMI	NGO ADEMI	credit union S. Jose de las Matas	NGO FDD	34
ECUADOR	credit union Progreso	bank Pacifico	credit union Progreso	NGO FED	49
JAMAICA	NGO JDF	credit union City of K. CU	NGO JDF	NGO EDT	50

*Does not include women-targeted NGOs in the average.

of BANDES' total personnel and administrative expenses to total outstanding portfolio is 4 percent. The same indicator for BANDES' microenterprise program is 25 percent. In contrast, PROPESA's is 37 percent. These indicators allow us to compare the microenterprise operations at different levels of operational efficiency: first, within the same institution, and, second, between institutions (BANDES' microenterprise program and an NGO with similar type of operations). BANDES' program was more efficient (as measured here) than the NGO's.

The issues of efficiency discussed so far all address the issue of profitability. Basch (1995) notes that profitability results from the ability of institutions to maximize the difference between lending rates and deposit rates (operational efficiency), to manage overhead (administrative efficiency), and to maximize reserves and minimize write offs (allocative efficiency). Basch also contends that efficiency is a relative concept having to do with both private efficiency and social efficiency.

Private efficiency has to do with how well the bank management meets the objective of the bank owners. Social efficiency, on the other hand, has to do with how effectively banking meets the objectives assigned by the community (banks are authorized to open, and their function is determined, by each country's laws and regulations). Institutions such as Caja Social, BANDES, and Banco del Pacífico are examples of banks that pursue social efficiency, as determined by their owners (see Table 2.1). Caja Social is owned by the Jesuits. BANDES' private owners created this bank to serve enterprises and families without access to financial services. The major shareholder of Banco del Pacífico has a commitment to small and microentrepreneurs. All these banks have competitive positions in their respective banking sectors (Table 2.2). Their experience shows that commercial banks can successfully reach microentrepreneurs.

Microenterprise Risk and Collateral Substitutes

The study sought to determine the extent to which the lack of collateral and the absence of acceptable substitutes constitutes a major barrier to accessing formal credit. Institutions that were successful in lending to women microentrepreneurs developed alternatives to traditional property liens. Banks and credit unions often grant co-signature loans for very small amounts. Caja Social and credit unions use savings as collateral and savings behavior as a way of establishing creditworthiness. BANDES and Banco del Pacífico utilized their technical assistance programs to screen and reduce microenterprise risks. In addition, BANDES used the solidarity group methodology.[12] Caja Social and some NGOs stressed the use of incentives, such as the possibility of extending new loans upon satisfactory repayment, to encourage payment. For larger loans, women and men tended to have similar repayment rates. For smaller microloans, women tended to have better repayment rates.

Co-signers are the most widespread form of guarantee. Many microloans are classified as personal loans rather than business related. For the banks studied, the informal nature of the microenterprises makes the business owner's personal credit (and savings) history as important as the business financial statements. However, in the study's exploratory survey, microentrepreneurs had the perception that all bank loans require real estate as collateral, reflecting misinformation about FFIs.

In the six countries, legislators have changed the laws to create equal obligations for both men and women to seek permission when acquiring a debt. The objective of these laws was to protect women from a husband's use of jointly owned assets as a guarantee without the woman's authorization (and vice versa). But in practice, the law may not always be applied equally. Although both men and women now need authorization to acquire debt, major difficulties continue to face women who do not have a formal separation or divorce. In Ecuador, for example, it was found that some institutions insisted on this requirement with the result that women, particularly lower-income women, who were not legally separated had difficulties qualifying. According to local lawyers, bankers can find means of legally authorizing loans without a husband's signature in cases where

[12]A solidarity group is made up of 3 to 10 microentrepreneurs who agree to guarantee each other's loans. Each member of the group receives an individual loan but the lending organization approves the total loan to the group. The solidarity group helps to screen borrowers, to monitor payment, and, in case of delinquency, to enforce payment through peer pressure.

couples are separated, and credit officers can rely on these to facilitate granting loans—if they are aware of them.

The only case of overt discrimination against women found in the study was by the FDD (Dominican Republic), where women borrowers at the time of the study were required to have the signature of a man in addition to collateral. Male borrowers did not have to meet this requirement. Moreover, married women could not be co-signers due to a misinterpretation of the law. These provisions have recently been revised.

One of the major factors adversely affecting women is that they often lack a registered property title. In the ACCION study involving 694 microentrepreneurs in NGOs in four countries, 71 percent of them owned a home, in many cases as a result of land occupations (Restrepo and Reichmann, 1995). It was beyond the scope of this study to fully assess the issue of "titling" and further research is needed. Although many countries have laws stipulating "community property" for married couples, property is often registered in the man's name rather than jointly. Furthermore, in a "consensual union" (i.e., the couple is not formally married)[13] a woman does not register the property acquired as a result of the couple's joint invesments. Such traditions can be detrimental to women when relations no longer continue and proof of property is required.

Supply of Savings

The supply of small loans and microloans by banks and CUs seems to be more developed in Chile, Colombia, and Ecuador, and less developed in Costa Rica, the Dominican Republic, and Jamaica. Although our results are not conclusive, they indicate that financial repression and restricted competition in the local financial system play an important role in the supply of financial services to microentrepreneurs. In Chile, Colombia, and Ecuador, for example, the ability to mobilize small savings with adequate instruments in a

[13] In some countries, such unions have become more common than legal or religous unions.

competitive financial market seems to be an important factor in influencing the institutions' capacity to offer financial products demanded by microentrepreneurs. An institution's ability to mobilize small savings is reflected in the share of small savings passbooks within the institution's total deposits (discussed in Chapter 3).

Commercial Banks

In terms of financial market competition, the institutions studied can be grouped into two broad categories. In the first group are those in Chile, Colombia, and Ecuador, countries that were more advanced in terms of implementing financial reforms at the time of the study.[14] These countries have more competitive markets for credit and for savings mobilization, and the public sector has less direct control of the banking system. The second group consists of institutions in Costa Rica, the Dominican Republic, and Jamaica, countries which were still in the process of implementing reform initiatives.

In the second group, commercial banks and other financial institutions were still prohibited from mobilizing savings through liquid savings accounts. In Costa Rica, for example, at the time of the field studies, official banks dominated the financial system, capturing about 89 percent of all deposits; commercial banks were not allowed to offer liquid savings accounts. (In contrast, a variety of private commercial FFIs in Colombia offered market interest-bearing savings/deposit instruments.) The Jamaican system was dominated by two major banks that lead the savings market. Consequently, Jamaicans, characterized by a strong savings ethic, were left without much competition for savings products (IPC, 1994). Competition for savings is important in that greater mobilization of savings generates more funds for lending. In the Dominican Republic, three banks accounted for 55 percent of the loans and 71 percent of the demand deposits in the banking system (Pellerano, 1995).

In addition, the reserve requirements for bank deposits (demand and time deposits) in Chile, Colombia, and Ecuador were under 20 percent, while in Costa Rica, the Dominican Republic, and Jamaica

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[14] See Westley (1995); Levine (1994); Basch and Morales (1995).

reserve requirements were equal to or more than 20 percent. These requirements limit the availability of funds for lending.

Among the institutions studied, Caja Social, the Ecuadorean banks, and all the credit unions provided the highly liquid savings accounts with low minimum deposit requirement that are most suited to microentrepreneurs. For these institutions, savings constituted the major source of funds for lending, and they mobilized these savings among middle- and low-income populations.

Most of the banks studied did not have data on women's participation in savings. However, data available from the Ecuadorean banks indicate that women represent about 53 percent of savers in Banco del Pacífico and 38 percent in Banco Pichincha. These banks mobilize a large percentage of small savings. Savings constituted about 55 percent of the deposits of Banco del Pacífico, which had over 550,000 savings accounts with an average balance of less than $200.

Colombia's Caja Social led in the mobilization of savings among the low- and middle-income population, with over $200 million in savings and deposits in December 1992. Savings accounts constituted over 80 percent of its resources, with the remaining 20 percent in fixed deposits. Caja Social served over 980,000 clients, 99 percent of them individuals, through 126 offices in 41 cities. Twenty-four percent were in low-income areas, 30 percent were in low-to-middle-income areas, and 20 percent were in middle-income areas. The average savings balance per person was $210. The number of savers is over seven times more than the number of borrowers.

The Chilean banks in the study tended to mobilize savings primarily through passbook savings with limited withdrawals per year (in Spanish, *ahorro a plazos*) linked to housing finance. Over 80 percent of BANDES' savings ($304 million in 1992) were for housing finance mobilized from middle- and lower-income groups. BANDES had about 24 percent of its total deposits in *ahorro a plazo* and some 76 percent in certificates of deposits. Only the state bank, BECH, had highly liquid passbook savings (in Spanish, *ahorro a la vista*) with unlimited withdrawals; these accounts did not pay interest and were equivalent to one percent ($20 million) of the Bank's total savings accounts ($2.03 billion in 1992). Most savers held *ahorro a plazo* accounts in BECH, whose *total* passbooks savings amounted to

$1.7 billion (November 1992) in about 7.2 million accounts. BECH had almost 90 percent of passbooks savings in the Chilean financial market. The average balance was $218, the lowest among Chilean banks. Passbook savings represented about 12 percent of total savings in Chile in 1992.

The level of savings mobilization among middle- and lower-income groups seems to be a key factor in bringing FFIs, such as the banks studied, to microentrepreneurs. Institutions whose savers include a lower-income clientele come to understand this clientele's further potential ability to save and borrow. Results from the case studies indicate that as financial systems become more competitive, financial intermediaries need to find new clients—savers and borrowers—among new groups outside the traditional clientele, thus improving the potential for microentrepreneurs to access financial services.

Credit Unions

Compared to banks, data on women's use of credit union savings services were readily available. Women held about 47 percent of the savings accounts in Colombia's Cupocredito (more than 290,000 members), 42 percent in Ecuador's Progreso (over 32,000 members), and 38 percent in Costa Rica's Coocique (over 41,000 members). Individual savings accounts balances (for both men and women) varied from $124 in City of Kingston (7 percent of GDP per capita) to $141 in Ecuador (10 percent of GDP per capita), to $700 in the Dominican Republic (99 percent of GDP per capita). The number of savers (as measured by members) is 3.5 time those of borrowers (as measured by total outstanding loans) in the Colombian and Dominican credit union and 6.5 times in the Costa Rican credit union. Total savings and capital owned by members ranged from $4.2 million in the San Jose CU to $87.1 million in Cupocredito.

The credit unions studied offered both highly liquid passbooks as well as fixed-deposit accounts. Our examination of credit unions indicates that they primarily serve middle- and low-income populations. This is evidenced by their geographic location in low-income neighborhoods and low average balances of savings and loan accounts. Members' savings, deposits, and shares provided the main source of funds for loans. The credit unions in the study did not depend on external funds for lending operations or to cover administrative expenses.

Nongovernmental Organizations

Regulatory requirements generally preclude NGOs from taking deposits. Savings "programs" generally were not available through NGOs. Of the NGOs studied, only two—FINCA and Actuar—promoted savings schemes among their clients. In both cases, deposits were mobilized as an element in their lending programs. FINCA was the only NGO among those studied that promotes savings among its rural clients. Actuar's experiment with savings did not last long, as the number of transactions swamped the bank's branches where savers had the accounts. However, the organization's efforts to mobilize deposits was expected to continue through its new formal intermediary, Finansol.

In summary, savings and deposits services provided by banks with the largest low-income clientele and by credit unions had the following characteristics: low minimum savings required to open an account, convenient location with a broad network throughout the cities, explicit programs to use savings as partial collateral, savings history that helps to build creditworthiness, competitive market rates, and liquidity. These are the features that have been identified as most adequate for lower-income groups.

Microentrepreneurs' Demand for Financial Services

The country studies included exploratory research on the demand for financial services in order to identify other issues considered important to microentrepreneur clients of the institutions studied.[15] Interviews with the institutions' borrowers revealed the following trends:

[15] The exploratory research was conducted primarily through focus groups and some small surveys of women and men microentrepreneurs. Detailed results of the exploratory research are presented in each country paper.

- *Knowledge of FFIs.* Among Chilean microentrepreneurs, women were less aware than men of financial institutions and instruments such as types of loans available. Women identified fewer sources of finance and were more misinformed than men regarding collateral requirements and types of enterprises financed by commercial banks.
- *Misinformation.* Microentrepreneurs tended to be misinformed or not knowledgeable about financial services. For example, microentrepreneurs generally assumed that real estate is required to obtain small loans and that interest rates are higher in banks than in NGOs (which actually charge higher rates).
- *Interest Rates.* These were considered important in selecting an institution, but less important than an institution's proximity to a microentrepreneur's home.
- *Convenience/Transaction Costs.* Proximity to home was more important for savings than for credit services.
- *Risk Aversion.* Women microentrepreneurs tended to become less risk averse as they got older. Older women seem to be more willing to acquire debt (they may also have been in business longer).
- *Confidence.* Both men and women perceived banks as a secure place to save. They maintain savings accounts in formal financial institutions and in credit unions.
- *Household Savings.* Although both men and women invest in the home, women tended to do so more often. Men generally used their savings in their enterprises.
- *Goals in Savings.* Women expressed the need to set savings goals, often offering a quantity toward which they aim.
- *Savings Promotion vs. Loans.* Microentrepreneurs in Jamaica felt that banks encourage their savings, but do not give them loans. This was not confirmed by microentrepreneurs interviewed in other countries, although the data indicate that some institutions are less likely to lend to their small savers.
- *Check Cashing.* In Chile, microentrepreneurs indicated that they use savings accounts (with no interest) primarily to deposit and cash checks, underscoring a demand for this service among microentrepreneurs.

A large percentage of the microentrepreneurs—both men and women—interviewed for this study had savings accounts with FFIs. This finding supports the view that savings behavior is as indelibly linked to microentrepreneurship as credit demand is thought to be. Similarly, ACCION's survey found that an average of 48 percent of the microentrepreneurs studied set aside savings from their incomes (Restrepo and Reichmann, 1995).

Among the FFIs studied, Colombia's Caja Social represents a leading example for the region on how to mobilize savings among middle- and low-income groups and how to use this information to lend to the same population. Other banks that mobilize savings from middle- and low-income groups did not use savings history information in the same way. As one microentrepreneur put it, "the bank takes me as a client because of my savings but would not consider me for a loan."

Institutions studied were asked whether market and/or socioeconomic research studies had been conducted among their clientele. Only Caja Social (Colombia) and Coocique (Costa Rica) had conducted such research recently. Regarding questions on the variables that reveal a client's socioeconomic profile, none of the institutions considered information differentiated by sex important because "they did not discriminate" against women or any client based on gender. "Nondiscriminatory" policies limited the information collected by the institutions about their clients.

Among the institutions studied, the two women-oriented NGOs (FINAM and Fundacion Mujer), FINCA, Actuar, Caja Social, and the Jamaican credit union City of Kingston acknowledged benefits of gender analysis in learning to identify demand variables that affect the use of financial services. An example of this type of variable is the City of Kingston credit union's acceptance of a variety of collateral (including jewelry) in recognition that women have fewer useful forms of collateral.

Most institutions studied never had any educational activity for their staff in dealing with women's socioeconomic data or issues related to the demands of women clients (e.g., women's increased participation in the labor force, women's contribution to household incomes, women's wage patterns). Even the NGOs that disaggregate their data by gender do not seem to consider it necessary to conduct further research to understand those data. Yet more information is needed to be able to better understand women's current participation in the economy—as investors, producers, and buyers for their households and businesses.

As a result of this study, some of the participating banks and credit unions were pleasantly surprised by their own data on microentrepreneurs' activities and demand characteristics for financial services, women's participation, their high percentage of small loans and microloans, and the large proportion of small savings accounts. They had never been asked for this type of information.[16]

Summary of Findings

Formal Financial Institutions

Our study of FFIs reveals that access to credit depends on the particular institution's ability to develop financial schemes suited to the characteristics of women microentrepreneurs. Some banks are more able than others to match low-income women's economic activities and characteristics and thus contribute to expanding financial services for women microentrepreneurs.

The banks included in the study represent strong financial institutions in their respective countries and have some of the largest networks of branch offices in both urban and rural areas. As previously indicated, although their investment in microenterprises is small within their own portfolios, it is comparable to or larger than the loan resources supplied by NGOs and credit unions. This group of Latin American banks has developed products, technologies, and institutional structures that take into account the characteristics of microenterprises. Women in such countries as Chile, Colombia, Costa Rica, and Ecuador benefit most from this type of FFI. In comparison, low-income women microentrepreneurs are less likely to

[16] This lack of "institutional awareness" was also expressed by many participants representing FFIs and CUs at the Regional Seminars organized to discuss the results of the country studies.

access commercial bank services in Jamaica and the Dominican Republic, where the average loan size (measured as a percentage of GDP per capita) remains relatively large.

The following key factors were found to enhance the supply of bank services to microenterprises, including those owned by women:

- *Institutional Commitment.* Among the financial institutions studied, three groups stand out for their willingness to put more effort into developing better services for microenterprises: (a) banks with an institutional mission that acknowledges the provision of services to low-income populations and/or small entrepreneurs (Caja Social in Colombia, Banco del Pacífico and Banco Pichincha in Ecuador, Banco Federado in Costa Rica, and Banco del Estado and BANDES in Chile); (b) banks that recently acknowledged the increasing percentage of small and microbusiness loans within their "personal banking" units (Banco BHD, the Dominican Republic); (c) banks that would like to have a "microlending window" even though past experience makes them reluctant and unsure about how to proceed with microenterprise credit (Bank of Nova Scotia, Jamaica).

  These institutions with a mission of reaching microenterprise clients or low-income clients had a high participation of women among their clients, even when they did not specifically target women. Proxies that indicate a successful commitment to the low-income population and a potential to include women are small average loan size, small average savings account size, a high percentage of small savings in resources mobilized, geographic location of branches close to low-income areas, use of co-signers, use of savings and credit history as guarantees for payment, innovative methods of advertising and information dissemination, and positive staff attitudes toward low-income customers. Some institutions classify a microenterprise loan as a personal loan in order to make the terms more flexible. Microentrepreneurs are also considered potential users of other financial services.

- *Investment of Own Resources.* A proof of their commitment to the market for microfinance is that commercial banks such as Caja Social, Banco del Pacífico, and Banco Pichincha invest their own resources in low-income and microenterprise lending. According to bank officials, investing in low-income, economically viable microentrepreneurs is an investment that benefits them and enhances national economic development. Evidence of this commitment is provided in the location of their branches. For example, Caja Social has a large percentage of its branches in middle- to low-income neighborhoods. One of its most active offices—with about 10,000 customers—is in Ciudad Bolivar, Bogota, one of the poorest neighborhoods of the city.

- *Savings.* Small savings are important to banks such as Caja Social, Banco del Pacífico, Banco Pichincha, BANDES, BECH, and Bank of Nova Scotia. However, only Caja Social uses savings as a key mechanism to become better acquainted with low-income clients and as collateral for loans to them. Other banks could apply this model to expand the current supply of credit.

- *Microenterprise Centers.* Some banks in the study have invested their own resources into microenterprise credit by creating microenterprise centers. These centers represent a less risky venture (under their quality control) and allow them to experiment, adopt, adapt, and/or create new methodologies and schemes. They also allow the banks to centralize some of the transactions related to microenterprises and reduce costs. As shown in our exploratory research, women microentrepreneurs have a negative image of financial institutions. Thus these centers present a non-threatening alternative with staff trained to serve microentrepreneurs. This innovative administration allows for better services to women; about 30 to 40 percent of those who receive credit in these centers are women.

- *Willingness to Adopt Nontraditional Methodologies.* The microenterprise operations have incorporated credit features such as a variety of activities financed; small loan sizes with increasing size if repayment performance is good; and flexible collateral requirements. These features have proven effective for expanding financial access for women's businesses. Other examples of innovations adopted by FFIs include: BANDES' use of solidarity groups; Caja Social's use of savings activity to determine client creditworthiness;

and Banco del Pacífico's use of "promoters" to find new clients. The microenterprise centers also provide a training platform—both for Bank staff and as a model for other institutions interested in the microenterprise clientele. These centers often serve as an entry point for microentrepreneurs into the formal financial system.

- *Personal vs. Corporate/Commercial Financial Services.* Due to the "informal nature" of microenterprises, some financial institutions provide business lending through their "personal banking" units. As banks become aware of the level of small/microbusiness financed through their personal services, they become more interested in serving the microenterprise sector.

- *Flexibility of Microenterprise Programs.* The microenterprise programs studied tend to be flexible in adjusting to the characteristics of the microentrepreneurs and to the economic environment. Flexibility is reflected in the size of loans. Furthermore, on the savings side, minimum amounts are required to open savings accounts.

- *Scale of Coverage.* Searching for new financial technologies to expand lending volumes and efficiency is a major concern of all banks. Productivity, in terms of loans per analyst or loans per dollar spent, is a key issue. Caja Social and Banco del Pacífico were in the midst of improving information management systems in order to expedite loan processing.

- *Cost of Operations.* Banks' microenterprise operations represent a small percentage within their total operations. Bank owners consider their investment and costs in the microenterprise portfolio worthwhile based on their assessment of their overall financial intermediation since they also mobilize small deposits from middle- and lower-income groups. Therefore, financial costs are covered and operational costs are reduced as result of economies of scale and installed capacity of the banks.

These factors have made a significant impact on the financial services provided to microenterprises by this group of banks. Given the current state of financial markets in the countries studied, these banks contribute to the inclusion of low-income populations as users of financial services. However, as financial markets grow and become more competitive, there will be an increasing need for these institutions to develop comparative advantages and to better identify market niches.

Credit Unions

The results of the case studies indicate that credit unions provide, and can continue to expand the supply of, financial services to low-income women in general, and to women microentrepreneurs in particular. Women represent between 30 percent and 45 percent of the membership of the credit unions studied. Credit unions contribute to the supply of financial services to women in a number of ways:

- *Competitive Advantage in Savings Schemes.* Credit unions may have a competitive advantage in providing savings and deposit services to low-income groups by virtue of their location in and around the communities where microentrepreneurs are based. This makes them more convenient to their members than other financial services. In addition, by being part of their members' larger community, credit unions gain knowledge about their members and their needs for financial services (in particular, savings instruments).

- *Self Support and Costs.* Among credit unions, savings provide the main source of funds for credit. The credit unions examined are self-supporting institutions with a member and community orientation. Credit unions have built a self-supported capital base over the years and accumulated knowledge of their membership which facilitates processing their loan operations. They operate close to clients, use savings as collateral, and evaluate members' eligibility to borrow from information based on their common bond (e.g., area of residence). Levels of operational efficiency are evidenced by the number of outstanding loans per credit staff (in one credit union this reached over 800 loans).

■ *Low-Income Members.* As CUs grow, they seem to move beyond the "poorer" sectors of the population (as demonstrated by loan size distribution as a proxy). The variety of members helps to diversify risk. In fact, CUs can expand to serve populations at a variety of income levels without distancing themselves from low-income people. The number of low-income clients often remains the same or increases. In Colombia, for example, CUs are the only financial intermediary in some 61 municipalities.[17]

■ *Collateral.* Savings can be used to develop debt capacity and creditworthiness. Savings activity allows credit union staff to become acquainted with members. As a practical matter, those members who save regularly and consistently can be expected to repay a loan regularly and consistently. A "microsavings" account facilitates access to a "microloan"—$50 in savings can help to obtain a $250 loan (if debt capacity allows it). While such a loan is only 20 percent collateralized, security is improved by virtue of the credit union's knowledge of the borrower's saving habits. Co-signers—primarily other CU members—are also a common way to guarantee loans.

■ *Household and Microenterprise Finance.* In addition to a range of business-related loans, credit unions offer a variety of financial services suited to family and women's objectives, such as household consumption and emergencies, human capital investment (loans for education and health), and other investments (housing improvement loans). The diversification of credit union loan portfolios contributes to lower credit risk.

■ *Leadership and Policymaking.* Despite the fact that CU decision-making bodies are supposed to represent their members, women are underrepresented on their boards of directors relative to their share in membership. Currently, credit union leadership and membership show little awareness of the potential of women as users of services and as leaders at local communities and national/international credit

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[17] Data provided by the Confederación de Confederación de Cooperativas de Colombia (Bogotá).

union-related institutions. Lack of data on gender reflects lack of attention to women's increased participation in the economy or to their contributions as savers, borrowers, users of other financial services, and elected leaders.[18]

▪ *Regulatory Environment.* CUs are supervised by agencies with responsibility for all types of cooperatives (e.g., agricultural, consumer, credit, etc.). Lack of an appropriate supervisory and regulatory framework for CUs limits their expansion as financial intermediaries. For example, until 1992, Jamaican law put a ceiling of 12 percent on the interest that credit unions could charge (even as inflation rates were higher). In Colombia, DANCOOP (Departamento Nacional de Cooperativas), the national entity responsible for supervising CUs, reportedly lacks the technical and operational capability to adequately perform its monitoring responsibilities. Within the past five years, countries such as Costa Rica and Ecuador have changed their laws to include large CUs under the superintendency of financial institutions. In late 1996, Colombia is considering similar regulatory changes.

Nongovernmental Organizations

Compared to previous studies, this research found a range of linkages between NGOs and FFIs. Moreover, it found that these linkages enhance women microentrepreneurs' access to financial services. NGOs such as ADEMI, PROPESA, Actuar, and FED (all affiliated with ACCION Internacional) play a major role as "platforms" for retailing credit with funds borrowed from local financial markets. Furthermore, some NGOs such as Actuar are evolving into formal financial intermediaries.[19] These advanced NGOs are better equipped to serve low-income businesswomen, who generally have a positive opinion of NGOs.

NGOs often perform the role of social intermediaries, linking

[18]A credit union member has a right to vote in elections for the board of directors. According to the cooperative principle, one member equals one vote, regardless of the member's equity in a credit union/cooperative.

[19]In 1993, Actuar created Finansol, a financial corporation.

microentrepreneurs and financial institutions in a variety of ways. The Ecuadorean bank Pichincha maintains several arrangements with NGOs, managing them through special lines of credit from the government. In contrast, Banco del Pacífico prefers to have its own microenterprise program. Similarly, as NGOs evolve into viable institutions, they try to retain their good clients and begin competing with FFIs. For example, many ADEMI clients could be borrowing from commercial banks but seem to prefer the service they get from ADEMI. NGOs that target women, such as FINAM and Fundación Mujer, play a role in providing technical assistance and technology transfer to women in manufacturing. These NGOs are also helping to promote and encourage women entrepreneurs and their businesses.

NGOs have become significant suppliers of financial services to low-income women microentrepreneurs over the past ten to fifteen years in the countries studied. In the supply of credit, NGOs are deepening the market and providing the relatively smaller loan sizes that these clients demand, particulary for trade microenterprises, for which they provide smaller loans than other institutions. Women obtain 25–64 percent of the loans granted by the NGOs studied. Factors that affect the supply of NGO financial services include:

- *Credit Features.* The credit features that characterize the supply of NGO financial services are: (a) interest rates that are determined by market conditions and cost factors; (b) flexible collateral and security substitutes; (c) no exclusion of certain economic activities; (d) no loan floors; and (5) a minimalist approach in which training courses are not a conditon for receiving credit.

- *Standardization of Loan Processing.* The NGOs studied employed credit features that helped to standardize and thereby streamline their credit appraisal and approval process, allowing them to provide large numbers of small loans to microentrepreneurs, particularly women. The most developed NGO programs can process over 10,000 loans annually with a range of 150 to 250 loans per credit staff.

- *Institutional Viability.* The NGOs that adopted credit programs with features that were attractive to low-income women entrepreneurs have reached operational self-sufficiency and viability. Large-scale loan operations and interest rates that reflect institutional costs generate revenues to cover operational expenses. These NGOs have shifted the discussion from program viability to institutional viability. NGO costs differ from CUs and banks and tend to be higher. Operating costs have a high variation among NGOs as a result of a variety of credit methodologies and sources of funds. However, their financial costs are lower than banks and credit unions because they operate with grants.

■ *Evolution into FFIs.* Because of the scale of their operations and their level of financial viability, the most developed NGOs are evolving into FFIs. Actuar (Colombia) has become a financial company, Finansol. The evolution into new FFIs benefits women microentrepreneurs (and microentrepreneurs in general) at two levels: (a) by expanding access to resources from local financial markets; and (b) by offering them an opportunity to save. Such a transformation has shifted the discussion from credit only to a broader range of financial services. The results provide evidence of microentrepreneurs' demand, particularly women's, for savings instruments. Also, for microentrepreneurs in general but particularly for women microentrepreneurs, the development of a broader range of financial services is important for both business and household investments.

■ *Wholesaling of Microenterprise Funds.* NGOs specializing in wholesaling of funds, such as Fondomicro (Dominican Republic),[20] provide an important financial service to local NGOs such as ADEMI. They can also help to establish performance standards among local NGOs in the provision of credit services.

■ *Noncredit Activities.* In addition to those that specialize in credit, NGOs with other noncredit activities (e.g., training, marketing, technical assistance) will continue to have credit programs. These programs can be an important factor in the development of specific

[20] In late 1996, Fondomicro was in the process of becoming a commercial bank.

skills for microentrepreneurs, especially women. They can also be an important factor in opening new markets, helping women to get started in business, promoting a particular type of activity, and developing new technologies.

This chapter highlighted how banks, CUs, and NGOs supply financial services to microentrepreneurs in general and women in particular. A variety of institutions participate in the current supply of microfinance services. The institutions studied make up a large part of the local market of financial services to microentrepreneurs in their respective countries. Women microentrepreneurs and their families benefit from a broader range of financial products for both household and business investments.

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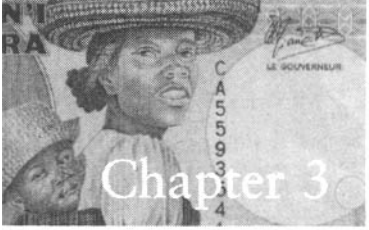


Commercial Banks and Microfinance: Practices that Reach Women

A decade ago, development practitioners asserted that formal financial institutions, especially commercial banks, offered few prospects for increasing the availability of financial services to microenterprises, particularly those owned by women—who seldom meet traditional banking requirements (Lycette and White, 1989). This chapter summarizes the findings from eight case studies of commercial banks. It analyzes the banks' credit and savings services, concentrating on their ability to serve microenterprise clients and the institutional factors that favor reaching these clients. The results of the case studies indicate that, contrary to expectations, *some* commercial financial institutions are expanding the range and coverage of financial services to microenterprises—at both the wholesale and retail levels—and that in most of these institutions the participation of women is similar to levels attained in NGO microenterprise programs.

The banks studied included Banco del Desarrollo (BANDES) and Banco del Estado (BECH, a public bank) in Chile; Caja Social in Colombia; Banco Federado, owned by credit unions in Costa Rica; Banco BHD in the Dominican Republic; Banco del Pacífico and Banco Pichincha in Ecuador; and Bank of Nova Scotia in Jamaica (see Tables 2.1 and 2.2 for basic institutional information). This chapter concentrates primarily on the commercial banks with the largest and most developed microenterprise portfolios and savings services in their respective countries' supply of microfinance, namely, the commercial banks BANDES, Caja Social, and Banco del Pacífico.

Credit Services

Women's Access to Bank Credit Services

The case studies show that women received a share of microenterprise loans in these institutions similar to their share in business ownership in their respective countries. They received 50 percent of the microenterprise loans made by Chile's BANDES, 44 percent of those made by the Ecuadorean Banco del Pacífico, and 41 percent of

Table 3.1 Comparison of NGOs with Commercial Banks: Outstanding Microenterprise Loans (as of December 31, 1992)

	Outstanding Microenterprise Loans *(US$Millions)*	Outstanding Microenterprise Loans *(Number)*	Average Outstanding Loan *(US$)*	Women's Share of Outstanding Loans *(Number of Loans) %*
COLOMBIA				
Actuar (NGO)	4.3	24,685	174	45
Caja Social (bank)	5.0	3,756	1,346	41
CHILE				
PROPESA (NGO)	1.1	3,565	305	44
FINAM (NGO women targeted)	0.292	1,190	245	93
BANDES (bank)	3.4	3,492	988	50
ECUADOR				
FED (NGO)	1.5	4,554	329	56
Pacífico (bank)	2.1	9,004	239	44

Source: Based on country case studies.

Colombia's Caja Social. These levels are comparable to levels achieved by NGOs in their countries (Table 3.1).

Furthermore, the scale of these banks' participation in microenterprise lending was significant when compared to the most advanced NGOs studied. Table 3.1 shows that BANDES's outstanding microenterprise loan portfolio of $3.4 million in December 1992 was approximately triple that of PROPESA, a successful microfinance NGO in Chile, and more than ten times that of FINAM, an NGO that targets women clients. In the case of Colombia's Caja Social, estimates of $5 million in microenterprise loans were higher than the NGO Actuar's $4.3 million. In Ecuador, Banco del Pacífico's outstanding loans were $2.1 million while those of the NGO FED were $1.5 million. These results show that at least some banks are actively contributing to the supply of microenterprise credit in their countries.

Average loan sizes, however, were larger for the commercial banks, and therefore some of the most successful NGOs—Actuar and FED—reached greater numbers of women microentrepreneurs, especially in the smallest microenterprise loan category. This is explained by two factors. First, NGOs tend to specialize in smaller loans for commercial activities while banks generally offer longer-term loans for fixed assets. Second, NGOs target lower-income populations than banks, even within the low-income sectors.

To better understand bank lending, the study examined some of the features that are most relevant to women microentrepreneurs' access to credit: (a) availability and distribution of small loans; (b) type of activities financed; and (c) loan terms and conditions such as interest rates and guarantees.

Availability and Distribution of Small Loans by Gender

According to data on the distribution of total outstanding loans, banks in the six countries studied can be broken down into two groups. The first group includes the banks in Chile, Colombia, and Ecuador, which have more than 50 percent of their total number of outstanding loans of all types in loans under $5,000.

The banks in the Dominican Republic and Jamaica have more than 50 percent of outstanding loans greater than $5,000—indicating that these banks are not as active in microfinance. Banco Federado (Costa Rica), which wholesales government and international funds to the cooperative sector, is something of a hybrid. It lent about $28 million to credit unions and cooperatives which in turn retailed loans for productive activities in agriculture and to micro and small enterprises in amounts under $5,000.

Size of loans seems to be an important factor in explaining gender differences in access to credit in FFIs (Buvinić and Berger, 1990). Analysis of microenterprise loans for three banks—Banco del Pacífico, Caja Social, and BANDES—shows that among female borrowers, relatively smaller proportions of the loans are in the largest

Table 3.2 Distribution of Bank Microenterprise Loans Outstanding (Number) by Size and Gender (as of December 1992) *(percentage)*

Range in US$	Men	Women
Caja Social		
<$625	1	2
$625–$1,250	8	14
$1,250–$2,500	23	32
$2,500–$3,750	11	23
$3,750–$5,000	57	29
Participation by Gender	*59*	*41*
BANDES		
< $1,000	44	50
$1,000–$5,000	56	50
Participation by Gender	*50*	*50*
Banco del Pacífico		
<$500	38	53
$500–$1,000	47	38
$1,000–$5,000	15	9
Participation by Gender	*56*	*44*

Source: Country studies.

loan-size categories (Table 3.2). For example, in Caja Social, some 57 percent of male borrowers had loans between $3,750 and $5,000, whereas only 29 percent of female borrowers had loans of that size.

Table 3.3 presents a summary of the most active banks in the sample in terms of microenterprise lending. Data pertaining to the size of small bank loans compared to loans of nonbank institutions (NGOs and credit unions) were studied in order to gain a better profile of the banks' financial services for the microenterprise sector. Ranges for NGOs and banks for average outstanding loan size varied from $174 to $1,346 in Colombia and from $245 to $988 in Chile. These ranges indicate that NGOs serve a market with a demand for lower size loans while banks tend to serve borrowers with larger loans.

Comparing results across countries, we see that banks' average outstanding loans (as a proportion of GDP per capita) are more comparable to NGO loans in Ecuador and Chile. In the case of Colombia,

Table 3.3 Average Outstanding Microenterprise Loans: Comparison Between Banks and Other Institutions

	Average Outstanding Microenterprise Loan *Dec. 31, 1992 (US$)*	1992 GDP per Capita *(US$)*	Average Outstanding Microenterprise Loan as a percentage of GDP per Capita
COLOMBIA			
Caja Social	1,346	1,487	91
Cupocredito Credit Union	687		46
Actuar	174		12
CHILE			
BANDES	988	2,940	34
PROPESA	305		10
FINAM	245		8
ECUADOR			
Banco del Pacífico	239	1,346	18
Progreso Credit Union	874		65
FED	329		24

Source: Country studies.

Caja Social provides larger loans than the credit union and the NGO.

Activities Financed

One of the important findings of the study is the extent to which bank lending to microenterprises is granted as "personal loans" and does not appear as business lending. For example, Caja Social has about 77 percent of its loans in personal loans. According to Caja Social, many micro and small-business loans are classified as personal loans, since many of these businesses are not "formal" or because the type of guarantee used is a savings account or a co-signer. This is also true in the case of Banco BHD, which decided to create a special small/micro unit when it realized that many personal loans were for business purposes. The Chilean banks studied lend primarily for housing (social housing programs) and business activities. Costa Rican Banco Federado wholesales funds to credit unions and other cooperatives for productive purposes.

Banks with a microenterprise loan portfolio finance many types of activities and play a particularly important role in financing fixed assets with longer-term loans. Provision of such longer-term microenterprise loans fills an important need for financial services, since NGOs provide primarily short-term microenterprise loans for working capital.

Credit Characteristics

In addition to the size of the loans and activities financed, other features examined included interest rates, guarantees, loan maturities, and delivery mechanisms. This section summarizes the factors that facilitated the adequate provision of credit services to microenterprises.

Interest Rates. All the banks studied charged market interest rates (similar to those quoted by other banks in the country) for microenterprise loans. These rates were equal to or lower than those of NGOs with microenterprise credit programs (Table 3.4). Although charging higher interest rates might have allowed them to increase financial revenues from loans, bank managers who were interviewed repeatedly cited their fear that negative publicity could result from charging the most disadvantaged entrepreneurs rates exceeding their prevailing commercial rates.

Effective interest rates (Table 3.4) and real interest rates among the institutions studied in Chile, Colombia, and Ecuador were more competitive than in the other countries. Results seem to indicate

Table 3.4 Comparison of Interest Rates for Microenterprise Loans

	Effective Annual Interest Rate (%)
COLOMBIA (as of October 1993)	
Caja Social	35.3
Cupocredito Credit Union	34.4
Actuar	35.3
Inflation Rate 22.4%	
CHILE (as of December 1992)	
Banco del Desarrollo (BANDES)	39.6
Banco del Estado (BECH)	25.3
PROPESA	69.0
FINAM	51.2
Inflation Rate 12.6%	
ECUADOR (as of October 1993)	
Banco del Pacífico	47.2
Banco Pichincha	55.5
Progreso Credit Union	55.5
FED	60.0
Inflation Rate 45%	
DOMINICAN REPUBLIC (as of October 1993)	
Banco BHD	32.0
San Jose Credit Union	47.9
ADEMI	83.8
FDD	63.3
Inflation Rate 4.7%	

Source: Country studies.

that in countries with less variety and fewer institutions in the supply of microenterprise credit, interest rates charged for microenterprise credit tends to be higher than average market rates. For example, in the Dominican Republic the range is broad between the lowest and highest interest rates charged for microenterprise loans across the different kinds of institutions within a country.

Collateral. The case studies suggest that the requirements for collateral are becoming more flexible. One of the most innovative collateral substitutes is the approach used by BANDES (Chile) of providing microenterprise loans through solidarity groups. The bank uses solidarity-groups (self-monitoring among the borrowers that make up the group) as a way of guaranteeing loan repayment and increasing coverage at a lower cost. This approach enables the bank to reach more microentrepreneurs. Women, who tend to have less access to traditional forms of collateral like real estate, are encouraged to participate in the loan process.

BANDES and Banco del Pacífico emphasize the importance of having specially trained credit advisors who are responsible for searching out and screening clients. Client screening through technical assistance is a major part of risk management. These banks also offer repeat loans of increasing value as an incentive to encourage repayment, and therefore credit history serves as a collateral substitute for them.

Caja Social reduces its risk in microenterprise lending by becoming familiar with clients' savings history. In addition, loan repayment history is used as evidence of creditworthiness for future loans, and the possibility of incremental loans is used to motivate the client to repay. Caja Social requires more traditional forms of collateral, such as real estate, for loans over $10,000.

None of the banks studied relied on real collateral to guarantee small loans for working capital. Instead, a co-signature represented the most frequently required form of guarantee. For these banks, the informal nature of microenterprises makes the business owner's personal credit (and savings) history as important as the businesses' financial statements. However, this study's exploratory survey found that the majority of microentrepreneurs had the perception that all bank loans require real estate as collateral, reflecting misinformation about FFIs.

Loan Maturities and Repayment Schedules. Bank loans for micro and small enterprises varied from six months to four years. These terms are determined by local economic and financial environments, and by the purpose of the loans (personal, working capital, fixed assets). The most frequent repayment schedule is monthly. Banks (and other types of FFIs) provide loans for fixed assets (larger loans with longer maturities) to a greater extent than NGOs. Less flexibility was found in bank repayment schedules than in loan repayments required by successful microfinance NGOs.

Special Delivery Mechanisms. The three most active banks in microfinance—BANDES (Chile), Caja Social (Colombia), and Banco del Pacífico (Ecuador)—had microenterprise centers financed by the banks themselves and, in some cases, international donors. BECH (Chile) had a small-enterprise program that was in the process of developing schemes for microenterprises during the study period. In addition to credit, technical assistance was one of the main activities of these programs.

In reaching microentrepreneurs, banks tended to have two strategies: (a) proximity to microentrepreneurs through branches and/or loan officers in order to screen and collect data for loan analysis; and (b) centralization of data processing. Banco del Pacífico had microenterprise program staff from the main branches who visited clients with laptops on line with a data processing center. Caja Social started centralized credit processing centers in order to minimize branch staff time spent in loan data processing.

Computerized credit technology expedites information analysis, gives transparency, and separates decision making from the review functions. The branch that receives the application is still responsible for collecting all the relevant information in accordance with each line of credit and each market segment (e.g., microenterprises). But it is able to quickly and efficiently forward the data to the credit processing center through this new technology. At the credit processing center, the credit report is reviewed by a group of analysts divided by market segments who evaluate the credit scoring and recommend loan approval. This approach of using branch staff to gather data and central staff to process it allows for more efficient analysis of risk and a loan response period of 5 to 8 days.[1]

Caja Social uses other innovative approaches to serve microentrepreneurs. One approach is through a downtown Bogota agency that is completely dedicated to assisting microentrepreneurs. This office manages programs funded through international donors and other specific microenterprise programs. BANDES' microenterprise program is in one centrally located branch (in Spanish *plataforma*) that is specially dedicated to microenterprise clients.

Banco del Pacífico, BANDES, and Caja Social have in their institutional policies explicit mandates to reach lower-income groups and microentrepreneurs. In addition to the features of the loans described above, their commitment is evident in the location of their offices. Caja Social has branches in low-income neighborhoods in urban and semi-rural areas. Eighteen percent of Caja Social borrowers made less than $240 per month (equivalent to two minimum monthly salaries in Colombia). These institutions are committed to allocating their own funds to provide services to lower-income populations. Although BANDES and Caja Social have participated in microenterprise programs using international agencies' funds, the major proportion of their microenterprise portfolio comes from their own funds.[2]

Operational Efficiency

All the banks studied are profitable and have a good position in their respective countries' financial sector. Therefore, in looking at FFIs in this study, our concern was not so much with overall

[1] See Arango (1996) for a more recent analysis of Caja Social's credit processing center.

[2] For example, Caja Social lent about $600,000 between 1988 and 1992 in microenterprise loans as part of the Global Microcredit Program of the Inter-American Development Bank. This represented about 6 percent of the total of that international credit line. In an evaluation of the Global Credit Program, Marulanda (1992) indicated that Caja Social had limited participation in the program because changes in its information systems at the time made use of its own funds and operational procedures more profitable than use of the credit line. Two commercial banks that participated in the Program at a smaller level did so for two reasons: to take advantage of the international guarantee and for charitable reasons.

institutional sustainability but with the product (microloans) within a total portfolio.[3]

The heterogeneity of the institutions studied and lack of available data made it difficult to compare the specific sustainability of microloan operations. Among the banks studied, microenterprise loans are less than five percent of the total outstanding portfolio. For this reason and because they are often granted as personal loans, evaluating their operational efficiency is cumbersome.[4] Thus an approximation of the institutions' operational efficiency is based on data obtained from the ratio of operational expenses to total portfolio (Table 3.5).

In the case of BANDES, total personnel and other administrative expenses as a percentage of total outstanding loans is 4 percent. For its microenterprise program, this ratio is 25 percent. In contrast, PROPESA's is 37 percent. This kind of indicator allows comparison of operational efficiency of the microenterprise program both within the institution (i.e., in comparison with other BANDES loan operations) and across institutions (i.e., in comparison with an NGO engaged in similar type of lending). BANDES' microenterprise program was more efficient (as measured here) than the NGO's. Table 3.5 also presents available data for the overall operational efficiency of other institutions.

The small proportion of total portfolio that microenterprise programs represent means that they do not pose a significant risk for banks. The overall delinquency rates of microenterprise loans among the banks with large microenterprise loan portfolios—BANDES, Caja Social, and Banco del Pacífico—are less than three per cent.

It is important to consider the opportunity cost of dedicating human resources and other operational costs to a portfolio of microenterprise loans. As discussed in the previous chapter, some banks in the study include providing financial services to a lower-

[3] Because the institutions included in the study were so diverse, the comparative analysis is restricted to specific aspects of microenterprise lending and deals only secondarily with the total operations of the FFIs.

[4] Specific operational expenses for the microenterprise programs were only available from BANDES. Caja Social and Banco del Pacífico have microenterprise loans in all of their offices and it was not possible to obtain specific microenterprise-related operational expenses.

income clientele as part of their mission. Recent financial sector reforms that promote market competition among financial institutions have encouraged the search for efficiency, comparative advantages, and market niches on the part of the banks studied. For

Table 3.5 Operational Expenses as a Percentage of Outstanding Loans (as of December 31, 1992)

	Outstanding Loans *(US$Millions)*	Total Personnel & Administrative Expenses *(US$Millions)*	Total Personnel & Administrative Expenses to Outstanding Loans *(%)*
CHILE			
BANDES			
Total Bank	571.1	23.0	4
Microenterprise Operations	3.4	0.9	25
PROPESA	1.1	0.4	37
COLOMBIA			
Caja Social			
Total Bank	161.2	23.7	15
Microenterprise Operations	5.0	n.a.	n.a.
Cupocredito Credit Union	72.3	7.3	12
Actuar	4.3	0.9	22
ECUADOR			
Banco del Pacífico	154.6	20.9	13
Banco Pichincha	123.6	16.2	13
Progreso Credit Union	3.0	0.2	18
FED	1.5	0.3	25
DOMINICAN REPUBLIC			
Banco BHD	36.3	4.2	11
San Jose Credit Union	3.4	0.2	10
ADEMI	6.9	1.6	23
FDD	1.3	0.6	46

Source: Country studies.

Note: The most commonly used measure for this indicator is average outstanding loans. Due to lack of data, for purpose of this calculation, total outstanding loans as of December 31, 1992, was used.

example, Caja Social emphasizes that its clientele is middle- and low-income populations. BANDES defines itself as a financial institution with a preference for medium, small, and micro enterprises not addressed by other financial institutions.[5] Banco del Pacífico has demonstrated its commitment to microenterprise development through the creation of its "Programa de Desarrollo de la Comunidad," initiated in 1977. To carry out their missions and policies with respect to microenterprises, banks use a number of approaches:

Direct/Retail Approach. This approach can take a number of forms:

- Microentrepreneur is a direct client, usually serviced as "personal loans."
- Microentrepreneur is a client of the bank's "microenterprise development center" (Pacífico, BANDES, Caja Social), with the bank using either its own or external funds.
- The bank has accessible branches in low-income areas.

Indirect/Wholesale Approach. Among the banks studied, Pichincha and Federado use a wholesale approach. Banco Pichincha lends to NGOs while Banco Federado wholesales funds to credit unions affiliated with the national Costa Rican Credit Union Federation. The funds used for such loans can be either the bank's own funds or external funds.

The indirect or wholesale approach is subject to the capabilities of local NGOs, credit unions, and other agencies (e.g., government agencies) to develop relationships with banks. As discussed in chapter 5, some of the NGOs studied do borrow from banks (for instance, ADEMI and the Ecuadorean Development Foundation) and they believe that this approach is becoming more common as NGOs become institutionally and financially stronger.

The sustainability of banks' financial services to microenterprises is restricted primarily by their ability to cover direct and indirect expenses. In terms of indirect expenses, Table 3.5 shows that larger-loan portfolios allow administrative costs to be spread over a larger base. It could be argued that there are economies of scale

[5] Banco del Desarrollo, Memoria Annual 1992.

available to banks through improved use of existing capacity for making more loans.

Microenterprise lending has two kinds of direct costs: (a) fixed operational expenses and human resources dedicated to the development and maintenance of the microenterprise portfolio, and (b) the financial cost of funds invested in the portfolio. Competition has helped to make banks operate more efficiently. Some of these efficiency gains derive from application of improved technologies such as computerized systems that allow loan applications to be processed more quickly. However, to the extent that on-line systems allow for faster and more decentralized decision making, they imply a need for organizational changes to capture the full benefits of these new capabilities. Banco del Pacífico provides an example of this organizational adjustment; decision-making authority over loans has been integrated through new procedures in which those promoting microenterprise credit are equipped with on-line personal computers, enabling loans to be processed and decisions to be made on site.

Institutions like Caja Social and Banco del Pacífico use passbook savings as their primary source of funds. Savings accounts pay lower interest rates than other banks' main financial instruments, such as fixed-term deposits. In Colombia, financial reforms reduced the reserve requirements for saving accounts, making more funds available for lending. Thus small savers in middle- and low-income neighborhoods have become an important source of funds for institutions. For example, Caja Social operates a branch with over 10,000 clients in Ciudad Bolivar, a low-income neighborhood in Bogota with hundreds of shopkeepers, street vendors, and microenterprises.[6]

For banks, as for NGOs, the major microenterprise credit issue is not so much the size of the loan but the number of loans processed at a minimum cost in order to make this type of operation financially viable. Table 3.6 compares operational efficiency as measured by loans per credit analyst in three of the institutions studied in Chile. The number of outstanding microenterprise loans at BANDES is higher than at PROPESA or BECH (mainly small

[6] Branches in low-income areas are profitable because their administrative expenses (e.g., rent, utilities) are low compared with branches located in other sectors of the city. Remarks of the President of Caja Social at IDB Final Seminar on "Financial Services for Microenterprises," Washington, D.C., September 22, 1994.

Table 3.6 Chile: Performance Indicators for Selected Institutions (as of December 31, 1992)

	Outstanding Loans Per Credit Analyst *(Number of Loans)*	Outstanding Loans Per Credit Analyst *(US$)*	Number of Loans Disbursed per Analyst 1992
BANDES	269	265,383	254
BECH (1)	41	327,824	49
PROPESA	238	72,371	584

Source: Mehech *et al.* (1994).
(1) Small Enterprise Loans Program.

enterprise loans). However, PROPESA's number of loans disbursed per analyst per year is almost double that of BANDES. This indicator reflects the longer maturity terms of the BANDES loans (1–3 years) compared with PROPESA's portfolio of shorter-term working capital loans (3–6 months).

Savings Services: Small Accounts Count

The country studies identified the various sources of bank funds—savings and other types of deposit accounts (Table 3.7). Small-scale savings accounts represented a major source of funds in some of the institutions studied. For the banks in Colombia and Ecuador, for example, accounts of under $1,500 savings balances make up over 50 percent of total savings. Competitive market interest rates are paid on savings, and requirements for opening accounts are minimal ($12 in Caja Social).

Chilean banks mobilize savings primarily through passbook savings (*ahorro a plazos* and *ahorros a la vista*)[7] linked to housing finance. In Chile, passbook savings represent 12 percent of total savings in the country. BANDES was the only private Chilean bank oriented to serve middle and lower-income groups, particularly in the area of housing finance. About 61 percent of *ahorro a plazos* of

[7] *Ahorro a plazos* is a savings passbook with a limited number (four to six per year) of withdrawals, and *ahorro a la vista* is a savings passbook with unlimited withdrawals.

Table 3.7 Distribution of Savings and Deposits (as of December 31, 1992)

Banks	Total Savings & Deposits *(US$Millions)*	Savings *(Highly liquid)* *(%)*	Savings *(Limit in Withdrawals)*[1] *(%)*	Fixed Term Deposits *(%)*	Other Deposits[2] *(%)*	Total *(%)*
BANDES (Chile)	304.7		24.3	75.6		100
BECH (Chile)	2,025.2	1	86.2	12.7		100
Caja Social (Colombia)	163.9	80.6		9.3	10.1	100
Banco del Pacifico (Ecuador)	159.0	51.9		40.8	7.3	100
Banco Pichincha (Ecuador)	104.9	74.3		18.8	6.8	100
Banco Federado (Costa Rica)	14.1			81.5	18.4	100
Banco BHD (Dom. Rep.)	111.1	12.5		62.6	24.0	100
Bank of Nova Scotia (Jamaica)	424.4	92.6		4.0	3.3	100

Source: Country studies.

[1]These are savings accounts with a limit of 4 to 6 withdrawals per year.

[2]Deposits with special characteristics, for example, BHD (Dominican Republic) has government-related deposits.

BANDES had balances under $3,000 (1992). In 1992, BECH held 90 percent of the total number of passbook savings accounts in Chile—over seven million—with average balances of US$218; this represented 19 percent of the total passbook savings in the country. A small proportion of BECH's passbooks savings, about one percent ($20 million), was in highly liquid non-interest-bearing savings accounts (*ahorro a la vista*). According to interviews with microentrepreneurs,[8] these savings accounts are often used to deposit checks that would otherwise be difficult to cash in Chile. Such uses seem to reflect microentrepreneurs' demand for other financial instruments.

Savings instruments in the financial markets of Jamaica, the Dominican Republic, and Costa Rica differed from those in Colombia, Ecuador, and Chile. The Jamaican bank, Nova Scotia,

[8]These interviews were part of the research conducted in Chile with microentrepreneurs.

was one of two banks that together account for 50 percent of all banking outlets among 11 banks in the country (IPC, 1994). In the Dominican Republic, two major banks among 14 captured about 63 percent of the passbook savings. The Banco BHD ranked sixth with 2.6 percent of the total passbook savings of commercial banks, concentrating on time deposits and special "investment certificates" (Pellerano, 1995). In Costa Rica, Banco Federado as a commercial bank was not allowed to offer passbook savings or short-term deposits (with less than 90-day terms, only permitted for state banks) and mainly relied on "investment certificates" and other types of deposit "certificates."

Caja Social lead the FFIs studied in mobilization of small savings accounts. According to 1993 data, Caja Social had some 900,000 savers, with an average balance of $214 per account. The vast majority of these account holders (99 percent) were individuals and about 43 percent of them were women. Table 3.8 shows the distribution of all savings accounts in Caja Social. As shown, about 35 percent of the savings accounts balances were under $615. For Caja Social, savings services are also a means of establishing client history, which is taken into account when evaluating credit applications. Twenty-five percent

Table 3.8 Caja Social: Distribution of Savings Accounts (as of December 31, 1991)

Range *(US$)*	*US$(000)*	Percentage
< $246	26,275	20
$246–$615	20,436	15
$615–$1,231	21,763	16
$1,231–$6,159	44,057	33
$6,159–$12,318	9,289	7
$12,318–$24,637	4,379	3
$24,637–$61,593	3,185	2
$61,593–$123,187	1,062	1
>$123,187	2,389	2
Total	132,834	100

Source: Country study.

of the 128 branch offices of Caja Social (1994) were located in low-income neighborhoods; another 30 percent were in low-to-medium-income neighborhoods in 41 Colombian cities and smaller towns. It is important to note that Caja Social's borrowers number about 13 percent of savers (some 120,000 borrowers out of 900,000 savers).

Caja Social differs from most FFIs in the study region in that it recognizes the savings potential of medium- and low-income groups. In addition to mobilizing deposits from this clientele, Caja Social derives information about individuals' ability to put money aside, which figures into its assessment of a customer as a potential borrower. Thus savings mobilization gives the institution two returns: funds for lending and information about the financial habits of their clients. Among FFIs reviewed in this study, those that provided savings and deposit services demanded by the low-income microenterprise client group also provided other financial services appropriately tailored to this group.

Data from countries outside the region indicate that saving among low-income people is possible. Highly liquid passbook savings have been found to be popular in other countries. For example, the most successful savings instrument of Indonesian banks was a highly liquid passbook with lower interest rates than time deposits or traditionally less-liquid savings accounts (Christen *et al.*, 1994). A survey of microentrepreneurs conducted by ACCION International of 694 microentrepreneurs in Latin America found that about 35 percent of the men and 36 percent of the women saved in institutions, and about 25 percent of both male and female microentrepreneurs kept their savings at home (Restrepo and Reichmann, 1995). ACCION's study concluded that a significant number of poor microentrepreneurs' families had savings.

Savings schemes for low-income people should ensure convenience, security, liquidity, and returns (Robinson, 1994).[9] Caja Social's savings instruments have several features that match the features of services used by lower-income groups. These include:

- very low minimum savings required to open an account;
- broad network of bank branches throughout the cities;

[9] Robinson analyzes the case of the Bank Rakyat Indonesia (BRI), a state-owned commercial bank with considerable success in the mobilization of rural savings.

- access to a national network of automatic teller machines (ATMs);
- savings history considered in credit analysis; and
- competitive interest rates.

Our research of savings and deposit mobilization seems to indicate that institutions that mobilize large numbers of small savers (such as those in Chile, Colombia, and Ecuador) are more in tune with the socioeconomic profile of microentrepreneurs. In countries with restrictions on savings mobilization (e.g., Costa Rica), or in which a bank has a dominant market share (e.g., Jamaica), there might be fewer incentives for banks to establish closer relationships with low-income savers and borrowers, including women.

Conclusions and Recommendations

In at least in three of the countries studied—Chile, Colombia, Ecuador—the results from the bank case studies proved useful in beginning to identify a group of commercial banks that can play a leadership role in providing financial services to the microenterprise sector (and within this sector to women microentrepreneurs).[10] These banks have a large percentage of their total number of loans invested in small loans and derive a large proportion of their funds from small individual savings accounts. This institutional profile was less evident among the banks studied in Costa Rica, the Dominican Republic, and Jamaica.

The microenterprise sector is formed by a heterogeneous group of economic units and individuals. Commercial banks may not offer financial services for the "poorest of the poor." However, some of these banks have financial services with the characteristics demanded by more developed microenterprises (or low-income individuals who

[10]The research project also included a series of regional seminars attended by a variety of FFIs. Additional banks and other FFIs that could play such a leadership role include: Banco Bamerindus (Brazil), Banco Institucional Cooperativo (Argentina), Banco Weise (Peru), Cajas Municipales de Ahorro y Crédito (Peru), Banco Agrícola Comercial (El Salvador), Multicredit Bank (Panama), NAFIN (Mexico), Banco Interfin (Costa Rica), Workers Bank (Jamaica), Trafalgar Development Bank (Jamaica), and Eagle Commercial Bank (Jamaica).

are not among the poorest). Among loans for microentrepreneurs, it is still the case that banks prefer larger loan sizes; however, as evidenced by their portfolios, these banks allow for flexible collateral and small loans for all business purposes. This finding supports the thesis that government regulatory requirements on the banking sector that generate greater competition among banks also promote institutional responses that lead to the development of more efficient financial technologies.

The institutional mission of these banks is a key factor in determining their involvement in the microenterprise sector and in developing ways to reach lower-income groups more efficiently and effectively. Among the banks studied, Caja Social, BANDES, and Banco del Pacífico recognize that certain segments of the population are excluded from mainstream financial services. Thus these FFIs have branches in areas convenient to lower-income groups, and have financial products that respond to their socioeconomic profile. Although women are not specifically targeted as clients, among the banks studied, those with a microenterprise portfolios do reach women and are contributing to expanding their access to credit.

Other banks in the study—such as BHD (Dominican Republic) and Banco Pichincha (Ecuador)—also sought a share of the microenterprise market. Competition with other banks and the vitality of small enterprises and microenterprises led these banks to consider the viability of taking a more targeted approach for this sector.

Based on this analysis of the case studies, a number of measures can be recommended for promoting greater access to financial services among microentrepreneurs:

- *Awareness Building*. Banks that participated in this study identified awareness building of high-ranking executives, in addition to technical staff, as an important way to become more active in microenterprise lending. An understanding of the microenterprise sector among bank staff is seen as critical to improving financial services to the sector.[11] As a result of this study, some of the partic-

[11] In interviews, bank executives and technical staff involved in microenterprise lending emphasized how little information exchange there is among commercial banks and other FFIs about operations with the microenterprise sector. Most microenterprise activities are oriented to and executed within the NGO community.

ipating institutions were pleasantly surprised by their own data on microentrepreneurs' activities and demand characteristics for financial services, women's participation, their high percentage of small loans, and the large proportion of small savings accounts.

■ *Best Practices.* Rather than merely concluding that banks tend to focus on big deposits and big loans, development practitioners should become aware of the commercial banks that are lending to microenterprises (United Nations Expert Group, 1994). In addition to recognizing the core group of NGOs successful in microenterprise finance, it is important also to focus on the "best practices" of the commercial banks (and other FFIs such as financial companies) engaged in successful microenterprise finance.

Current efforts to discuss and promote microenterprise financial services focus on special banks—Grameen Bank (Bangladesh), BancoSol (Bolivia), and BRI (Indonesia)—that target low-income people. These discussions about microenterprise finance exclude traditional private commercial banks. This study demonstrates that banks can provide the types of financial services demanded by microenterprises. To advance the development of financial technologies most appropriate for the microenterprise sector, this group of banks (and other FFIs) should be recognized as part of the core group of institutions with potential to serve microenterprises. They should be brought into discussions of best practices and future innovations that will help to move the field forward and expand the access of men and women microentrepreneurs to sustainable sources of financial services.

■ *Efficient Access to Government Lines of Credit.* Some of the commercial banks studied expressed limited interest in the microenterprise credit programs of multilateral agencies, which are administered through government programs, because of high costs (in terms of time, logistics, reporting requirements, and risk resulting from delays in negotiations). These banks did not lack interest in the microenterprise sector, but in the financing schemes proposed to FFIs by governmental agencies. More expeditious and efficient schemes could help to wholesale funds for the microenterprise sector.

■ *Specific Banking-Industry Effort.* Promoting additional microenterprise finance among banks will require efforts by the international and local development community and by the finance industry itself. For example, technical microfinance seminars with a banking orientation could be sponsored for financial institutions that already have the institutional commitment and the financial capability to reach underserved populations. To date, most microenterprise finance activities and research have been oriented to NGOs—although these activities might include some bankers.[12] However, bankers do not "speak the same language as NGOs" and thus need different types of information. Also, special activities targeted to bank technical staff working with microenterprises can help to raise their own visibility and status within the banking industry.

■ *Savings.* It appears that, at least among some institutions, mobilization of savings from middle- and low-income groups is a significant indicator of whether an institution provides financial services to microentrepreneurs. Further research is needed to determine whether women microentrepreneurs are better served by institutions that derive funds from small savings. Institutions promoting microenterprise finance should make other FFIs aware of their success in mobilizing savings among low-income groups and how to use this information to evaluate potential borrowers. FFIs currently in microenterprise finance can offer savings mechanisms to build clients' debt capacity and creditworthiness (Adams and Von Pischke, 1994). Other FFIs may be able to benefit from Caja Social's experience of using clients' savings histories in assessing creditworthiness. This is an area that requires additional research.

■ *Personal Banking.* Banks with an interest in personal loans seem to be more adaptable to the socioeconomic characteristics of women microentrepreneurs. These banks' flexibility allows consideration of additional personal information about the borrower and acceptance of less traditional forms of collateral. Future research

[12] Generally, in major international microenterprise events, the few bankers are outnumbered by NGO representatives.

should evaluate how personal credit is used to finance business activities by other non-bank financial institutions (e.g., financial companies). Are women's business activities more likely than men's to be financed under "personal" loans? What are the benefits and limitations of such loans?

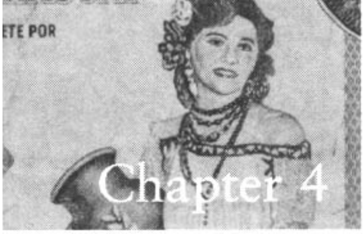
■ *Policy and Regulatory Issues.* For the past decade, Latin American and Caribbean countries have experienced various forms of financial sector reform. Among the most important changes in regulations—with effects in the supply of financial services—are liberalization of interest rates, elimination of subsidized interest rates, elimination or reduction of directed lines of credit, decreased participation of the state banking sector, and reduced reserves and capitalization requirements. Among the commercial banks studied, those in Chile, Colombia, and Ecuador had more advanced financial reforms and were part of a more competitive financial sector than the banks in Costa Rica, the Dominican Republic, and Jamaica. The institutions in the former group provided a broader scope of more competitive microenterprise loans than the latter group.

Revision of regulatory requirements should evaluate their effects on financial institutions' ability to provide adequate financial services to lower-income populations and microentrepreneurs. For example, minimum provisions required on personal guarantees in lieu of collateral affect the flexibility and costs of granting loans to microentrepreneurs. Reserves requirements on savings accounts affect FFIs' availability of funds for lending. Control of interest rates (for both credit and savings) limits the ability of FFIs to cover their total costs, creating disincentives to invest in smaller loans.

■ *Microentrepreneurs as Clients.* The banks studied did limited market research on clients' socioeconomic profiles. Further collection and dissemination of data is needed on women's access to financial services in order to broaden awareness of the level and kinds of services available.

As indicated in their responses to our study's exploratory research of demand, microentrepreneurs lack information or are misinformed about financial institutions, particularly with respect to credit. Microentrepreneurs assume that banks charge higher interest rates than informal lenders and NGOs, that banks do not lend small amounts, and that they require real estate as collateral. The case studies show, however, that among the banks that supply microcredit, interest rates were equal to or lower than those of NGOs. Moreover, the guarantees required were based on ability of the borrower and the co-signers to pay. Women tend to have less information about available financial services.

As markets become more competitive, FFIs in search of new markets find it useful to educate microentrepreneurs about their financial services. As evidenced by Caja Social, BANDES, and Banco del Pacífico, bank staff need to seek out new clients. FFIs could also benefit from more adequate financial marketing based on clients' socioeconomic profiles. For example, the radio station used for a promotional radio program would have to evaluate the extent to which it reaches both male and female listeners. Institutions promoting women would need to educate financial institutions about women's changing socioeconomic conditions (e.g., more education, lower fertility rates) and their increasing participation in the economy (as workers and entrepreneurs). Statistics on clients contribute to the analysis and monitoring of financial institutions' ability to reach new clients and maintain old ones. Such information can provide more fine tuned-knowledge of local limitations and opportunities within the financial systems.



Credit Unions and Women Microentrepreneurs: An Effective Partnership

Credit unions (CUs) are distinguishable from other financial intermediaries by their member-ownership. In general, in order to receive financial services through a CU, one must be a member. Being a member means paying into the share capital, thereby participating in the ownership of the institution. Its larger benefit is in creating a "service orientation" in the management and staff of the institutions that are structured this way.

Member-ownership usually ensures that management tries to serve the interests of both its customers and its owners—in this case, the same people. Members of CUs often share a common bond—such as working in the same establishment or living in the same community—and this leads the member-owners to share common expectations about services and the proper function for a financial intermediary. A typical CU has a membership, at a given point in time, of about three to six savers per one borrower.

In many areas of the world, CUs constitute one of the few fully savings-based institutions involved in financial services to middle- and low-income groups (Rhyne, 1994). They intermediate funds between savers and borrowers and ensure that loan resources remain in the community from which the savings are mobilized (Magill, 1994). According to Otero and Rhyne (1994), the only major microenterprise programs to have reached an advanced level of self-sufficiency are CU movements in a few countries and the BRI Unit Desa system in Indonesia.[1] Among low-income populations, the major pillar of CUs has been savings (Zander, 1994).

In Latin America and the Caribbean, credit unions whose membership is based on place or type of employment (e.g., teachers, factory workers, government workers) have been the most common. These are "closed bond" credit unions, i.e., only those with the common bond of employment can join it. Closed bond CUs were more common in urban areas where formal employment was available. Many developed as a result of the effort of workers' unions to obtain financial services (credit and savings). Open bond CUs were common in rural areas where members were more closely acquainted with each other because of their shared area of residence or parish. It was only in the past ten to fifteen years that some bigger urban-based credit unions began to open their membership and to accept members from other than their traditional "common bond," such as self-employed workers and microentrepreneurs (usually from the informal sector).

Today the national credit union sector in the countries studied consists of a few credit unions that together encompass about 50 percent of the sector's total consolidated assets and a large number of small credit unions. The latter are among the more traditional closed bond credit unions serving a group of employees. Some small CUs have been unable to change to more dynamic financial intermediaries as a result of weak leadership and management, as well as inability to offer more competitive financial services to their members.[2] Another factor that affected credit union development in many countries has been regulations such as ceilings on interest rates that

[1] Otero and Rhyne (1994) identified four stages in the process of achieving self-sufficiency: (a) programs are highly subsidized, with grants and soft loans to cover operating expenses and establish a revolving fund; (2) programs borrow funds near market rates; revenues cover part of operating expenses but grants are still necessary; (3) subsidies are nearly eliminated, but some element of subsidy continues; and (4) programs are fully self-sufficient, financed by savings and funds raised at commercial rates from formal financial institutions.

[2] Closed CUs had financial products which were more adequate for salaried workers (e.g., whose regular income might be paid biweekly). The open bond CUs have products that respond to the characteristics of self-employed and microentrepreneur members (e.g., whose income varies month to month or whose payments from clients might be delayed).

remained unchanged until recently and limited the CUs' ability to offer more competitive financial services.

The country studies included five top, open bond CUs:[3] Cupocredito (Colombia), with 104 branches concentrating in the capital and surrounding rural areas and expanding into smaller cities and rural areas; Coocique (Costa Rica), with five branches in semi-rural areas of the country; San Jose de las Matas (Dominican Republic), with one office; Progreso (Ecuador), with a main office and three agencies in the outskirts of Quito; and City of Kingston (Jamaica), with one main office.

This chapter discusses these case studies in detail and shows that CUs offer the types of services (credit, savings, check cashing, money transfer) compatible with poor women's business strategies, particularly services responding to both enterprise and household objectives.

Credit Services

Women's Access to CU Credit Services

Women constituted a significant proportion of the memberships of the five credit unions studied—between 30 percent and 45 percent. With over 290,000 members, Cupocredito had the largest CU membership in Colombia (30 percent women); the City of Kingston Credit Union was the largest CU in Jamaica with 55,000 members (45 percent women). In Costa Rica, Coocique with 41,000 members was the largest credit union (37 percent women). Progreso was the third largest Ecuadorean CU with 32,000 members (42 percent women). San Jose de las Matas in the Dominican Republic has a membership of over 6,000 (30 percent women).

However, the large number of women members does not always translate into a proportionate number of women elected to positions of leadership. Typically, one of the 7 to 11 members of a CU board of directors is a woman—often acting as secretary of the board. The

[3]The Chilean country study did not include a credit union. Each country study was restricted to a maximum of four institutions and it was not feasible to include a credit union in this country. There are 90 credit unions in Chile.

lack of women in elected leadership positions may be related to the historical development of CUs in Latin America.[4] However, this traditional orientation seems to be changing, as shown by the increasing tendency within CUs to have women in administrative and management positions, reaching levels of 50 percent or more among total CU employees and about 30 percent in executive positions.

A significant number of the women members of CUs are heads of households. A study of women in cooperatives conducted in Colombia (Salamanca, 1992) found that about 20 percent of women members did not have a male partner. In addition, 43 percent of the women had sole economic responsibility for their homes. The increasing economic participation and contribution of women is an issue that leaders of the CUs studied have not yet examined closely as part of their expansion strategies. The "no discrimination" principle of cooperatives is not measured by empirical data on service coverage and leadership participation. CUs tend to maintain a traditional view of women's role in society. The education programs of the CUs studied included so-called "women's" courses in traditional areas (sewing and cooking).

Distribution of Small Loans by Gender

On average, women obtained about 38 percent of the loans in the five CUs studied. Progreso had the largest proportion of borrowers who were women (48 percent). Table 4.1 shows the extent of women's participation in microenterprise borrowing in all five CUs.

Among the CUs studied, *total* outstanding loans in 1992 ranged from $3 million for Progreso (Ecuador) to $7.8 million for Coocique (Costa Rica), to $72 million for Cupocredito—a rather special case because of its large volume of operations. Most of the CUs studied had loan portfolios made up primarily of microloans, i.e., loans less

[4] The lack of participation in the CU elected leadership (each CU member has one vote) reflects the low participation of women at the community and unions level from the 1950s to the 1970s, a period during which existent credit unions were founded, primarily by union and/or parochial leaders. For example, in Colombia, women's right to vote passed in 1948 and it continued to be an issue of debate during the 1950s (Velásquez, 1995). Only in the past two decades have women begun to occupy leadership positions and to compete for them. See Scott (1994) for a discussion on how women's organizational participation has been segregated in Latin America.

than \$5,000. About 70 percent of credit union loans in Colombia, Ecuador, and Jamaica were less than \$1,500. Credit unions can make substantial contributions to the local microfinance market. For example, Cupocredito, the largest CU studied, supplies 23 percent of its total portfolio for microenterprise and related productive purposes.

Among women borrowers in the Colombian, Jamaican, and Ecuadorean CUs studied, the greatest proportion of loans fell in the smallest categories. In the Costa Rican and Dominican CUs studied, the size of women's loans ranged more widely (Table 4.2).

Activities Financed

The CUs studied finance a variety of activities (Table 4.3). A broader range of loans and clients helps CUs diversify risks. The loan portfolios of the CUs studied included loans for microenterprise and other productive activites (over 23 percent), housing purchasing and improvement (over 20 percent), household related expenditures and human capital (e.g., education) investments (over 30 percent in most of the CUs studied). The loans disbursed by CUs reflect some areas

Table 4.1 Credit Union Microenterprise Loans Outstanding Portfolio (as of December 31, 1992)

Credit Union	Outstanding Microenterprise Loans		Average Outstanding Loan (US\$)	Women's Participation (Number of Loans) %
	US\$Million	*Number*		
Cupocredito (Colombia)	17.3	25,274	687	44
Coocique (Costa Rica)	1.5	1,000	1,560	30
San Jose de las Matas (Dominican Republic)	3.0	1,616	1,856	32
Progreso (Ecuador)	3.0	3,433	874	48
City of Kingston (Jamaica)	1.0	4,909	218	37

Source: Country studies.

Table 4.2 Distribution of Credit Union Loans Outstanding (Number) by Size and Gender (as of December 31, 1992) *(percentage)*

Range in US$	Men	Women
Cupocredito (Colombia)		
< $1,247	71	77
$1,247–$6,234	25	21
$6,234–$12,468	3	2
>$12,468	1	0
	100	100
Participation by Gender	56	44
Coocique (Costa Rica)		
<$500	28	31
$500–$1,000	21	25
$1,000–$5,000	51	44
	100	100
Participation by Gender	69	30
San Jose (Dom. Rep.)		
< $400	8	9
$400–$800	9	21
$800–$1,600	17	20
$1,600–$4,000	32	27
$4,000–$10,000	22	17
>$10,000	12	6
	100	100
Participation by gender	68	32
Progreso (Ecuador)		
<$500	36	41
$500–$1,000	49	51
$1,000–$5,000	15	8
	100	100
Participation by Gender	52	48

(continued)

Table 4.2 Distribution of Credit Union Loans Outstanding (Number) by Size and Gender (as of December 31, 1992) *(percentage)*
continued

Range in US$	Men	Women
City of Kingston (Jamaica)		
<$452	67	61
$452–$1,113	17	15
$1,113–$2,557	7	9
$2,258–$4,515	4	2
$4,515–$6,772	2	0
$6,772–$11,287	2	4
	100	100
Participation by Gender	63	37

Source: Country studies.

Table 4.3 Credit Union Distribution of Total Loans Disbursed (Volume) by Activities Financed, 1992 *(percentage)*

Purpose of Loans	Colombia Cupocredito	Costa Rica Coocique	Dom. Rep. San Jose	Ecuador Progreso	Jamaica C. of Kingston
Microenterprise/ Business Related	23	26	58	38	39
Agriculture	5	11		1	
Household Related and Human Capital Investment	30	42	15	33	33
Housing (Purchasing and Improvement)	30	21	22	22	21
Other	12		5	6	7
Total	100	100	100	100	100

Source: Country studies.

not commonly financed by microenterprise programs, but nevertheless of major importance to women microentrepreneurs, such as housing improvement loans.

Women's demand for loans related to household activities is today acknowledged in the literature on women and financial services (Morris and Meyer, 1993a; Teyssier, 1993). As indicated by the basic data in the case studies on the types of activities financed, CUs offer a variety of credit lines important for women microentrepreneurs.

The CUs in the case studies encouraged members to build up their savings rather than withdraw them for expenses or investments. This practice helps members to maintain a proportion of their assets in savings, which they can in turn use to obtain loans for a variety of purposes. The types of loans available from CUs are similar to those commonly demanded by microentrepreneurs' families.

According to ACCION International's survey of men and women microentrepreneurs (Restrepo and Reichmann, 1995), women microentrepreneurs spent about 39 percent of their family income on household expenses (human and housing-related investments), about 51 percent on reinvestment and capitalization of their businesses, and 8 percent to pay debts and for savings. This resembles spending by men microentrepreneurs, who were found to use 33 percent of their family income on household expenses, 59 percent on their businesses, and 6 percent among savings, debt payment, and other financial needs.

A study of women microentrepreneurs in Central America (Fundación Arias, 1993) found that women often request loans larger than their capacity to pay or request loans smaller than they require. This "too large" or "too small" tendency was attributed to the pressure on women to use business financing to cover immediate household needs. The various types of loans offered by CUs can provide useful alternative financing mechanisms in these cases.

Credit Characteristics

Interest Rates. In general, the CUs studied tended to charge loan interest rates equal to or higher than those of commercial banks but lower than the effective rates of NGOs (Table 3.4).

Collateral. Collateral requirements for CU loans vary according to loan type. For microloans, which are the largest proportion of loans, the most common guarantees required are co-signers (preferably another CU member) and savings. Processing of this type of loan is low-cost and expeditious—in some cases, almost automatic. Maximum loan amounts are determined by a multiple of savings. Among the CUs studied, San Jose used the highest multiple, with loan amounts equivalent to ten times savings. Cupocredito's multiples vary from 5 to 6.5 times savings. Although the savings base determines the possible amount that can be borrowed, the *main* factor in evaluating the loan is the borrower's debt capacity and past credit history.[5]

Member-ownership is a significant factor in signature and co-signature lending. To the extent that members, management, and staff share an interest in maintaining the health of the CU, member borrowers should be expected to repay their loans promptly. This relationship between borrower and lender is somewhat different from the standard borrower/lender relationship. Still, lending carries commercial risks and, even for CUs, as loan amounts increase, more traditional forms of collateral, such as real estate, are required. CUs are required to follow regulations, and external audited financial statements are reported to the supervisory authority.

Loan Maturities and Repayment Schedules. The CUs studied offered a variety of loans, with loan maturities somewhere between less than one year to three years. Monthly payments were the most common method for loan repayments. However, the CUs also offered special lines of credit with more flexible repayment arrangements (e.g., seasonal payments for agriculture-related loans).

Microenterprise-Oriented Methodologies. In contrast to the banks and the NGOs, the CUs studied have not developed any special

[5] The use of savings as part of the collateral and the maximum loan borrowing capacity based on a multiple of a member's savings and shares might discourage microentrepreneurs from joining credit unions. Some of the CUs studied have increased their multiple from three times to seven and even ten times the minimum savings balance in order to provide larger loans and accomodate microenterprises.

methodologies to reach microentrepreneurs (such as microenterprise centers, microenterprise promoters, or specific technical assistance programs). However, member-ownership creates the type of information flows needed to develop appropriate financial services for the membership, which generally includes microentrepreneurs —in significant numbers in some branches. Thus the very methodology of CUs helps them to reach microentrepreneurs, including low-income women.

The open bond is one of the changes that has made today's CUs more appealing to microentrepreneurs. In Colombia, for instance, traditionally "closed" credit unions opened their membership both as a strategy for expansion and because of loss due to privatization and the downsizing of many governmental and private enterprises.[6] In other cases, CUs have opened their membership to serve individuals with whom they already have some relationship, for example, subcontractors, suppliers, and self-employed providers of services, many of whom are microentrepreneurs. As CUs grow and change to an "open bond," new ways are needed to develop relationships with potential members. A common practice found among the largest CUs—Cupocredito, City of Kingston, and Coocique—is the development of linkages with other institutions (e.g,. NGOs and government institutions).

In many neighborhoods and communities, the CU is the only financial institution. In addition to their financial intermediation services—savings and credit—CUs provide services such as venues for utility payments, money transfers, and check cashing. The housing improvement loans they provide are important to the community's "social capital."

Repayment Rates. The CUs tended to have higher delinquency rates than banks for loans up to 90 days overdue. On loans more than 90 days overdue, the delinquency rate was about the same (as of December 31, 1992, for example, these rates were 1.3 percent for Cupocredito and 2.5 percent for Coocique). When CUs were closed, they had better access to information about borrowers and thus lower delinquency rates. Now that they are becoming open, CUs

[6] Many displaced workers seek microenterprise as an alternative to loss of employment.

Table 4.4 Credit Unions: Operational Expenses as a Percentage of Outstanding Loans (as of December 31, 1992)

	Operational expenses to Outstanding loans *(%)*
Cupocredito (Colombia)	12
Coocique (Costa Rica)	13
Progreso (Ecuador)	18
San Jose de las Matas (Dominican Republic)	10
City of Kingston (Jamaica)	28

Source: Country studies.

Note: The most commonly used measure for this indicator is average outstanding loans. Due to lack of data, for purpose of this calculation, total outstanding loans as of December 31, 1992, was used.

need to learn new ways to screen and evaluate new clients. City of Kingston had the highest delinquency rate (7 percent).

Operational Efficiency

All the CUs studied are self-sufficient and do not receive any type of external subsidy to cover their operational expenses. Funds for loans come from members' savings and capital shares.

Table 4.4 presents annual operating expenses as a percentage of outstanding loans for the CUs studied. This percentage varied from 12 to 28 percent—a range that falls within that identified by Christen *et al.* (1994) for successful institutions providing microenterprise credit.[7]

The CUs managed over 250 loans per credit analyst per year, making them more productive in processing loans than both the banks and the NGOs. Including all types of loans, the average number of disbursed loans per credit analyst was: 260 for San Jose, 487 for Coocique, and 806 for Cupocredito. These high productivity levels are related to the loan approval processes discussed above. High

[7]For the institutions identified by Christen *et al.*, ratios of operating expenses to outstanding loans ranged from 9 to 35 percent. The institutions included: ACEP (Senegal), Actuar (Colombia), Bancosol (Bolivia), BRI (Indonesia), BKK (Indonesia), BRK (Niger), FINCA (Costa Rica), Grameen Bank (Bangladesh), K-REP (Kenya), and LPD (Indonesia). They also include some information on ADOPEM and ADEMI (Dominican Republic).

loan volumes per loan officer resulting from low-cost appraisal and loan guarantee methods help CUs keep the nonfinancial costs of lending low. Volunteered leadership services (particularly in the case of credit committees for larger loans) also help CUs keep their costs down. When they have an engaged and active membership, CUs have a relatively high level of operational efficiency.

A major limitation to increased efficiency among CUs was computer technology. All the CUs had computerized systems that allowed them to keep updated member records regarding savings and loan operations as well as financial statements; however, it has been a challenge for the largest CUs with branch operations to have on-line systems through which records can be accessed in multiple locations, thereby enabling members to use services in different branches. Cupocredito, with several branches in the city of Bogota, must compete with other financial institutions who have the most modern technology. When CUs first faced financial technology limitations, they innovated. For example, when ATM machines were made available by banks, CUs extended their service hours with a special window ("personal teller"). More recently, however, CUs have been able to catch up with technological advances. Coocique was the first financial intermediary to have an automatic teller machine in a rural area.

In Colombia and Costa Rica, where the CU system (i.e., several CUs affiliated) has a bank, CUs have been able to access more expensive financial technologies as a result of economies of scales, such as being part of the national ATM network, as well as credit and debit card systems. This facilitates access to ATM machines in big cities such as Bogota, saving CU member time and transportation costs (a bus ride from the southern part of the city to the center might take one to two hours).

Savings by Credit Union Members

The proportion of members who were women in the CUs studied ranged from 30 percent in San Jose de las Matas CU to 45 percent in City of Kingston CU, with an average of about 42 percent for the others.

In an exploratory sample of 3,356 passbook savings accounts in Coocique (data for January 1994), women represented 40 percent of the accounts and 30 percent of the savings balances. The average savings balance was $787 for male members and $511 for females. Data (as of December 1993) from a branch of Cupocredito in Bogota indicate that among 1,373 members, 42 percent were women. The average savings balance was $106 for men and $80 for women.

Table 4.5 presents levels of passbook savings, fixed deposits, and share capital for the five CUs studied. Average members' balances (savings+deposits+share capital) are highest in San Jose (Dominican Republic) with $700, and lowest in City of Kingston with $124. In Cupocredito, the largest CU of the group, the average savings balance was about $300. In each of the CUs studied, members' resources (savings and share capital) constitute the main source of funds for lending, but the proportion of borrowers to savers varies greatly. In Cupocredito and San Jose, the number of borrowers is about one third that of savers. In Coocique, there are more than 10 times as many savers as borrowers. In Progreso, there are twice as many savers as borrowers. Members who save are one of the most important stakeholders in a CU. Debtor-dominated CUs tend to loose their operational viability, weakening the checks and balances between savers and borrowers (Poyo, 1992).

Table 4.6 illustrates the distribution of saving balances for Coocique, a semi-rural CU. The largest number of savings accounts (37,515) are in liquid savings passbooks, which have an average balance of $81. Fixed term deposits are also available to members. The CU lends on a multiple of savings balances, so a member with $100 in her savings account can have an immediate loan of $300 for an emergency. Coocique introduced ATM and credit cards to its community a few years ago. For CU members these new technologies save time and transaction costs.

Cupocredito and the City of Kingston each have a large percentage of members' savings in capital shares. This is important because return on shares depends on having a surplus at the end of the fiscal year. For many national CU movements, paying a positive interest rate on savings is a major issue because, in some cases, old cooperative laws fix their rates, causing lower returns on members' shares (and savings). This has been the case in Jamaica, for example,

Table 4.5 Credit Unions: Savings per Member (as of December 31, 1992) *(US$Millions)*

Credit Union	Savings Passbooks	Time Deposits	Share Capital	Total	(Savings+Deposits+Shares) per Member *(US$)*
Cupocredito (Colombia) Total No. Members: 290,000 Women Members: 30%	24.2	17.8	45.1	87.1	300
Coocique (Costa Rica) Total No. Members: 41,000 Women Members: 37%	4.5	5.8	3.2	13.5	329
San Jose de las Matas (Dominican Republic) Total No. Members: 6,000 Women Members: 30%	1.0	2.2	1.0	4.2	700
Progreso (Ecuador) Total No. Members: 32,000 Women Members: 42%	1.9	0.2	2.4	4.5	141
City of Kingston (Jamaica) Total No. Members: 51,000 Women Members: 45%	0.5		5.8	6.3	124

Source: Country studies.

where until 1992 both saving and loan rates were fixed by the government-appointed Registrar of Cooperatives. In contrast, CUs in the Dominican Republic and Costa Rica have a lower proportion of funds in capital shares and a higher proportion in fixed-term deposits and passbook savings.

In Colombia, CUs represent a significant factor in financial markets. A 1992 study found that the capital base of CUs was equivalent to almost 10 percent of the capital of the formal financial system in the country (Vesga and Lora, 1992). The authors suggested that, with this large capital base, Colombian CUs could increase their leverage and mobilize more savings. For example, in December 1992, Cupocredito had some $45.1 million in share capital, about 52 percent of members' total savings of $87 million (Table 4.5). As CUs face stronger competition to capture savings, they have changed their financial structure based on a high capital base to a structure of higher-interest-paying savings instruments such as daily interest savings accounts and time deposits.

CUs in Latin American and the Caribbean generally are supervised by a governmental agency dedicated to the cooperative sector. CUs are required to present externally audited financial reports to the government cooperative agencies. The supervisory capabilities of these agencies vary by country, but in general they lack the human and financial resources to do the job adequately.

These institutional weaknesses have been compounded by the fact that many regulations governing CUs have more to do with

Table 4.6 Coocique Credit Union (Costa Rica) Savings and Deposits (as of December 31, 1993) *(US$)*

	Fixed Term Deposits		Savings Accounts		Other Savings	
RANGE	Accounts	Amount	Accounts	Amount	Accounts	Amount
Less than $6,600	3,286	4,042,972	36,498	1,147,800	1,869	983,357
$6,601–$19,870	354	3,548,586	914	1,170,450	38	406,281
$19,871–$33,113	56	1,274,534	68	300,012	1	19,868
Over $33,113	37	2,443,264	35	422,403	2	74,715
Total	3,733	11,309,356	37,515	3,040,665	1,910	1,483,220

Source: Country study.

economic policy (e.g., interest rate regulation) than prudent regulation (i.e., the financial health of institutions).

Although regulation and supervision of CUs traditionally has been weak, this was beginning to change during the study period, opening new possibilities for expanding into the microfinance market niche. Since then, CUs have sought to get supervision not from the agencies with responsibility for cooperatives but from the agencies that supervise the banking industry, on such matters as levels of provisions for bad debts, reserves and liquidity requirements, reporting, monitoring, and portfolio risk management.

The role of CUs as financial intermediaries with the ability to mobilize savings in low-income communities requires appropriate supervision. Among the country studies, only in Ecuador were the largest 22 CUs under the supervision of a financial institutions regulatory agency. Recently, however, the Costa Rica FFI supervisory agency (AGEF) began overseeing CUs through a specialized Cooperative Auditing Agency. In Colombia, the FFI supervisory agency has been reluctant to accept even the largest CUs (about 40) due to the large number of institutions it already monitors.

Poyo (1992) recommends that CUs be included within financial reforms and that they be placed under the external supervision of the banking supervisory agency. This will allow CUs to position themselves as part of the local financial systems. Also, as CUs in Latin America become larger and play the role of community financial institutions, capturing a larger share of local savings, their supervision is advisable to maintain public confidence.

Conclusions and Recommendations

Results from the case studies demonstrate that CUs are providers of microfinancial services, and that the financial instruments used by CUs have many of the features identified as appropriate for reaching low-income women and other microentrepreneurs. Women members have the options to save and borrow for a variety of purposes—economic activities, household investments, and human capital investments.

The *credit* features that favor women microentrepreneurs included, among others: long-term relationship with members, minimalist approach (no training required to borrow), nontargeted loans (members decide how to invest loan), diversified portfolio of loans (for working capital and fixed assets, for household and human capital investments), character-based lending as a result of membership from a common bond (other members are used as co-signers), and members' savings balances used as collateral. The *savings* features that favored women microentrepreneurs included: passbook savings and fixed deposits with adequate minimum balances, liquidity (available through different savings instruments), positive and competitive interest rates, and convenient location.

The CUs studied are at an advanced level of development, measured by their installed capacity and operational viability, and thus have considerable potential for expanding services to new members and new geographical areas. In order to expand services in this way, however, CUs need to overcome some of their limitations.[8] Listed below are recommendations for improving services to female and male members:

- *Partnerships with Microenterprise Development Organizations.* Among the CUs studied, partnerships with specialized microenterprise NGOs were rare, although this might be an effective way to learn about potential membership and jointly develop credit and savings schemes. Linkages between NGOs and CUs could expand the variety and coverage of services accessible to microentrepreneurs. One example of such a link is provided by the Carvajal Foundation and the Solidarios Credit Union (Cali, Colombia). In this case, the CU provides financial services to microentrepreneurs trained by Carvajal. CUs could also cooperate with NGOs that have provided effective training and technical assistance to women in microenterprise development projects.

- *Knowledge of Membership and Potential Membership.* To the extent that CUs follow the traditional closed membership model, they are ignoring a large potential membership among microentrepreneurs and other low-income women clients. As their model

[8] For a discussion of the comparative advantages and disadvantages of credit unions, see Adams (1993), Barham *et al.* (1994), and Magill (1994).

shifts toward more open membership and community-based membership, they can serve a broader clientele. Having attracted women microentrepreneurs, CUs will need to broaden their expectations concerning the special needs of these client-members. They will need to acknowledge and respond to the participation of women, especially low-income women (entrepreneurs and employed and independent workers).[9]

If microenterprises are the major providers of employment in many countries in the region, their employees also need financial services. One of the major services demanded by low-income populations with a debt capacity for small loans is housing improvement loans. CUs, as demonstrated by their loan portfolio, can leverage savings from a large segment of the low-income population. In Colombia, for example, CUs have been able to link to housing programs providing an important service to the local communities. CUs can then play a major role as financial intermediaries, mobilizing savings and learning to invest them wisely in such investments as housing. This is particularly important since a large proportion of women microentrepreneurs have their business activities at home.

■ *Industry Standards.* Public reporting of statistical and financial information would help to develop CU industry standards.[10] These standards would serve as a basis for self-discipline, for monitoring CUs, and for developing appropriate regulation. Statistics that include membership information, such as gender, would be useful in reflecting population served, trends in changes in economically active population, and market coverage. Comparisons among CUs within a country and across countries can be useful in promoting more efficient CU services.

■ *Information Systems.* The CUs studied here have made major advances in their information systems. Coocique (Costa Rica), for example, has an on-line system with which their rural branches are

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[9] Women in "maquiladoras," maids, and temporary workers are among the thousands of women without access to financial services.

[10] CU systems in developed countries regularly publish financial indicators and other statistics. Standards are set based on asset size and type of credit unions.

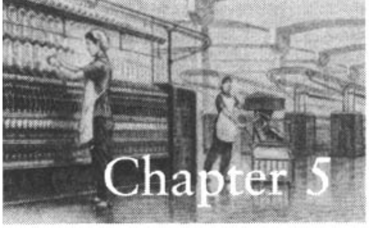
connected. Computerization facilitates both operational and financial efficiency. It also enables data processing capabilities to be used to compile information about members' socioeconomic position, utilization of services, etc. Comparison between men's and women's savings and credit patterns can be useful in learning more about the members' demand, thus making it possible to design improved financial services.

■ *Appropriate Prudential Regulation.* CUs mobilize savings and this fiduciary responsibility requires external regulation and supervision. CUs have been supervised by a national cooperative agency responsible for both monitoring and promotiong cooperatives. This dual responsibility and the variety of types of cooperatives (e.g., consumer, production, agriculture, credit union) makes the supervisory task unattainable with quality technical standards. More importantly, CUs require the type of regulatory environment that assures that they have the flexibility continually to adapt to changing financial and economic conditions so that the value of members' investments is not eroded. A healthy balance of independence from too much government regulation and the ability to use self-discipline through accountability to members, external auditing (in the context of an adequate regulatory framework), and CU industry standards may contribute to a more appropriate regulatory environment.

CUs should maintain their community orientation. It gives them a comparative advantage as financial intermediaries since they have closer access and better information about members or potential clients. Women can benefit from more financial options in their communities.

■ *Identify and Disseminate Best Practices.* As recommended in the previous chapter for banks, there is a need to identify and disseminate best practices among CU services to microentrepreneurs. At the same time, CUs could benefit from the experiences and methods of NGOs effective in reaching microentrepreneurs. As financial intermediaries, CUs have a comparative advantage that needs further development to reach a larger number of low-income populations. CUs have the elements to become a major supplier of financial services to the microenterprise sector, particularly to women. To do so, CUs would need to revise their traditional interpretations about women and respond to the increasing potential of their female membership.

- *Recognize Heterogeneity of the Credit Union Systems.* The operational and financial structures of CUs vary within and among countries. Most of the literature about CUs has resulted from projects financed by international donors. Research is needed on the development of CUs other than those that have depended primarily on external funds for both technical assistance and credit programs. Learning about different paths in CU financial systems development can help to identify more specific strategies and programs for responding to low-income women. For example, bigger CUs with stronger operational capabilities can be more involved in internationally funded projects, while smaller, less developed CUs can better use technical assistance to become viable financial intermediaries.



NGOs: Pioneers in Lending to Women Microentrepreneurs

The efforts made by NGOs to expand access to financial services among microentrepreneurs, especially low-income women, have generated important advances both in level of services provided and in the development of cost-effective methodologies. Otero and Rhyne (1994) refer to the methodologies developed by NGOs as "the new world of microenterprise finance."

One of the most important advances made by NGOs is in reaching a large percentage of women microentrepreneurs. Christen, Rhyne, and Vogel (1994) examined NGOs around the world which offer the most advanced credit services. They found that women account for between 24 percent and 100 percent of the loans of those organizations, with an overall average of 52 percent. The case studies discussed in this volume support those findings.

The eleven NGOs included in this study are a heterogeneous group. Some are among the most advanced in providing microenterprise credit, such as ADEMI (Dominican Republic), Actuar (Colombia), PROPESA (Chile), and Fundación Ecuatoriana de Desarrollo (FED, Ecuador). Others were still newer at providing credit: Avance (Costa Rica), Fundación Dominicana de Desarrollo (FDD, Dominican Republic), and the Jamaican Development Foundation (JDF). Two specifically targetted women: FINAM (Finanzas

Nacionales e Internacionales in Chile) and Fundación Mujer (Costa Rica).[1] Additional NGOs included were FINCA (Costa Rica) and Enterprise Development Trust (EDT, Jamaica).

Credit Services

Women's Access to NGO Credit Services

Distribution of Loans by Gender

Among the NGOs studied, most disaggregated their loan portfolios by gender, making it possible to assess women's access to lending. As shown in Table 5.1, apart from the two NGOs specifically targetted at women, EDT (64 percent) and FED (56 percent) had the largest proportion of its loans granted to women borrowers. However, Actuar had the largest **absolute** number of outstanding loans to women (45 percent of 24,685). Actuar provided over $2 million in loans to women, while FED provided $885,000. The programs that tended to provide a larger share of lending to women also tended to make more small loans, with women often obtaining loans in the range of under $500.

The Christen study found average microenterprise loan sizes from a variety of institutions to range between $38 and $1,016, with a mean of $360 (Christen *et al.*, 1994). However, that study did not address the distribution of the loan portfolio across different loan sizes within that range. The study presented here examines this distribution in order to learn more about microentrepreneurs' demand.

Table 5.2 shows the distribution across loan sizes for selected NGOs in the study. Except for Fundación Mujer (Costa Rica), the greatest proportion of loans (by number) are in the smallest sizes.

[1]The study sought to identify factors that favor or limit women's access to financial services in mainstream institutions (banks, CUs, NGOs). Thus the NGOs targeting women were included only in those countries that did not have more advanced women-oriented NGOs (such as those affiliated with Women's World Banking in Colombia and the Dominican Republic). Avance and FDD were undergoing administrative changes as a result of operational problems (including serious delinquency rates) at the time of the study but were included in order to analyze relevant gender-related issues.

FINAM had the highest percentage share of its portfolio (95 percent) invested in the smallest range of loan sizes, as did PROPESA (93 percent), Actuar (87 percent), and FED (86 percent). Fundación Mujer has the lowest share invested in this category—about 11 percent—resulting from a policy oriented toward micro and small manufacturing enterprises. In 1993, about 45 percent of its clients were enterprises in the garment sector with more than 3 employees.

As discussed previously, loan size is a robust indicator for an

Table 5.1 Women's Share of Outstanding NGO Loan Portfolio (as of December 31, 1992)

NGO	Loan Volume *US$(000)*	Loan *Number*	Average Outstanding Loan *US$*	Participation Number of Loans *Women (%)*
CHILE				
PROPESA	1,086	3,565	305	44
FINAM	292	1,190	245	93
COLOMBIA				
ACTUAR	4,300	24,685	174	45
COSTA RICA				
AVANCE	873	786	1,111	51
Fundación Mujer	300	526	570	100
FINCA	1,181	4,081	289	25
DOMINICAN REPUBLIC				
ADEMI	6,900	9,525	724	37
FDD	1,300	2,210	588	36
ECUADOR				
FED	1,500	4,554	329	56
JAMAICA				
JDF (Kingston Branch)	1,154	669	1,725	n.a.
EDT	245	262	935	64

Source: Country studies.

institution's ability to provide the loans that microentrepreneurs and low-income women entrepreneurs require. The loan sizes for the NGOs studied here, with the exception of Fundación Mujer, indicate that they are able to supply precisely the types of loans that

Table 5.2 Distribution of NGO Loans (Number) Disbursed by Size (1992)

Range *(US$)*	Distribution *(%)*
PROPESA (Chile)	
Less than $790	93
$790–$2,630	7
	100
FINAM (Chile)	
Less than $790	95
$790–$2,630	5
	100
ACTUAR (Colombia)	
Less than $500	87.0
$500–$$1,000	11.0
$1,000–$5,000	1.8
$5,000–$10,000	0.2
	100.0
AVANCE (Costa Rica)	
Less than $500	58.0
$500–$1,000	26.0
$1,000–$5,000	15.0
$5,000–$10,000	0.6
More than $10,000	0.4
	100.0
FINCA (Costa Rica)	
Less than $500	77
$500–$1,000	19
$1,000–$5,000	4
	100

Range *(US$)*	Distribution *(%)*
Fundacion Mujer (Costa Rica)	
Less than $500	11
$500–$1,000	38
$1,000–$5,000	51
	100
ADEMI (Dominican Republic)	
Less than $500	43
$500–$1,000	29
$1,000–$4,000	25
$4,000–$8,000	2
More than $8,000	1
	100
FDD (Dominican Republic)	
Less than $800	70
$800–$4,000	29
$4,000–$10,000	1
	100
FED (Ecuador)	
Less than $500	86
$500–$1,000	14
	100

Source: Country studies.

microentrepreneurs demand. The study did not obtain time-series data on loan sizes and so could not assess a tendency reported by Rhyne (1994) that on successful loan programs average loan sizes increase over time.

The increase in average loan sizes over time may be an effect of the pressure of "per-loan lending costs" on organizations that are trying to recover all of the costs of lending. Per-loan lending costs are fixed costs that are incurred in making any loan, regardless of its size. These fixed costs may be insignificant for large loans that generate sufficient interest income to cover them, but they become increasingly important as loans get smaller. Some of the NGOs in the study sample charge various fees by which to cover some of these fixed costs. For example, Actuar charges one percent and ADEMI six percent of every loan as administrative fee. But if these fees are assessed on all loans equally, regardless of their size, there is still an incentive to increase loan size to better capture the costs of making them. Rhyne also identifies the possible positive explanations for increased average loan sizes, such as larger loans for successful client-enterprises; elimination of institutional funding constraints; and incorporation of broader clienteles.

If larger loan sizes result from institutions gradually recognizing that they cannot cover their costs given their current loan size composition, then this has significant implications for microentrepreneurs, including low-income women entrepreneurs. Because NGOs offer small loans not widely available from other institutions, poorer women microentrepreneurs could be without a financial product fitted to their demand characteristics if NGOs adjust their lending methodologies and features away from microloans toward more remunerative loans. It is important, then, that these NGOs and others continue to improve the methodologies and techniques which allow them to expand both the number and the total volume of loans in the lowest ranges. As some of these institutions consolidate their financial and administrative performance to achieve self-sufficiency, in the short-and medium-term they might need to design specific strategies to increase their average loan size. Such efforts may help to assure and expand the long-term supply of financial services to low-income women.

Activities Financed

Table 5.3 shows the types of activities that NGOs financed, according to the distribution of outstanding loans. Of the five institutions that are ACCION affiliates (Actuar, ADEMI, Avance, FED, PROPESA), all except Avance provided the bulk of their loans for trade activities. For PROPESA (57 percent), FED (62 percent), and Actuar (64 percent), the shares for trade are particularly high. Nearly 50 percent of EDT's (Jamaica) outstanding loans were for trade activities; EDT reaches some of Kingston's most marginal populations. These portfolios reflect the large proportion of women participating in trading activities in their countries' economies.

Costa Rica's NGOs were more oriented to production activities, providing larger proportions of their credit to manufacturing activities (Avance) and agriculture (FINCA). The two women-oriented NGOs, Fundación Mujer (Costa Rica) and FINAM (Chile), distributed their loans almost equally between trade and manufacturing activities (45–46 percent for each).

Table 5.3 Distribution of NGO Loans by Activity Financed based on Number of Outstanding Loans (as of December 31, 1992) ***(percentage)***

NGO	Trade	Manufacturing	Service	Agriculture	Other	Total
PROPESA (Chile)	57	37	6			100
FINAM (Chile)	46	46	8			100
Actuar (Colombia) *(based on volume)*	64	35	1			100
Avance (Costa Rica)	35	51	11		3	100
FINCA (Costa Rica)	5			95		100
Fundacion Mujer (Costa Rica)	45	45	8	2		100
ADEMI (D.R.)	47	33	3		17	100
FDD (D.R.)	3	45	12		40	100
FED (Ecuador)	62	20	17	1		100
JDF (Jamaica)	12	35	39	14		100
EDT (Jamaica)	48	30	22			100

Source: Country studies.

FDD has a policy of not making loans for trading activities (except as part of some solidarity group loans). Much of its financing is for subcontractors in the garment industry and for services (e.g., retail trade food processing). At the time of the study, FDD was channelling more loans to peasant associations.

The NGOs with the largest and most profitable microenterprise portfolios provide lending primarily for short-term, working-capital needs. There are relatively fewer sources of longer-term loans for fixed assets. Regional data for Central America, for example, show that in 1993, 59 NGOs disbursed only 11.9 percent of their loans to women for machinery and equipment and 32.9 percent for working capital (Fundación Arias, 1993). In a survey of borrowers in five ACCION programs in Guatemala, Colombia, Brazil, and Bolivia, male and female owners of micro industries produced less income and savings than did clients in service industries and commerce (Restrepo and Reichmann, 1995). These case studies confirm that there is a limited amount of lending from NGOs for fixed assets and other investments which require longer loan terms. The study did not identify, however, whether this is a supply problem (although long-term lending to the microenterprise sector does not have a good history) or a demand problem. This is an area that would benefit from further research.

The cases of Jamaica and Costa Rica bear further examination with respect to availability of credit for commercial activities. In Costa Rica, none of the NGOs studied has developed to a level of operation similar to NGOs such as ADEMI in the Dominican Republic or PROPESA in Chile. Costa Rica has a smaller population than the other countries, and women participate more in manufacturing than in the other countries (mainly in the garment industry). But none of the NGOs is as advanced in providing credit as some NGOs in other countries.

In Jamaica, the NGO case studies suggest a need to develop credit schemes more tailored to the characteristics of the country's women microentrepreneurs, who are primarily in trade. The case studies also suggest major gaps in the provision of credit to women microentrepreneurs in Jamaica. The Jamaican Development Foundation is oriented toward stable, small enterprises. The Enterprise Development

Trust (EDT), which is oriented toward reaching some of the poorest women entrepreneurs, is still operationally weak.

Credit Characteristics

Interest Rates. NGOs have a variety of approaches to interest rates. ADEMI's effective rate of interest is higher than that of the banks and CUs studied. Actuar (4.2 percent per month) and PROPESA (3 percent per month) charge rates comparable to commercial bank rates. The Jamaican NGOs studied charged between 28 and 39 percent annually on reducing balances—higher than the commercial banks. Sometimes NGOs that are less developed in terms of operational self-sufficiency have the highest interest rates (this was true of both Avance and FDD).

Collateral. Among the NGOs in the study presented here, both solidarity groups and personal guarantees (co-signatures) are accepted by Actuar, PROPESA, FINAM, FED, and EDT, which are the NGOs with highest participation of women. Avance, Fundación Mujer, ADEMI, and JDF require some type of collateral for loans for fixed assets or larger-size loans. Until recently, FDD required the husband's signature for a women to receive a loan.

A Fundación Arias survey (1993) of NGOs in Central America found that, even when NGOs accept co-signatures as a substitute for collateral, poor women faced difficulties in finding co-signers acceptable to NGOs. They found it easier to use as collateral the machinery or other items financed with the loans requested. Among NGOs surveyed, 67.8 percent requested co-signers, 55.9 percent securities (or some form of collateral), 33.9 percent real estate, 13.6 percent did not ask for guarantees, and 8.5 percent used solidarity groups.

Loan Maturity and Repayment Schedules. Among the group of NGOs studied, there was a variety of loan maturities responding to working capital (less than one year loans) or to fixed assets (for one year to four years). For the smaller microloans, ADEMI, Avance, FINAM, and FED had the shortest maturities, less than 10 months.

Actuar offered maturities of up to four years. The most common term for fixed capital was two years. The NGOs had shorter loan maturities than the banks and CUs studied in their respective countries. The most common repayment schedules were bimonthly and monthly.

Credit Methodologies. Perhaps the most important characteristics of credit delivery methodologies are flexibility and variety. FDD, FINAM, PROPESA, and Actuar use solidarity groups and individual loans. FINCA organizes groups of rural producers into village banks that are community savings and loan associations.[2] Village banks develop in two phases. In the first phase, members of the group can borrow up to $365, an amount increased as the loans are paid. In the second phase, the groups with longer and more solid track records, and with an administrative capacity and good criteria for member screening, are legally registered as associations. Members in these associations can apply for loans up to an average of $2,000. Also, members are required to save a periodic amount determined by each group. FINCA is the only NGO in Costa Rica that promotes savings. Village banks have brought financial services to rural communities. Women's participation in Costa Rica's FINCA village banks on average is 25 percent of membership, and this percentage is growing. FINCA programs in other parts of Central America put greater emphasis on women's participation.

All the other NGOs studied lend on individual basis. This allows the service to be adapted to the debt capacity and characteristics of the client. For example, FINAM has played a major role in giving visibility to hundreds of Chilean women entrepreneurs at various levels of enterprise development.

Training. The so-called "minimalist" approach—in which applicants are not required as a condition of the loan to undertake additional training—is the most common way to give credit among the NGOs studied, even though training is available from all the organizations. Women can benefit from optional business training and technical assistance, but are not obligated to undertake it. Obligatory training creates a conflict between the need for a loan

[2]For a detailed description of village banks methodology, see Otero and Rhyne (1994).

and the time available for obtaining one, creating an unnecessary burden for women. The flexibility offered by optional training favors women's access to credit.

Operational Efficiency

In the long-term, if there is to be an available supply of financial services for microentrepreneurs, the institutions must be financially sound. In-depth evaluations of the operational efficiency and financial viability of the institutions were beyond the scope of this study. Instead, information was collected on some indicators of financial soundness and operational efficiency. According to Rhyne (1994), it is particularly difficult to evaluate NGOs without "industry" norms. In addition, there is a lack of transparency and availability of data.[3]

Among the NGOs studied, ADEMI had the largest loan portfolio, with $6.9 million outstanding in December 1992 (increased to $11.3 million in 1993), and Fundación Mujer the smallest, with $0.3 million. The ratio of capital to assets ranged from 21 percent for Actuar to 41 percent for FINCA, reflecting different operational and financial strategies. FINCA has a very basic operation, with most of its capital (as of December 31, 1992) invested in loans. In contrast, Actuar, FED, PROPESA, and ADEMI used debt (short- and long-term liabilities) to finance their operations. Their use of short-term debt reflects their access to financial markets via local financial institutions. Their long-term liability stems mainly from loans from international donors.

Table 5.4 shows a measure of NGOs' operational efficiency. The Christen *et al.* (1994) examination of microenterprise finance places administrative costs between 9 percent and 35 percent of the average outstanding balance of loans. This ratio is an important measure of the cost-effectiveness of lending strategies. It can be interpreted as the nonfinancial cost of each dollar loaned under any given program. It cost FINAM 58 cents to lend each dollar in its loan portfolio, while it took FINCA 18 cents for each dollar loaned. FINAM's cost reflect-

[3] Christen, Rhyne, and Vogel (1994), who evaluated eleven of the most successful microfinance organizations, found that there was a general lack of information.

ed the fact that the NGO had recently begun its credit operations. Along with FINCA, ADEMI (23 percent), Actuar (22 percent), and FED (25 percent) were the most operationally efficient of the NGOs studied.

Another measure of operational efficiency is the number of loans per credit analyst. Some of the most efficient NGOs such as PROPESA, Actuar, and FINCA disbursed over 260 loans annually per credit analyst (Table 5.5).

NGOs differ from other institutions (banks and CUs) in their ability to be efficient for a number of reasons. First, NGO loans are strictly microenterprise-related, while the other institutions also provide loans for other purposes. Second, the methodology NGOs use to process microenterprise loans is different from that used by other institutions. For example, the clients of CUs and banks such as Caja Social have longer savings and credit histories, which facilitates measuring their debt capacity and credit risk. They can therefore process a proportion of their loan portfolio more quickly than an NGO. In comparison, NGOs have fewer years of operations. Furthermore,

Table 5.4 NGOs: Operational Expenses as a Percentage of Outstanding Loans (as of December 31, 1992)

	Operational expenses to Outstanding loans *(%)*
PROPESA (Chile)	37
FINAM (Chile)	58
Actuar (Colombia)	22
Avance (Costa Rica)	40
FINCA (Costa Rica)	18
Fundacion Mujer (Costa Rica)	46
ADEMI (Dominican Republic)	23
FED (Ecuador)	25

Source: Country studies.

Note: The most commonly used measure for this indicator is average outstanding loans. Due to lack of data, for purpose of this calculation the total outstanding loans as of December 31, 1992, was used.

they have developed or are still developing innovative methodologies to reach lower-income microentrepreneurs, most of them without past credit and savings histories.

NGOs must have an adequate gross financial margin to cover operational costs. Among the NGOs studied, all of them charged comparable or higher interest rates than the banks in their respective countries (discussed in Chapter 3, comparative data in Table 3.4). However, their level of operational viability varied. NGOs such as ADEMI, Actuar, and FED were financially viable, as demonstrated by their profitability and low levels of loan delin-

Table 5.5 Comparison of Loans per Credit Analyst: Selected Banks, CUs, and NGOs

	Number	Volume *US$(000)*
CHILE		
Loans Disbursed per Analyst (1992):		
Banco del Estado-BECH (Small loans)	49	383.4
Banco del Desarrollo-BANDES (Microenterprise Loans)	254	289.5
PROPESA	584	242.0
FINAM	350	143.9
COLOMBIA		
Loans Disbursed 1992:		
Caja Social (Total loans for the institution)	625	1,672.1
Cupocredito (Total loans for the institution)	806	882.6
Actuar	262	74.5
COSTA RICA		
Outstanding Loans per Analyst (October 31, 1993):		
Coocique Credit Union	487	753.6
Avance	143	96.4
Fundacion Mujer	105	75.6
FINCA	340	98.4

Source: Country studies.

quency. Others (such as Avance and FDD, which were having operational difficulties and were going through administrative changes) had poor-quality loan portfolios.

Women's average delinquency rates (based on samples) tended to be lower in the smaller microloans and similar to men's in the higher ranges. Among the NGOs studied, FED (Ecuador) had a minimal delinquency ratio (over 90 days due) of only 0.6 percent. It is notable that this NGO has the highest percentage of women clients in the lowest loan category (less than $500). The delinquency ratio is also low in the Chilean NGOs and Actuar. ADEMI, whose delinquency ratio was higher (5 percent) compared to other advanced NGOs, was still lower than the average delinquency rate of local banks. Although not enough information is available to draw firm conclusions on this issue, it is important to note that some NGOs with higher loan delinquency rates had a larger percentage of their portfolio in manufacturing-related loans. It suggests that there is need for more research on NGO loans to microentrepreneurs engaged in manufacturing and other non-trade activities.

The various NGOs studied provided a sample of ways in which microenterprise institutions seek to increase their access to loanable funds and reduce their lending costs. NGOs are trying to advance in four areas:

■ *NGO's Microenterprise Portfolio as Collateral for Bank Loans.* PROPESA and FED used a sort of "factoring" (accounts receivable from microentrepreneurs) to guarantee loans from commercial banks, an indicator of the acceptability of microenterprise lending by formal financial intermediaries. The lender and the NGO agree upon a fixed percentage that will be advanced against receivables. The percentage is between 50 and 60 percent for these NGOs, depending on the lender, an evaluation of the riskiness of the receivables, and the administrative costs of the arrangement. The experiences of PROPESA and FED as banks' clients evolved from ACCION International's successful guarantees through letters of credit. These ACCION guarantees usually backed about 50 percent of a loan from the bank to the NGO. This guarantee system has proved to be successful in opening a door for NGOs so that they graduate as banks' clients.

■ *New Formal Financial Intermediaries.* In 1993, Actuar created a financial company called Finansol.[4] Finansol's capital allowed it to issue certificates of deposit but not passbook savings or more liquid and interest-bearing savings instruments. At the end of 1994, Finansol showed deposits of $6 million. In addition, Finansol was eligible to access funds from other institutions that wholesale funds to FFIs.

■ *Second Tier, Wholesale NGOs.* Retail NGOs now access funds from second tier NGOs that wholesale credit, for example, FONDOMICRO (Dominican Republic). In 1993, FONDOMICRO provided about 25 percent of the funds that ADEMI retailed (Jiménez, 1994). These NGOs can thereby intermediate larger loans in local financial markets and from international donor agencies.

■ *Access to Local Capital Markets.* Financially viable NGOs can access local capital markets by issuing bonds and securities based on the assets of their loan portfolio (Christen *et al.*, 1994). In Colombia, the supervisory agency of the stock market (*Superintendencia de Valores*) passed Resolution 1242 in October 1993, allowing cooperatives and nonprofit organizations to issue bonds (Article 42).

Financial viability has proven to be the best way for NGOs to expand their sources of funds for microenterprise finance. While the NGOs assessed in this study had a range of performances in terms of long-term sustainability, most recognized the need to recover costs through proper pricing of their financial services. Given the costs-to-loan portfolio ratios (Table 5.4), it is clear that the methodologies used by

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[4] Finansol did not exist when this study was conducted (end 1993). Actuar was the original NGO created in 1988 as a single entity which developed other affiliates over time. The resulting group is called Gruposol. Gruposol is comprised of Corposol, Finansol, Mercasol, Construsol, and Soluciones Urbanas. Corposol is responsible for providing technical assistance and entrepreneurial partnership to the group of companies. Corporsol also managed the credit program; however, in 1993 their directors decided to buy a commercial financing company, given the name of Finansol, to which Corposol passed its loan portfolio. Finansol was purchased with the support of international agencies. In 1994, Finansol was affected by *Resolucion 008* (passed March 1994) of the Central Bank that limited the growth of credit to 2.2 percent for all financial institutions.

some NGOs will require extremely high interest rates if these organizations expect to recover their costs at current levels of operations. They need to increase the number of loans in a more efficient way. As credit methodologies are improved through institutional experience in the field and as more adequate information systems are put in place, a larger clientele can help to decrease the cost of loans. However, if NGOs incur costs by providing nonfinancial services to their clients, these costs should be separated from lending costs in order to keep the lending programs financially viable.

In the final analysis, however, the willingness of banks and other FFIs to provide funds for NGO lending activities and the cost of those funds will be determined by the financial health of the institution, its capability to manage microenterprise portfolios, and the risk characteristics of outstanding loan portfolios. FFIs are capable of measuring and evaluating these factors and NGOs are becoming better able to provide FFIs with the information that they need to make this evaluation. In this way, NGOs and FFIs are linking to provide a better flow of resources to their programs and, indirectly, to women microentrepreneurs.

Do NGOs Promote Savings?

In addition to borrowing from donors and FFIs, NGOs need to address the other primary source of funds for lending—savers. NGOs are becoming more aware of the importance of savings instruments for their clients. Due to the historical perception that the only financial service important to the microentrepreneur was credit, only two NGOs in the study (FINCA, with two types of savings schemes, one compulsory and one voluntary, for village bank members, and Actuar, which had a voluntary group savings scheme) made any effort to mobilize savings. Actuar's savings program began in 1991, but was shortly discontinued due to difficulties in working out logistics with a commercial FFI.

ACCION's survey of microentrepreneurs in four countries (Bolivia, Brazil, Colombia, Guatemala) found that in all the programs, at least 48 percent of microentrepreneurs set aside some savings from their income. About 39 percent of the women entrepreneurs and 35 percent of the men saved in FFIs. Almost 100 percent of microentrepreneurs interviewed in Colombia saved (Restrepo and Reichmann, 1995).

Christen *et al.* (1994) discuss the distinction between individual voluntary savings (such as those of CUs) and the compulsory savings schemes required by NGOs such as Grameen, K-REP, FINCA, and the BKK. In these schemes, savers are the same as borrowers, and the use of savings is determined by the group. Funds are not readily available and interest rates are often below market.

Adams and Canavesi (1992) identify the importance of savings to low-income people in Latin America and the Caribbean in their description of some of the ROSCAS (rotating savings and credit associations) in the region. "Sans" in Dominican Republic and "partner" groups in Jamaica are common savings schemes among women.[5] These groups and the experience of CUs in mobilizing savings among low-income urban and rural populations provide an example for NGOs that have evolved into new formal financial intermediaries.

NGOs have successfully adopted features from informal credit to develop their financial instruments and make them accessible to women. Responding to the demand of microentrepreneurs for savings instruments can be a challenging area of innovation for NGOs.[6] For women microentrepreneurs, access to adequate savings schemes is a critical factor in managing scarce household and enterprise resources. NGOs' close relationship with women microentrepreneurs can give them an edge in developing competitive and viable savings instruments for low-income groups.

Conclusions and Recommendations

NGOs have developed credit methodologies specifically targeted to low-income people which have proven effective in reaching lower-

[5] These groups are discussed in the country papers prepared for this study. See Blackwood (1994) and Rathe (1994).

[6] For instance, recent discussions in housing financing for low-income groups are incorporating the lessons from microenterprise finance and the importance of both savings and credit to create viable and efficient financial services. See Phelps (1995).

income women microentrepreneurs. NGO portfolios are primarily invested in the smallest range of loans. The most successful NGOs work with both group and individual lending methodologies. However, the lending costs of many of the NGOs studied are very high, and these will need to be reduced them if the NGOs hope to attain long-term financial sustainability.

Some NGOs such as Actuar (Colombia) have reached levels of operation which allowed them to evolve into formal financial institutions. Although these NGOs are still dependent on international donors as a source of loanable funds, such institutional evolution provides a more appropriate framework for assuring a sustainable supply of financial services to low-income women.

Unlike banks (which are mainly responsible to their shareholders) and CUs (responsible to their members), NGOs are accountable primarily to their donors. The NGOs' main agent for accountability is their own board of directors.

A number of measures can help NGOs achieve long-term sustainability in providing credit to low-income microentrepreneurs, especially women:

■ *NGOs' Linkages with Banks.* Our study of commercial banks revealed that their relationships with local NGOs were limited. During the institutional interviews, bank staff members made suggestions for improving bank-NGO relationships. They indicated, for example, that if NGOs were more effective, banks would rely on their evaluations of microenterprises. As it is, banks prefer to conduct evaluations according to their own criteria. NGOs can work to make banks more aware of the characteristics of women's enterprises (e.g., slower rates of growth). Nonprice mechanisms to ration credit can affect women's access to loans. Selection criteria used by bank analysts may exclude women because of the characteristics of their enterprises.

Bank staff also indicated that when banks take NGO clients, NGOs should continue to provide technical advice until the loans is paid (which will help to monitor the bank loan), but leave actual loan monitoring to the banks. Microentrepreneurs interviewed also indicated that they want NGOs to provide more technical assistance, not just in relation to the loan but in relation to the entire business.

■ *Financial Services in Regional/Provincial Cities.* Except for FINCA (Costa Rica), the NGOs included in this research were concentrated in the capital or in major urban or semi-urban areas. In countries such as Colombia and Chile further research is needed about women's access to financial services in smaller cities.

■ *Financing of Noncommercial Activities.* Improvements in NGO microenterprise finance favor low-income women concentrated in commercial activities. Fewer advances have been made in financing manufacturing activities, which require longer-term loans or other types of financial investments.[7] NGO credit methodologies work well for short-term working capital loans, but are not as able to provide credit for fixed investments.

■ *Technical Assistance to NGOs.* Half the NGOs studied were at advanced levels of operational viability. The other half still needed to further develop their operational and financial capabilities. Technical assistance and commitments from NGO management to develop sound financial systems are needed to expand microenterprise loans to microentrepreneurs in general, and to low-income women in particular. Best practices should continue to be disseminated among NGOs. Donor coordination among projects could help to promote "industry standards."

■ *Industry Standards and Regulation of NGOs.* Although a number of NGOs have evolved to become formal financial institutions (e.g., Actuar, BancoSol), many NGOs are still at intermediate or low levels of operational and financial efficiency. Therefore, a priority for microcredit NGOs is to develop and follow adequate industry standards. Much needs to be done. Many NGOs providing credit services as well as nonfinancial services to women microentrepreneurs depend heavily on outside funding and operate at low levels of financial sustainability. More self-discipline is

[7] Based on a study of ADEMI, Rubio (1991) recommended further exploration of training women in manufacturing activities and investment strategies that go beyond commercial ventures. For Rubio, NGOs' restrictions on loan size and repayment periods may discourage microenterprises from becoming larger firms.

required among microcredit NGOs if they are to follow the pattern of NGOs that have succeeded in this area.

International networks such as ACCION International and Women's World Banking, along with international agencies, are promoting the development of standards and regulations to guide operational and financial efficiency. They have proposed appropriate regulation and supervision for NGOs that have reached a level of operations that would allow them to evolve into formal financial institutions, as well as regulations governing the creation of financial institutions more adequately fitted to microentrepreneurs (Christen, 1995; Trigo, 1995). The design of such regulations can benefit from tested microfinance industry standards (learned from experiences such as those of BancoSol in Bolivia and some of the most advanced microfinance NGOs). Standards could include loan provisions for personally guaranteed loans and for minimum capital requirements to form a commercial finance institution. This is particularly important for strengthening and converting NGOs that are already reaching large numbers of women microentrepreneurs.

NGOs play a key role in reaching poorer microentrepreneurs, particularly with short-term financial instruments. However, they are still in the process of developing more appropriate operating and financial schemes for longer-term types of finance for their clients' enterprises. In the sample of NGOs studied, some of those with the higher delinquency rates were involved in credit for manufacturing. The most successful ones were more involved in trade financing. In some countries, however, such as Chile, Colombia, and Ecuador, some of the more advanced microentrepreneurs are clients of banks, credit unions, and other financial institutions not studied here. Because the microfinance market is deeper in these countries, each institution has a comparative advantage in serving different types of microentrepreneurs. This is also advantageous for microentrepreneurs who have options for financing according to their level of business and type of loan required.

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Conclusions and Further Recommendations

In the past decade, there has been tremendous progress in the supply of financial services to microenterprises. This has resulted in important benefits to low-income women microentrepreneurs, who often operate the smallest businesses, are concentrated in trade and services, and are least likely to have collateral.

Institutional case studies in six countries showed that banks, credit unions, and NGOs have begun to provide a variety of financial services that reach women microentrepreneurs. Particularly striking is the finding that not only the well-documented NGO microcredit programs, but also commercial banks and credit unions, demonstrate a tremendous potential for bringing sustainable financial services to this untapped market niche.

Women's participation as borrowers varied among the three types of institutions: among the banks, they represented 41 to 59 percent of borrowers; among CUs, 30 to 48 percent; and among NGOs, 25 to 64 percent. These percentages are similar to the percentage of women-owned microenterprises in the six countries, ranging from about 30 percent in Costa Rica to 51 percent in the Dominican Republic.

Until now, donors have focused on NGOs as providers of financial services for microentrepreneurs. Although NGOs instituted innovative credit schemes and continue to fill a major gap in the supply of loans, this study demonstrates that at least some commercial banks and credit unions have a role to play in expanding financial services to low-income populations. Moreover, in addition to supplying credit, these institutions supply other services such as savings, money transfers, payment facilities, and insurance.

Conclusions

This study's findings of the supply of credit and savings to microentrepreneurs can be summarized as follows:

- *Banks provide a significant share of the financial services available to microenterprises.* Although bank loans to microenterprises are a relatively small share of their total outstanding portfolios, for some banks microenterprise lending is comparable to or larger than amounts provided by NGOs and CUs in the same country. In Chile, for example, the $3.4 million outstanding microenterprise loan portfolio of Banco del Desarrollo (BANDES) was more than three times as large as the amount provided by PROPESA, the most advanced NGO. The average outstanding microenterprise loan of BANDES and PROPESA was $988 and $305, respectively.

Because the supply of financial services to microentrepreneurs is very small *vis-à-vis* the demand, banks' current provision of credit to this sector is meaningful. The banks studied have developed products, technologies, and institutional structures that take into account microentrepreneurs' demand. Women who own more stable and developed microenterprises are most likely to benefit from this type of credit.

- *Credit unions expand financial options.* Although CUs do not specifically target microentrepreneurs, the CUs studied invested 23 to 58 percent (an average of 38 percent) of their loan portfolio for microenterprise and related loans. Moreover, CUs supply financial services to low-income women in general, including women who are microentrepreneurs. Women represent 30 to 45 percent of the members (i.e., savers) of the CUs studied. Savings provide the main source of funds for credit. Savings instruments include interest-paying passbook savings and other types of time deposits.

The CUs examined are self-supporting institutions and offer a variety of credit lines women microentrepreneurs use in many ways: production (working capital and fixed assets), household consumption (emergencies, appliances), human capital investments (loans for education and health), and other major investments (such as housing improvements). The variety of purposes for which loans are available provides flexibility and gives women badly needed options. The CUs studied contribute to the identification of best practices that can help CUs in other countries evolve into more competitive and dynamic financial intermediaries serving the microenterprise sector.

■ *The new institutional approach expands NGO access to local and international resources.* By shifting focus from short-term "program" concerns to "institutional" viability, NGOs are increasing their ability to reach women microentrepreneurs with reliable credit services. To have long-term institutional viability, NGOs must provide adequate financial products and have appropriate methods for selecting and monitoring clients (e.g., solidarity groups); moreover, their loans must have certain characteristics (in terms of amount, repayment terms, interest rates, etc.). NGOs' credit programs that satisfy the requirements of enterprises managed by low-income women have contributed to significant levels of institutional operational self-sufficiency and viability. NGOs' institutional viability contributes to their broader access to local and external finance.

■ *The scale of operations can reduce costs.* The experience of the banks and CUs studied indicates the scale and number of loans are more important in determining the viability of microfinancial services than the cost per loan. Installed capacity (e.g., infrastructure, communications, and computerized systems) of commercial banks and CUs decrease the cost of microenterprise-related finance. Availability of advanced on-line technology to process credit evaluation has improved the operational efficiency of banks such as Caja

Social and Banco del Pacifico. Although CUs have made advances, the larger ones such as Cupocredito are still in the process of installing adequate on-line systems that facilitate communications between branches and main offices. Furthermore, appropriate communications and computer technology make savings schemes more dynamic and viable.

The case studies show that two kinds of approaches can operate efficiently: (a) the targeted microenterprise finance programs that NGOs specialize in; and (b) multiple financial services such as those of banks and CUs that include microfinance (credit and savings) and serve a variety of clients, including but not limited to microentrepreneurs.

- *Policy and regulatory reforms have contributed to expanding the supply of financial services to microentrepreneurs, including women.* A decade ago, concerns about regulatory issues affecting women microentrepreneurs' access to credit focused on interest rate ceiling and subsidies, directed lines of credit (e.g., for agricultural or industrial development), and collateral requirements. The case studies indicate that financial reforms have generated a more appropriate environment for institutions such as banks and CUs to serve microentrepreneurs; these reforms include market interest rates on credit and savings, changes in reserve requirements, elimination of obligatory lines of credit, adequate provisions on unsecured loans. Moreover, regulatory reforms that have allowed commercial FFIs to offer savings instruments previously allowed to state banks (e.g., Costa Rica) and/or reduced reserve requirement on savings (e.g., savings passbooks) have increased the ability of financial institutions to allocate resources to underserved sectors such as microenterprise. Regulatory changes such as improved supervision of large CUs have spearheaded a more solid transition from stagnated CUs to competitive financial intermediaries serving low-income clients.

- *Savings benefit both institutions and microentrepreneurs.* The study showed that at least some commercial banks and CUs offer savings instruments that serve low-income people, including microentrepreneurs. Women use savings for emergencies (e.g., health related) and household investments (housing and children's education). Savings contribute to adequate budgeting of business expenses and investments. Branches of the CUs and banks (such as Caja Social) in lower-income areas demonstrate that savings schemes contribute to creating debt capacity and information about borrowers' creditworthiness. This is particularly important for lower-income women microentrepreneurs who lack real collateral.

■ *Women clients have specialized savings concerns.* Although the interest rate is important, convenience of location and liquidity of savings seem to be key factors in determining women microentrepreneurs' savings habits. Offering adequate savings instruments to mobilize funds and, in turn, adequate loans improves resource allocation in low-income communities where financial institutions operate. Some of the commercial banks studied (such as Caja Social) and all five CUs mobilized large numbers of small savers (with large participation of women), providing evidence that it is possible to operate in lower-income locations.

■ *Knowledge of clients' socioeconomic profile improves outreach.* FFIs and CUs are only beginning to recognize the relevance of understanding "client profiles" and "market niches" of microenterprises. They have regarded comparative data on clients as not important or, in some cases, only somewhat relevant. Institutions claim that they do not discriminate between women and men, but do not understand that their "nondiscriminatory" practices interfere with becoming familiar with and knowledgeable about the cultural, social, and economic practices—whether similar or different—that affect their clients' demand for financial services.

■ *FFIs and CUs broaden the financial services options available to microentrepreneurs.* Money transfers and check cashing are common business transactions that require time. Paying bills (e.g., utilities and school fees) might require hours in line at a congested bank if there is no access to financial service facilities closer to the home or business. As women's household and business responsibilities put increasingly heavy demands on their time, access to efficient financial services becomes more important. Yet FFIs, CUs, and NGOs are unaware of the importance of educating clients about different financial services available so that microentrepreneurs can make informed decisions and choose among the available options.

■ *Financial services respond to business and household strategies.* Different segments of microentrepreneurs require different types of financial services. The current supply of NGO microenterprise credit is characterized by small loans primarily for working capital. CUs and commercial banks help to expand women microentrepreneurs' options. Among these alternatives are larger loans with longer maturities for manufacturing businesses, housing improvements, and human capital investment.

Recommendations

Each of the preceding chapters ended with specific recommendations. Yet there are broader policy and program issues that also need to be addressed:

■ *The supply of financial services to microentrepreneurs should be diversified and increased.* Underserved populations should have more than one viable source for financial services. A variety of institutional structures—including NGOs, banks, leasing companies, financial corporations, consumer finance companies, and CUs—should provide a range of financial services. This would generate a diverse supply of financial services to heterogeneous groups of microentrepreneurs at various levels of development and in different types of business activity; it would also create competition that would force down the cost of microcredit. Particularly important for women microentrepreneurs is access to financial services for both household and business purposes. Larger numbers of institutions supplying these financial services (beyond the one or two in each capital city), broader coverage, and more competitive services will yield greater benefits to microentrepreneurs and increase the likelihood that women will have access to them.

■ *Multilateral banks should develop new partnerships with local financial institution.* Multilateral banks should continue to develop efficient and cost effective ways to work with institutions such as commercial banks, leasing companies, financial corporations, and CUs. Administrative procedures and the costs of programs "targeted" to the microenterprise sector make credit lines less attractive. More direct financial arrangements could contribute to increasing interest in serving the microenterprise sector.

■ *Microentrepreneurs need information and education to make informed financial choices.* Our study showed that microentrepreneurs, particularly women, lack information about available financial services. Commonly, educational courses on microcredit are offered by special microfinance providers and usually cover only the type of credit available by the sponsoring institution; rarely do such courses discuss savings for microentrepreneurs. In order to better manage scarce financial resources for business and household investment and expenditures, microentrepreneurs should be exposed to different types of financial instruments and institutions available. They need to learn to evaluate options—whether to save or to borrow, whether to borrow from an NGO or a bank or a credit union. Competition among diversified financial services can generate positive results not only in the types of instruments offered but also in how these are promoted, how potential users are educated about these instruments, how they are delivered, and how they are monitored for coverage. Microentrepreneurs need to become more aware of saving in those institutions that are also interested in lending to them.

■ *Savings by microentrepreneurs should be promoted and better utilized.* Currently, microenterprise projects focus on credit but give little attention to savings services. More institutional studies are needed of commercial financial intermediaries that mobilize savings among low-income groups as well as policies that create an enabling environment to serve them. Most microentrepreneurs use savings to initiate their business—where do they keep these savings? How can their own savings and their savings history be used to expand their investment options in both households and businesses? How can their savings be used to create debt capacity?

■ *Institutions providing microfinance need technical assistance in order to provide "state of the art" service.* Technical assistance, training, and technology transfer are key elements in the expansion of the supply of financial services to women microentrepreneurs. Training and educational activities on microenterprise finance generally target either NGO participants or a mixed group of representatives from NGOs, national agencies, and FFIs. There is need for additional activities that are targeted at specialized participants (e.g., commercial bank staff and management). This would allow focus on "state of the art" and "best practices" technologies for the particular kind of microfinance institution (e.g., commercial banks, financial companies, credit unions). It would promote exchanges of experiences among participants with shared concerns, and would help to disseminate successful experiences and advancements in microfinancial services.

■ *International agencies should continue to provide support to microfinance institutions.* International agencies should continue to provide technology transfer and technical assistance to financial intermediaries committed to reaching underserved populations. Investment might be necessary to increase the equity capital of new financial intermediaries, and NGOs that work with "survival" microentrepreneurs may need subsidies to cover administrative costs and specific activities such as training. However, credit itself should not be subsidized.

■ *Policy and regulatory authorities need a better understanding of the financial services needs of microentrepreneurs.* This study revealed that policymakers and regulatory and supervisory authorities in the countries studied have little information about either the supply of or the demand for financial services provided to lower-income groups. Yet financial sector policy, regulation, and supervision play a key role in determining the willingness of financial institutions to explore the macroentrepreneurial market. Therefore, there is an increasing need to involve legislators, policymakers, and supervisory agencies in discussions about microfinancial services, as well as the problems and opportunities confronting women entrepreneurs. Moreover, regulators need to become more aware of the importance of adequate savings mechanisms for lower-income groups, particularly women, who are key decision makers in household and business investments. Among other issues, policies regarding reserve requirements and restrictions on the type of savings instruments financial intermediaries can issue should take into account the effects of such policies on the supply of more adequate financial services for poor potential clients.

■ *Regulation of the financial sector must recognize the role of nonconventional financial intermediaries.* Credit unions, NGOs, and other nontraditional financial intermediaries should be regulated in ways that enhance the public's confidence in them as reliable financial actors. In the past, for example, changes in regulation (e.g., elimination of interest rate ceilings) helped credit unions create ways of offering competitive services to their members. Other countries should follow the example already set in Colombia, Costa Rica, and Ecuador.

NGOs also need regulatory help to successfully expand financial services to lower-income groups. Financial reforms in countries like Bolivia, for example, helped NGOs convert to formal financial institutions such as that country's BancoSol (Trigo, 1995). Ten years ago, microfinance policy issues addressed the questions primarily related to credit such as interest rate ceilings, collateral, and types of businesses financed. Today policy issues must address requirements for graduation and entering the formal financial sector (e.g., capital requirements, reserve requirements, provision of unsecured loans). Addressing such issues can help broaden the number of women microentrepreneurs reached.

■ *Gender-disaggregated data are needed on microentrepreneurship and finance.* The collection of gender-disaggregated statistics to monitor microenterprises and women's participation in financial services could be a major step in formulating policy changes and new marketing strategies. This study found that financial institutions are generally not aware of women's increasing economic participation. Moreover, women's actual participation in the economy is underestimated, particularly because of the informal nature of their businesses. Thus the potential demand and profitability of this market segment is also underestimated. International donors can play an important role in facilitating the collection, use, and dissemination of gender-disaggregated data. Sophisticated databases already exist that permit relatively simple collection of information that is critical to policy and program development; for example, the Colombian identification card has a digit for gender.

International donors can support local women's groups in educational and promotional campaigns which stress the positive aspects of collecting and analyzing information about men and women clients. Organizations can benefit from conducting marketing research to monitor the incorporation of women as major users and beneficiaries of financial services; as this study showed, this client group is potentially a profitable one for financial intermediaries. Such an educational outreach will counter the current negative view that the purpose of such statistics is to prove discriminatory practices. In their claim to have "nondiscriminatory" practices, institutions fail to become knowledgeable about cultural, social, and economic practices of individuals, families, and communities. Understanding the socioeconomic profile of the demand, based on facts and not on stereotypes, contributes to more efficient use of resources, particularly scarce resources of lower-income people.

■ *Better understanding is needed of the role of financial services in improving living conditions.* Access to financial services helps to improve the standard of living of women microentrepreneurs in a variety of ways. In addition to borrowing for their businesses, they borrow for educational investment, housing improvement, etc. Personal credit in FFIs is an important issue that needs research. Also needed is research on the impact the availability of financial services—both credit and savings—has on communities and households. An example of such research is the contribution of institutional financial services (e.g., housing related loans and savings schemes) to developing *social capital* in a community.[1]

■ *Microenterprises need improved nonfinancial support.* A study recently published by ACCION Internacional recommends training for women microentrepreneurs in managing their time and their human resources, and in developing their negotiating skills (Restrepo and Reichmann, 1995). Making women microentrepreneurs better business managers enhances their ability to market their products and services and therefore gives them greater debt capacity and access to FFI credit. Access to business development services (e.g., marketing, production quality support, technology) increases the capacity of microentrepreneurs to evaluate their need for credit themselves. Informed need on the part of women entrepreneurs can lead to more appropriate demand.

During the last few years, development practitioners have studied and emphasized the best practices of selected NGOs. The same approach is recommended with formal financial institutions (of all types, in addition to banks) and semi-formal institutions such as credit unions. More visibility and recognition should be given to institutions that provide innovative financial services suitable for microenterprises. Such innovations help to broaden current perspective of "financial services and institutions for the poor." Rather than concentrating on institutions that exclusively serve only the poor, such as NGOs, we need to add those institution that include and target the poor as part of their clientele. It is hoped that this study will stimulate further comparative analyses of factors and conditions in the institutional supply of financial services to women and men microentrepreneurs (and their families and communities) in Latin America and the Caribbean.

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[1] See Putnam (1993) for a discussion of social capital and topics such as institutional success and credit. According to Putnam, social capital refers to "features of social organization, such as trust, norms, and networks that can improve the efficiency of society by facilitating coordinating actions." See also Moser (1996).

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Research Issues and Study Methodology

In order to identify and assess the factors that shape the supply of financial services for women microentrepreneurs, we studied 24 formal and semi-formal institutions (banks, credit unions, and NGOs) in Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, and Jamaica.[1] Placing the case studies within a country context allowed for the examination of country-specific issues related to microentrepreneurs and institutions. The cross-country comparisons of similar types of institutions helped to identify factors that influence the supply of financial services among different institutional models. In assessing these institutions, the focus was placed on identifying whether they provided financial technologies that were appropriate for low-income women microentrepreneurs.

Research Issues Underlying the Study

In order to assess the institutional features and financial technologies that provide access to women microentrepreneurs, the study addressed five research issues derived from a review of the published

[1] The countries were selected based on their interest in participating in the study.

literature on women and financial services, microenterprise finance, and IDB project-related documents.[2] The research issues were: institutional factors, riskiness of microenterprise lending, the role of NGOs, mobilization of savings, women microentrepreneurs. These issues link the demand factors most relevant to low-income women microentrepreneurs to the supply factors from an institutional perspective. They also directed the collection of information and institutional interviews.

Institutional Factors and Microenterprise Finance

The shortage of financial services to microenterprises has less to do with limited loan funds than with the willingness of lending institutions to venture into new areas of business, to employ new credit technologies, and to seek new types of clients. Rather, it is the result of institutional credit policies and practices that impose high costs of supplying services to microenterprises in general, and particularly to low-income, women-owned enterprises. Based on their research in Peru, Berger and Buvinić (1989) concluded that women microentrepreneurs' lack of access to formal finance seems to result less from discrimination by lending institutions than from the characteristics of the loans required. Since women's demand tended to be for very small loans, FFIs were less interested in them as clients, because of the high administrative costs associated with loans to them. Institutional policies and practices make the cost of supplying services to microenterprises,[3] particularly low-income, women-owned enterprises, too high for both the institutions and the enterprises.

In order to examine this issue, the case studies identified a variety of factors related to each institution's policies and practices and the extent to which institutions provided loans with the features tailored to women microentrepreneurs' demand (such as small loan size, collateral substitutes, and repayment terms appropriate to their businesses) and loans for trade, services, and manufacturing. For the

[2] A methodological guideline prepared for the study discusses the working hypotheses and the guidelines for the institutional questionnaires (available from the WID Unit, IDB).

[3] This issue is discussed in several studies conducted for the IDB by Interdisziplinare Projekt Consult (IPC), Frankfurt, Germany. See also Krahnen and Schmidt (1994).

purposes of this study, the size of average outstanding loans was used as a proxy for estimating the income level of borrowers. Loans outstanding were broken down into five sub-ranges under $10,000.[4] Ranges used were under $500; $500–$1,000; $1,000–$2,500; $2,500–$5,000; and $5,000–$10,000. The extent to which banks made loans within these size ranges was then taken as an indication of those institutions' ability to make loans to microentrepreneurs.[5] Rather than trying to identify the level of poverty of the women clients of the institutions included in this research, the study used as a proxy the financial services which fit the preferences of the poor (very small loans, alternative collateral scheme, savings schemes of minimum amounts).

The case studies also considered factors such as mission, policies, internal incentives, and external factors such as financial regulations to determine the institutions' willingness to design more efficient and viable financial instruments to serve the microenterprise sector.

Risks in Microenterprise Lending

For reasons similar to those keeping FFIs from expanding into microenterprise lending generally, most formal institutions have not sought to develop adequate knowledge about the microenterprise sector nor developed alternative methodologies for assessing and mitigating risks associated with such lending. FFIs perceived microenterprise lending to be highly risky because of the typical lack of collateral and the absence of acceptable substitutes. Lack of collateral is one of the main barriers women microentrepreneurs encounter in accessing formal credit.[6]

In addition to the risks inherent in all types of lending, the lack of adequate methodologies to evaluate the creditworthiness of microenterprises not only makes the supply of services to this sector

[4] In the case of IDB projects, a "microenterprise" loan is generally considered to be any loan up to $10,000.

[5] When using outstanding loans as a proxy, it is important to note that banks and credit unions have longer-term loans (12 to 36 months) than NGOs, which generally make very short-term loans (one to three months).

[6] For a discussion of credit risk, see Von Pischke (1991); Levitsky (1993); Hilhorst and Oppenoorth (1992).

costly, but also increases the financial institutions' perception of risk resulting from imperfect information. One of the most important elements of transaction costs is information cost. Most FFIs depend on credit history as an indicator of a loan applicant's ability to manage debt. But, in the case of microenterprise lending, there often is no credit history. The lack of credit history is often exacerbated by a number of other personal and business characteristics of women microentrepreneurs. They generally combine household and business activities, have lower levels of education, keep few written records, have less formal work experience, and are involved in various economic activities.

Lending risks are usually offset by collateral guarantees. But women microentrepreneurs' lack of real property or other traditional guarantees constitutes a constraint to lending. To remedy this deficiency, NGO credit programs have devised guarantee substitutes (e.g., required training courses) to screen potential borrowers and solidarity groups. The solidarity group model has proven particularly effective in raising the level of repayment by women microentrepreneurs. The study examined guarantees used by financial institutions and their implications for expanding microenterprise credit to women microentrepreneurs.

The Role of NGOs Between Microentrepreneurs and Financial Intermediaries

The study also investigated the degree to which strengthening the relations between NGOs and formal financial intermediaries can improve women's access to financial services. NGOs have played a leading role in developing credit methodologies that effectively and efficiently respond to women microentrepreneurs' demand. Among the successful projects, such as PRODEM in Bolivia and Actuar in Colombia, the majority of borrowers have been women; and these NGOs have reached levels of financial viability that have allowed them to evolve into formal financial intermediaries (BancoSol and Finansol, respectively).

According to Bennet and Goldberg (1993), an important factor determining low-income women's access to financial services is the role of NGOs in "social intermediation." Social intermediation refers to links between disadvantaged groups and institutions attempting to deliver financial services to them. Social intermediation can help to reach groups such as low-income women without undermining financial discipline. These links are important because women's microenterprises are often located within their own homes and their owners have limited interaction with formal institutions. In some countries, a high rate of illiteracy among low-income women makes it difficult for them to fill out credit applications. In addition, low-income microentrepreneurs do not usually see themselves as clients of commercial banks and, as a result, they do not explore possibilities for accessing financial services.

Different relationships between financial institutions and NGOs were explored in the study. The methodologies and mechanisms available to supply financial services to microenterprises through NGOs may be categorized as follows:

(a) the NGO as an entity providing training for microenterprises and functioning as a bridge between the microenterprise and the financial intermediary;
(b) the NGO as trainer and credit intermediary;
(c) the NGO as administrator of a guarantee fund which backs the microentrepreneur's loans with a financial intermediary;
(d) the NGO as trustee of "reciprocity fund" (leverage fund) used as a basis for multiplying resources through a financial intermediary;
(e) the NGO as a bridge between microentrepreneurs graduating from its programs to formal financial institutions;
(f) the NGO which "graduated" and becomes a formal financial intermediary (Bancosol, Bolivia); and
(g) the formal financial intermediary as a cashier of the NGO (does not assume any risk nor contribute with capital).

The analysis of the financial technologies of NGOs and the comparison of the various inter-institutional arrangements help to identify the advantages, disadvantages, and barriers in the provision of financial services and the role of NGOs in building viable services that reach women microentrepreneurs.

The Mobilization of Savings

Saving is possible among low-income communities if appropriate mechanisms are used to mobilize savings. Previous research has indicated that women are more inclined to save than men (Holt, 1991; Robinson, 1994). Low-income households save for a variety of purposes. Savings constitute a major source of funds for microentrepreneurs. In addition, savings are used for household-related investments such as housing and education and for liquidity management. In recent years, the exemplary and successful track record of the Grameen Bank (Bangladesh) has demonstrated the importance of savings for low-income women who operate their own businesses. Among the appropriate features of savings instruments tailored to low-income groups are low minimum-deposit requirements for opening accounts, service in convenient locations, safety of deposits, and interest rates that at least cover inflation.

Morris and Meyer (1993a) conclude from their survey of the literature of financial services for women in developing countries that evidence from studies on informal savings demonstrates that low-income clients save on a regular basis and that these savings are large enough to be a potential source of lending capital. According to a University of Chile study (Pardo, 1992), about 10 percent of the 1,500 women microentrepreneurs interviewed had checking accounts and some 50 percent had savings accounts (this was their only relationship with banks). Data gathered by the Chilean Planning Ministry (MIDEPLAN, 1992) in a survey of 415 microentrepreneurs (men and women) showed that 56 percent had savings accounts and 16 percent had checking accounts.

Except for these studies, there is limited research on savings instruments used by low-income people in Latin America. An important objective of this study was to fill this research gap by analyzing financial intermediaries that are mobilizing savings among low-income groups and by identifying factors associated with institutional structures and instruments in the supply of these services to women microentrepreneurs.

Characteristics of Women Microentrepreneurs

The social position and conditions of women influence their demand for financial services.[7] Besides institutional factors and the barriers which microentrepreneurs in general (men and women) face, there are cultural and social factors including exclusion from public life and factors related to class and preferred economic activities which may affect women's ability to seek and use financial services. A woman's perception of her own enterprise may affect her demand for credit.[8] Often women microentrepreneurs regard their business as a matter of "survival," and debt as something they prefer to avoid.

In examining this issue, this study sought to identify gender-related factors that affect the demand for financial services by male and female microentrepreneurs. Women's business strategies may be different from men's. For example, in a survey of microenterprises in the Dominican Republic, Cabal (1992) found that women microentrepreneurs depend less than their male counterparts on formal sources of finance.

The study discussed in this volume sought to determine the factors that keep women microentrepreneurs outside the "frontier of formal financial institutions."[9] It included an exploratory survey of microentrepreneurs—both men and women—to assess the demand for financial services.

Criteria for Selection of Institutions

A group of financial intermediary institutions was selected in each country studied in order to analyze and compare the institutional structures and financial technologies used to supply financial services

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[7] See, for example, studies by Rubio (1991) and Cely (1993) on Dominican Republic women microentrepreneurs; Buvinić and Berger (1990) for their findings in Peru; Fundación Arias (1993) for a diagnosis of Central American women microentrepreneurs; Bennett and Goldberg (1993) for experiences in Asia; and more recently, a World Bank research discussion paper (Rhyne and Holt, 1994).

[8] For a discussion of the microentrepreneurs' perception of credit, see, for example, Fundación Arias (1993).

[9] For a discussion of the "frontier of formal finance," see Von Pischke (1991).

(savings and credit).[10] For *FFIs*, the criteria for selection included (a) whether they had at least some experience with credit for microenterprises (although not necessarily with international donor-related projects) and (b) whether they had the ability to mobilize savings from low-income sectors as evidenced by their geographic coverage and operations. For *credit unions*, selection also required a relatively advanced level of operation within the country and an open common bond.[11] For NGOs, the main criterion was their relative level of coverage in the country as measured by the number of loans granted and their institutional capabilities.[12] NGOs specifically oriented to serving female borrowers such as Fundación Mujer (Costa Rica) and FINAM (Chile) were included to explore the features that allow them to reach female borrowers and to compare them to other operations that target microenterprises but not necessarily women.

Table 2.1 in Chapter 2 presents the basic institutional profiles by country and type (bank, credit union, and NGO) of each of the institutions studied. Each profile includes information on mission, ownership, ranking within sector, geographic coverage, and number of offices and employees.

The geographic coverage of the institutions varied. With the exception of the two smallest banks in the group (BHD, Dominican Republic, and Banco Federado, Costa Rica), all others have offices nationwide. In the case of credit unions, Coocique (Costa Rica) and San Jose de las Matas (Dominican Republic) are based in rural semi-urban areas. FINCA (Costa Rica) is the only NGO that operates primarily in rural areas; all the others operate primarily in urban areas.

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[10] Generally accepted definitions of financial intermediation may be summarized as: (a) formal financial institutions (FFIs) supervised by a government agency monitoring financial discipline in the sector; (b) semi-formal financial institutions (SFIs) supervised by the government but not by the same agency supervising financial institutions nor with the same degree of stringency—this is the case with savings and credit cooperatives/credit unions, and some NGOs; and (c) informal financial arrangements comprising groups and associations without formal legal status and organized on the basis of social and cultural characteristics in response to economic needs. See Adams and Fitchett (1992).

[11] In a credit union, the "bond" refers to the factor members have in common, such as place of work or religious or professional affiliation. "Closed bond" credit unions limit members to those who share the required affiliation; "open bond" credit unions allow any individual from a community or geographic area to join.

[12] Two cases of NGOs with high levels of delinquency were included in order to study possible default on women's loans.

Samples used for microenterprise loans were taken from the capital area. The study was therefore based primarily on urban data. The institutional interviews and data collection took place during the last three months of 1993. The results, as they pertain to the research issues discussed above, are presented in the chapters of this volume. The chapters are organized by type of institution and discuss the findings in three broad categories: credit services, savings, and institutional capacity to respond to women microentrepreneurs.

To complement and enrich the institutional analysis and to investigate the characteristics of women microentrepreneurs and the influence of the social position and condition of women, this study included an exploration of demand for financial services. The factors that seem to influence the use of financial services from the perspective of clients were studied through interviews with microentrepreneurs. In order to identify gender-related factors, both male and female microentrepreneurs were interviewed. Interviewees were microentrepreneurs currently or previously involved with the institutions selected for the case studies. In addition, in some cases, a control group that had not been involved in any of the programs was also selected. The research combined focus groups and survey methodologies for this part of the study.[13]

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[13] Each country study includes a description of the demand survey conducted in that country.

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Women are key contributors to households, enterprises, and community welfare. Yet their economic potential has not been fully realized—in large part because they lack access to productive resources.

For women microentrepreneurs, access to financial services matters. It is critical to their ability to make productive investments in their businesses. As part of IDB's efforts to strengthen women's roles in economic development, the Women in Development Unit undertook a study to analyze the kinds of financial services available to women microentrepreneurs. It examined the financial services offered by a range of institutions—commercial banks, credit unions, and nongovernmental organizations—in six countries in Latin America and the Caribbean. What services are available? What are loan sizes and what are their characteristics? What activities do the services finance?

Money Matters synthesizes the results of this study, comparing financial services available among institutions within and across countries. It shows that, in addition to nongovernmental organizations, credit unions and some commercial banks, can and do provide appropriate savings, credit, and other financial services to microentrepreneurs in general, and to low-income women microentrepreneurs in particular. This book contributes to an improved understanding of the new field of microfinance.

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