MICROENTERPRISE DEVELOPMENT: NOT BY CREDIT ALONE

Asian Development Bank
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FOREWORD

Much of Asia's vast and growing population forms part of the economy that lies outside the regulatory framework of governments in what is known as the informal sector. Although the definitions vary according to the country context, it is generally agreed that the informal sector, whether rural or urban, comprises small scale and micro-enterprises producing and distributing goods and services in unregulated, but competitive markets. The enterprises are generally independent, largely family owned, employ low levels of skills and technology, and are highly labor intensive.

Microenterprises provide income and employment for significant proportions of workers in rural and urban areas by producing basic goods and services for rapidly growing populations. They account for more than 60 percent of all enterprises and up to 50 percent of paid employment. With increasing labor force participation among women in the developing member countries (DMCs) of the Asian Development Bank (ADB), a greater number of women depend on microenterprises in the informal sector for survival. These microenterprises are concentrated largely in low-income, low-productivity activities, especially in petty trades and services.

The constraints to microenterprise development are as many and diverse as the actors in the process of change — governments, funding agencies, nongovernmental organizations (NGOs), and the entrepreneurs themselves. Such constraints include a lack of relevant laws and administrative procedures; a policy bias toward large firms and capital-intensive import-substituting industries; a lack of or limited access to institutional credit; exclusion from participatory processes; imperfect market information; and a lack of opportunities for skills development. Of the hurdles, the most formidable has been lack of access to credit. Inadequate collateral, insufficient legal status, a high level of transaction costs, and the inability of microenterprises to cope with the complexities of dealing with formal financial institutions are among the reasons why such enterprises have had difficulty growing. Although traditional credit institutions have been reluctant to lend to microenterprises for fear of default and high administrative costs, there have been innovative and successful approaches applied in ADB's DMCs.

It is increasingly recognized that microenterprise development forms an essential element in the promotion of broad based growth and improvement in the well-being of the poor and women by providing significant income- and employment-generating opportunities, and by encouraging indigenous investment. There is a need to strengthen the linkages between policy environments and entrepreneurship, the contribution of microenterprises to achieving equity as well as economic growth, and efforts to address gender and poverty reduction issues through microenterprise activities.

ADB has provided technical assistance to carry out this study, *Microenterprise Development: Not By Credit Alone*, in response to the need for a better understanding of the complex dynamics of the field, not only for itself as a development institution that is deeply committed to poverty reduction as one of its strategic objectives, but also in support of the emerging global consensus on microfinance and microenterprise development strategies and directions, as reflected in the activities of such organizations as the Consultative Group to Assist the Poorest. The study reviews thematic issues and draws on country studies of seven DMCs commissioned under the regional technical assistance. It is hoped that the publication will contribute a perspective not only to professionals in the field, but also to the many policy makers and practitioners committed to making microenterprise development an effective instrument in the struggle against poverty.

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ABBREVIATIONS AND DEFINITIONS

ADB	Asian Development Bank
AFI	apex finance institution
APITCO	Andhra Pradesh Industrial and Technical Consultancy Organization *(India)*
ASA	Association for Social Advancement *(Bangladesh)*
BKB	Bangladesh Krishi Bank
BKD	village-based bank *(Java and Madura, Indonesia)*
BPR	Bank Perkreditan Rakyat (rural banks in Indonesia)
BRAC	Bangladesh Rural Advancement Committee
BRDB	Bangladesh Rural Development Board
BRI	Bank Rakyat Indonesia
CEFE	Competency-Based Economics through Formation of Enterprises
DANIDA	Danish International Development Agency
desa	village *(Indonesia)*
DMC	developing member country
DSWD	Department of Social Welfare and Development *(Philippines)*
DTI	Department of Trade and Industry *(Philippines)*
FWWB	Friends of Women's World Banking *(India)*
ger	traditional octagonal tent *(Mongolia)*
GTZ	German Agency for Technical Cooperation
IBP	Intensive Banking Program *(Nepal)*
IFAD	International Fund for Agricultural Development
IRDP	Integrated Rural Development Programme *(India)*
IRIS	an international NGO *(Nepal)*
KUK	Kredit Usaha Kecil (Indonesian small business program)
KUPEDES	Kredit Umum Pedesaan (BRI's rural lending program) *(Indonesia)*
LDKP	Lembaga Dana Kredit Perdesaans (provincial level, nonbanking, financial institution) *(Indonesia)*
MFI	microfinance institution
MRCP	Maharashtra Rural Credit Project *(India)*
MWF	Mongolian Women's Federation

NABARD	National Bank for Agriculture and Rural Development *(India)*
NGO	nongovernmental organization
NLSF	National Livelihood Support Fund *(Philippines)*
NSO	National Statistics Office *(Philippines)*
PCFC	People's Credit and Finance Corporation *(Philippines)*
PCRW	Production Credit for Rural Women *(Nepal)*
PHBK	Linking Banks with Self-Help Groups Project *(Indonesia)*
PKSF	Palli Karma Sahayak Foundation (a Bangladeshi apex finance institution)
PRADAN	Professional Assistance for Development Action *(India)*
RIP	Rural Industries Project *(India)*
RMK	Rashtriya Mahila Kosh *(India)*
RNFS	rural nonfarm sector
RRDB	regional rural development bank *(Nepal)*
RSRF	Rural Self-Reliance Fund *(Nepal)*
sangh	federation (of groups) *(India)*
SDI	Subsidy Dependence Index
SEAP	Self-Employment Assistance Program *(Philippines)*
SEWA	Self-Employed Women's Association *(India)*
SFDP	Small Farmers Development Program *(Nepal)*
SIDBI	Small Industries Development Bank of India
SME	small and microenterprises
sum	rural administrative unit *(Mongolia)*
TLRC	Technology and Livelihood Resource Center *(Philippines)*
TRDEP	Thana Resources Development and Employment Project *(Bangladesh)*
UNIFEM	United Nations Development Fund for Women *(Mongolia)*
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
VBA	Viet Nam Bank for Agriculture
VBP	Viet Nam Bank for the Poor
VLSS	Viet Nam Living Standards Survey
WEAN	Women's Entrepreneur Association of Nepal
WEMTOP	Women's Enterprise Management Outreach Training Programme
WWB	Women's World Banking *(India)*
WWF	Working Women's Forum *(India)*

CURRENCIES AND EQUIVALENTS (1996)

P	peso	Philippines	P26 = $1
Rs	rupee	Nepal	Rs55 = $1
Rs	rupee	India	Rs35 = $1
Rp	rupiah	Indonesia	Rp2,200 = $1
Tg	tugrik	Mongolia	Tg400 = $1
VND	dong	Viet Nam	VND10,000 = $1

"$" refers to United States dollars unless otherwise noted.

GLOSSARY OF TERMS

Microenterprise, in this study, refers to noncrop enterprises employing less than ten workers, including the owner-operator and family workers. Crop production is excluded, but not noncrop agricultural activities such as livestock. Most microenterprises consist of individuals or small family enterprises, well within the limit of nine persons engaged. Professionals, or groups of professional service providers and high-technology firms, although they may engage less than ten persons, are not included. There is, thus, an implicit income and asset limit implied by the term microenterprise; it is widely understood that microenterprises are enterprises of the poor.

Microenterprise development refers to the package of services, policies, programs, and institutions intended to develop microenterprises.

Microfinance refers to the package of microfinancial services including lending and savings.

Microfinance institutions refers to institutions that provide microfinance services. These may include nongovernmental institutions, credit cooperatives, credit unions, and banks.

Nonfinancial services refers to the collection of programs and services that deliver inputs other than finance. They are sometimes referred to as business development services. Examples are technical skills training, business training, marketing information and assistance, design and other forms of product development, appropriate technology development, technology transfer, assistance in the procurement of raw materials, the development of organizations of microentrepreneurs, and so on.

Social intermediation describes training and other support that may be provided to prospective poor borrowers to help them acquire skills and values which they need to initiate microenterprises. Social intermediation services include training in credit norms and procedures, savings discipline, and assistance in organizing into groups. Because it is the other side of the coin of credit delivery, it is not generally regarded as a nonfinancial service.

CHAPTER ONE

OVERVIEW

The Asian Development Bank (ADB) has substantially increased the support which it provides for microcredit. Since 1988, it has approved ten loan projects supporting microenterprise development, amounting to about $147 million. It is possible that five projects to support microcredit may be approved during 1997 and ADB has approved 22 technical assistance projects, amounting to about $16.5 million. Several additional microcredit projects are at various stages of preparation.

Microenterprise Development: Not By Credit Alone summarizes many of the key findings of a study which reviewed microenterprise development in selected developing member countries (DMCs). The study also examines the impact and effectiveness of support that was provided to the microenterprise sector by ADB through loans and technical assistance that were approved between 1988 and 1992. The study was implemented as a regional technical assistance (RETA 5634: *Review of Microenterprise Development in Selected DMCs*), and included several components. It sought to learn more about micro-enterprise development, and about how ADB can improve the effectiveness of its support to this emerging segment of the financial services industry. The study integrates strands of thought in the growing literature on microenterprise development into a framework that may be useful for all donors for the further development of policy and operations to support microenterprise development. It synthesizes insights that were obtained through individual country studies in Bangladesh, India, Indonesia, Mongolia, Nepal, Philippines, and Viet Nam. The Appendix provides a list of country study titles and authors.

This volume is based extensively on a report, "Microenterprise Development: Not By Credit Alone" that was submitted to ADB by the team leader of the study, Mr. Prabhu Ghate. Insights from an unpublished report that was prepared under RETA 5634 by Mr. Neil O'Sullivan are also reflected, as well as information from the individual country studies.

Chapter 2 examines the role of microenterprises in the household economy and their contributions to development in terms of reducing poverty, empowering women, generating employment, and general contributions to the development of the private sector.

Chapter 3 provides a picture of the diversity of micro-level enterprises. The chapter contrasts two general types of microenterprises: livelihood enterprises which provide livelihood to the entrepreneur and microenterprises which have the potential for growth and the generation of employment opportunities for persons who may be employed by the entrepreneur. The chapter also discusses the types of support which these micro level enterprises may need to grow and prosper, and the implications of the differing needs for funding agencies.

Chapter 4 gives an overview of the financial services that are needed by the poor and the issues which these needs imply for institutions seeking to provide the services. Issues discussed include those of financial sustainability, savings, and the linking of microfinance institutions to the formal sector.

Chapter 5 presents a number of suggestions for funding agencies such as ADB. Issues discussed include the process of lending through apex finance institutions, the provision of nonfinancial services, and suggestions about meeting the needs for technical assistance.

Chapter 6 discusses the major features of the policy and institutional environment in a number of Asian countries. The countries include Bangladesh, India, Indonesia, Mongolia, Nepal, Philippines, and Viet Nam. The material presented in this chapter adds to the literature which describes microfinance sectors in Asia, the most recent of which is the "Microfinance Capacity Assessments for Selected Countries." This document was included in the report of the Conference on Microcredit that was held in Kuala Lumpur in December 1996, titled *Creating the Vision: Microfinancing the Poor in Asia-Pacific* by I. Getubig, J. Remenyi and B. Quinones, editors.

Chapter 7 presents information from selected Asian countries that indicates the potential of microenterprises in these countries for reducing poverty.

Chapter 8 offers a summary and recommendations. ❖

CHAPTER TWO

THE ROLE OF MICROENTERPRISES

The Role of Microenterprises in the Household

Fundamental to a realistic appreciation of the potential contribution of microenterprise programs to development objectives is an understanding of the place of microenterprises in the economy of the household. Poor households are often plagued by fluctuations in income and the need for emergency resources. Microenterprises are often vulnerable to decapitalization to meet household consumption expenditures whether the need arises due to an emergency brought on by human or animal sickness, or a natural calamity. Consumption requirements of the poorest households may exceed income in certain seasons every year, especially during the preharvest season. At that time both wage laborers and marginal farmers are affected. Not only may inventory have to be drawn down, but very often fixed assets, such as a cow or a rickshaw, may have to be sold, bringing the enterprise to an abrupt end.

A requirement for any sustainable system of production credit for poor borrowers is the existence of a system of consumption credit, and a "safety net" of essential social services, consisting at the very least of basic and emergency health care. It is important that the income of existing, newly set-up, or expanded microenterprises be protected from emergency demands on income, that credit extended to such enterprises not be used for lean season consumption, and that the assets financed are not liquidated. The availability of livestock insurance to protect livestock assets is also extremely useful.

Consumption credit requirements are usually met by informal lenders, but at high cost. Microfinance programs, which by definition deal in both savings and credit, can adopt two approaches simultaneously to increase the availability and reduce the cost of consumption credit. In the first place, they can require the setting up of savings systems covering project borrowers. Secondly, they can attempt in the longer run to reduce informal sector interest rates by increasing credit supply. To do this, microfinance programs must expand credit availability significantly and not restrict it to nominally productive purposes. In other words, they must leave loan purpose to the borrower and regard the provision of financial services to the poor as a worthwhile service in its own right. This "financial services" approach puts a greater emphasis on savings mobilization and creates linkage with banks as a source of wholesale finance. Thus, microfinance organizations become a permanent part of the financial system, specializing in retailing consumption and production loans to poor borrowers, as well as providing savings services to them.

Until consumption credit requirements are fully met, there should be little concern if in microfinance programs, part of the credit finances consumption rather than production. If in doing so, they are providing asset protection rather than asset creation, this is preferable to asset loss, even if that cannot be observed. Recognition of this important principle has implications for the evaluation of the impact of credit provided by microfinance programs.

While the existence of an adequate system of consumption credit and a social safety net are conditions for the productive use of credit, there is a further set of requirements that determines whether the loan is likely to be used for the particular productive purpose specified and intended by the lender. One of these is that the borrower should not already be in debt to a higher cost, informal lender. A large share of poor households have informal loans outstanding and very often these bear much higher interest rates than that charged by microcredit programs. Sometimes borrowers have mortgaged their land to lenders. In such cases the retirement of prior, higher-cost informal credit and the resumption of the mortgaged land should be recognized as a rational and permissible use of microcredit loans. Many programs allow loans to be used to repay prior informal debt, such as in Bangladesh, and this use of credit is then reflected in the statistics. Even when not allowed, loans are likely to be used to retire informal debt.

A second set of loan purposes often offering comparable but longer term returns than investment in microenterprises relates to lumpy expenditures for education, emigration, and housing. Housing is the most common purpose of the three for which programs do approve loans. Many of the larger Bangladesh nongovernmental organizations (NGOs) offer long-term loans for housing, at lower interest rates than regular loans. A large share of microcredit is indeed diverted to lumpy expenditures, although they may not show up in the statistics. Family loans offered by Grameen Bank explicitly allow a mix of loan purposes to be financed, including education, leaving the mix to be decided by the borrowing household, or rather the female Grameen member on behalf of her family.

Third, a loan purpose which almost invariably offers higher returns than the ostensible microenterprise purpose for which it was taken is informal on-lending. On-lending often serves to compete informal rates down by increasing credit supply in much the same way as expansion of microcredit to borrowers directly does. Indeed, the formal sector itself is experimenting with on-lending through informal lenders in at least two countries in an attempt to compete informal rates down.

Given this range of flexible and creative possible loan uses, a study of the ADB-financed Thana Resources Development and Employment Project (TRDEP) in Bangladesh, recognizes the prospects of a single loan in itself having a long-term sustainable impact, rather than a shorter term "outcome," which is nevertheless usually beneficial (International Development Support Services [IDSS] 1994). The conditions for a long-term impact require a household, at a minimum, to be (i) already enjoying a source of reliable income out of which it can make regular weekly loan repayments; (ii) free from pressing debt; (iii) in good health, or with reserves enough to cope with illness and related expenses; and (iv) free of imminent lumpy expenditures, or with savings enough to cope with them.

All these loan purposes and how they tie into the household economy are best illustrated in two specific contexts, one of rural Bangladesh (Box 2.1) and the other relating to urban India (Box 2.2). The extent of loan diversion as a rational response to economic pressures on the household is also well brought out in a study (see Box 2.2) of the Working Women's Forum (WWF), an NGO that assists poor women traders and home-based producers in Madras, India. WWF has over 130,000 borrowers and an extremely high loan repayment rate.

The only categories of consumption expenditure that a credit program should discourage are postponable expenditures on consumer durables, and "lavish," conspicuous consumption, while

Box 2.1
Typical Loan Use in Rural Bangladesh

A typical loan use in Bangladesh is described as follows by Rutherford (1996):

> Montu and his wife spent their loan on roofing sheets, an investment that many households like to make as soon as possible. Roofing tin can always be cashed in times of trouble, while thatching is expensive to replace year after year and leaks rainwater onto the family's sleeping mats. Others used some of the money for treating illness, or for children's schooling. For several borrowers a high proportion of loan capital went for food, partly to build up stocks, partly to protect existing assets like livestock or fishing nets or bicycles that might otherwise have to be sold for food in the lean season, and partly just to make up for weeks of semi-starvation. Some older and more expensive loans from traders and wealthier relatives were repaid out of loan capital. Many households spent the money on more than one activity, some on three or four. Buying a few hens and ducks commonly featured among these multiple activities, since selling eggs or birds can provide a little ready cash which can be put toward the MCI [microcredit institution] loan repayments. Three other uses were common. Many cows were bought, many women wisely kept part of the capital back to guarantee their ability to repay during difficult weeks (a simple form of loan insurance which is more rational than it looks at first sight [Rutherford 1995, 119]) and many chose to re-lend all or part of their loans. Re-lending serves many purposes. Through it, poorer

recognizing that not all ceremonial expenditure belongs to this category, as some of it is socially decreed. However, the best way to discourage these forms of consumption expenditure is through peer pressure exerted by borrower groups, whose members know that they are collectively responsible for repayment. Group members are in the best position to decide which consumption uses are postponable and which are not. Also, social preparation (or propaganda) has an important role to play, as in Grameen Bank's Sixteen Decisions. The WWF campaigns against dowries are an effort to keep its members out of debt.

households not formally enrolled in MCI groups can get access to its benefits. Farmers and others who would have difficulty with weekly repayments if they joined MCI themselves can negotiate more suitable terms with MCI loan recipients. And capital-starved businessmen in the bazaar who are anxious to expand their shops are willing to offer an interest rate premium to borrow from group members. Above all, members lacking a profitable use for their loans can find one through on-lending.

Advance Against Savings

This flexible range of uses for loans, all of which borrowers find helpful, is made possible by the key feature of MCI lending: tiny weekly repayments. Such a regime allows borrowers to repay out of normal weekly income. Or perhaps we should say that it gives the borrower confidence that the loan can be paid from normal weekly income should other sources fail. Borrowers who feel that they can, without too much discomfort, repay by saving a day or two's income each week confidently invest in whatever use of the loan best fulfills their needs of the moment. In terms of their place in the household economy, weekly, repayable MCI loans can best be described as an advance against savings.

There is one use we have yet to mention—investment in small business enterprises. While not uncommon, this is a minority use, and is generally restricted to certain types of borrowers. The better-off among that middle range of villagers which forms the bulk of MCI groups are often the owners of small businesses, usually in retailing or trading, but sometimes in production, and they are able to use their loans to invest in stock-in-trade.

In Bangladesh, between one quarter and one third of loans were used fully or partly for purposes that were not directly related to production. In rural areas, these uses included (in descending order of frequency), subsistence household expenditures on food and clothing; housing improvements; loan repayments; tubewells for drinking water; purchases of homestead land; and the release of mortgaged land. In urban areas, these uses included (in descending order of frequency) payment for medical expenses, household expenses, and the purchase of furniture. Cases of loan use for current

Box 2.2

Mitigating the Effects of Economic Crises: Credit from the Working Women's Forum in Madras, India

The percentage of sample loans invested fully or even partly in business activities dropped from 62 percent in 1980 to 42 percent in 1984, with a corresponding increase in the percentage of loans diverted to consumption or debt repayment (Naponen 1990). Of the events that strained the household economy over the period, family social priorities such as carrying out ritual celebrations, were the most frequent, followed by illness, damage to the house from floods, and births. WWF loans played a vital role in these economic stress events, helping to keep businesses afloat by replenishing working capital drained by family needs. Moneylender loans also played an important role. The most frequent response to economic crises was taking a moneylender loan as well as diverting a WWF loan. Interestingly, women who routinely used a combination of WWF loans and moneylender loans had higher earnings at the end of the study period than those who did not.

Only a quarter of the loans resulted in increased earnings. However, the rest mitigated the effects of economic crises, reduced debilitating debt, and stabilized marginal businesses. As Naponen put it,

> A function of the loan program has been to rescue women from economic crises through the diversion of the loan in time of major stress events, such as illness, flood, death, or desertion. It has also helped women to carry out ritual celebration responsibilities that affect the family's happiness and status in society. This has kept women out of deeper debilitating debt. Programs such as these do not remove the women's reliance on money lenders, but the loans do help to pay off past debts so that onerous interest payments are removed, and a major asset is not lost through pledging. This increases family security by keeping open the avenue of taking money lender loans again in the future.

expenditure related mostly to the extreme poor. However, the samples were not large enough to indicate changes in consumption purpose as the number of loans borrowers received increased. One would expect the demand for subsistence consumption credit to decrease as successive loans increase household asset and income levels, and the demand for housing and other "productive consumption" expenditures to become major loan purposes. Recognizing this, Grameen Bank and other major Bangladesh NGOs provide for a separate category of housing loans with lower interest rates and longer maturity periods (but repayable in weekly installments) for borrowers with a good repayment standing.

Because loans for consumption purposes are expressly disallowed in most programs, statistics of loan use are unreliable unless based on independent surveys. Recognizing this, the United States Agency for International Development (USAID) specifically directs its missions not to require assisted microfinance institutions (MFIs) to report on the nature of client activities. The guidance given to the country missions acknowledges that successful MFIs recognize that the household and business finances of most microenterprises are intertwined, and that efforts to restrict their use of funds to specified business purposes are typically futile and counterproductive. Similarly, successful MFIs have learned that project analysis, a key step in lending to larger enterprises, imposes prohibitive costs and delays upon microenterprise lending, and have found effective substitutes for it.

Therefore, to best serve the interests of poor borrowers, poverty-oriented microcredit programs should include consumption credit, and programs should evolve in the direction of a more holistic financial services approach where the objective is long-run financial sustainability. The attempt to focus on production credit alone is inevitably unsuccessful.

The Contribution of Microenterprises to Development Objectives

Microenterprise development projects can serve four major objectives: (i) poverty reduction; (ii) the empowerment of women; (iii) employment generation; and (iv) enterprise development as an end in itself. Microenterprise development contributes to widening the pool of entrepreneurship available to society and it broadens the base of the private sector. Most projects have combinations of the first two, or first three as their explicit objectives.

Poverty Reduction

Reducing poverty and enhancing the role of women in development are the most frequently stated objectives of microenterprise projects. There is abundant evidence by now that properly designed poverty-oriented microfinance projects do have an impact on poverty, and manage to reach the poor (although not always the poorest of the poor) on a scale large enough to cover their costs, meeting the twin tests of outreach and sustainability.

It is important to be clear about the essential design features of successful poverty-oriented microenterprise projects. First, the poor cannot offer collateral and projects must rely instead on group collateral, or the joint and several liability of group members. Organizing groups and training them in the norms of repayment discipline entails what is sometimes referred to as "social intermediation." Second, poverty-oriented microcredit projects usually exhibit a set of loan characteristics: (i) small initial loan size, increasing gradually as the borrower builds up an absorptive capacity and creditworthiness; (ii) weekly or at least frequent repayment installments to keep each repayment small and manageable, and to maintain repayment discipline; and (iii) a short loan maturity period of usually up to one year. The last feature is not as important as the first two, and is a function of the need to ensure quick turnaround so that the borrower can be extended a larger loan as soon as possible. Short loan maturity periods are not desirable in the case of longer term investment loans, when longer maturity periods are more suitable.

There are three reasons for these typical loan features. First, they conform to the needs of poor microentrepreneurs, most of whom are looking for a working capital loan to expand an existing livelihood enterprise rather than set up a new one. Even when the intention is to start a new enterprise, it is often a simple processing or trading activity or service yielding a regular cash flow from which repayments can be made, and with little fixed capital requiring a larger, longer term investment loan. It is important to be aware that the impact of poverty-oriented microfinance projects usually takes the form of increasing the productivity of a large number of existing enterprises, many of which are (i) operated by women; (ii) constitute a supplementary source of household income; and (iii) are seasonal and part-time. Although some new enterprises are created, the benefit of poverty-oriented microfinance is primarily an income-augmenting and not an employment-generating benefit. Second, small initial loan size and repayment in small frequent installments contribute to ease of repayment and are largely responsible for the impressive repayment record of a large number of microenterprise projects. Third, and perhaps most important of all, poverty-oriented microfinance is the most effective way of targeting the poor and especially women, who self-select themselves in response to loan terms and a lending technology that is not of interest to the nonpoor.

However, one effect of this combination of loan features is that each loan typically has only an incremental impact on enterprise and household income, or only a short-term impact, and a series of loans is needed if the household is to raise its income above the poverty line, let alone graduate to bank financing. Studies show that expectations of the speed of graduation projects supported by ADB were somewhat unrealistic. This is yet another argument for moving toward the financial services approach under which an MFI is able to enter into a continuing relationship with a borrower in the interest of both the borrower and MFI sustainability.

Limitations of Microenterprise Projects

There are limitations in microenterprise projects as instruments of poverty reduction. First, the study as well as other evidence suggest that microfinance projects often do not reach the poorest of the poor, particularly the old, sick, and disabled. There are home-based microenterprise opportunities even for this category of the poor. Two examples are the *sari-sari* stores in the Philippines, and poultry units for poor women which operate under the Bangladesh Rural Advancement Committee (BRAC) Income Generation for Vulnerable Groups Programme described in Box 5.2 in Chapter 5. Outright transfers for the destitute under social security programs may be more cost effective than attempting to reach everyone through microenterprises. These would include carefully targeted food stamp or food subsidy programs, and income-transfer programs to households below the poverty line, such as old-age pensions, maternity benefits, and survivor benefits in the event of loss of the breadwinner.[1]

Quite apart from the destitute, there are usually just not enough microenterprise opportunities available to cover all the poor, given demand constraints and the lack of skills to produce products for which there is demand. In such circumstances it is not surprising that many of the poorest of the poor practice "self-exclusion," rightly perceiving that livelihood activities may not be the best answer to their livelihood problems. For this reason, wage-employment creation through agriculture intensification and rural public works programs may form an essential component of an antipoverty package. It is often overlooked that only the able-bodied can perform manual labor on works projects. The poorest families often tend to be female-headed households in which there is no other adult member to undertake farm labor. In the slightly longer term, there may be scope for policy to influence medium- and large-scale manufacturing employment to locate in small towns and the rural areas through fiscal incentives and infrastructure development.

Processes of social exclusion may also be seen among the better-off among the poor themselves, who may view the extreme poor as too risky to include in joint-liability groups. The growing emphasis on high recovery rates is largely responsible for that view, and is reported to have led to peer group pressure for repayment taking on unhealthy exclusionary tendencies (Montgomery 1996).

As Hulme (1995) points out, extending financial services to the poorest will require innovations which go beyond those that have been developed so far. Microfinance programs examined in the countries included in his study make a very limited contribution to reducing the vulnerability of the poor to sudden dramatic declines in income and consumption levels. Interestingly, the programs that may have been most successful in doing so are those that are nontargeted, and offer savings services which permit households to store cash which can be accessed in a crisis. SANASA, a nontargeted program in Sri Lanka, has recently extended its services to include loans for very poor people including "instant" short-term consumption loans. Providing easy access savings services (apart from consumption loans in emergencies) may have more of a contribution to make to easing the vulnerability and downward mobility pressures faced by the poorest of the poor than the "promotional" credit currently available.

In a longer perspective, microenterprise promotion can never be a substitute for a variety of social sector programs such as primary health care, environmental sanitation, education, nutrition, and family planning and child care, or "structural" changes, such as land reform. Box 2.3 summarizes the poverty reduction strategy proposed for the Philippines by the World Bank. As it shows, the many causes of poverty constitute a vast and complex subject and cannot be dealt with by microenterprise programs alone. The World Bank recommends closing down livelihood programs noting that the programs generally do not reach the core poor, and do not create sustainable increases in living standards (Balisacan 1995; Bot 1994; and the Centre for Advanced Philippine Studies [CAPS] 1993). The criticisms relate to the large number of livelihood programs that proliferated in the late 1980s — there were over 150 of them in 1988; they have been consolidated to about 50 currently, and are in the process of being consolidated further. Moreover, the sustainability of income increases depends crucially on on-lending to the same borrower several times through continuing long-term relationships between lender and the borrower, an aspect most livelihood programs have not recognized in pursuit of the theme of graduation. The World Bank (1995a, 65) expressly excludes from its criticism two well-targeted programs in the Philippines: the Self-Employment Assistance Program (SEAP) run by the Department of Social Welfare and Development (DSWD), and the Grameen Bank Replication Program, which is credited with having substantially increased the incomes of very poor borrowers and having achieved high repayment rates, although at high operational cost. Those costs are expected to come down with the expansion of Grameen Bank replication NGOs through the ADB-financed Rural Microenterprise Finance Project (Loan No. 1435-PHI).

In formulating microenterprise programs, funding agencies like ADB should take a close look at the target group and be realistic about the contribution such projects can make. This will serve to focus attention on the need for other antipoverty approaches and projects that could complement microenterprise development.

Box 2.3

The World Bank's Proposed Poverty Reduction Strategy for the Philippines

In "Philippines: A Strategy to Fight Poverty," the World Bank (1995a) proposes that a poverty reduction strategy for the Philippines should include the following elements:

- continuing the strong focus on economic growth, driven by openness and competitiveness and accompanied by macroeconomic stability;
- improving access to the means of production by the rural poor by focusing rural land reform on the doable, promoting tenancy reforms and market-assisted land reform, and ensuring the essential investments in rural infrastructure and improvements in agricultural extension services necessary to raise productivity, and thus incomes;
- addressing the scarcity of affordable urban housing and threats to environmental health in urban areas by considering a program of urban land reform and extending water and sanitation services to poor urban areas, while slashing public spending on housing (which does not reach the truly poor);
- increasing investment in human capital by improving the quantity and the quality of primary education across the country, easing access to primary education in rural areas, and strengthening primary health services, especially immunization and prevention of water-borne and respiratory diseases; and
- consolidating and targeting the social safety net by closing down publicly subsidized livelihood creation and credit to the poor programs and ceasing general food price subsidies in favor of targeted income subsidies or food stamps and supplementary feeding programs.

Empowerment of Women

The empowerment of women is an objective that goes beyond increasing the income of low-income women. Women have other, less tangible priorities, such as a more equal role, and a greater sense of efficacy, within and outside the household. Microenterprise programs can lead to empowerment in its social as well as economic dimensions. The mobility of women and their access to information is strengthened by the process of participation in microenterprise program activities, including attendance at weekly meetings and other interactions in the public sphere that come about as a result of economic activities. Empowerment leads, in turn, to such social benefits as more education and lower fertility rates for girls.

Social and Economic Benefits

For Bangladesh, Schuler and Hashemi (1994) show that participation in Grameen Bank and BRAC is positively associated with a woman's level of empowerment defined as a function of her relative physical mobility, economic security, ability to make various purchases on her own, freedom from domination and violence within the family, political and legal awareness, and participation in public protests and political campaigning. Moreover, a positive effect on contraceptive use is discernible both among members and nonmembers in Grameen Bank villages. Contraceptive use goes up among members because they are better able to overcome the barriers to obtaining access to contraceptive services (lack of mobility, cash, information, among others). Contraceptive use goes up among nonmembers because of the diffusion effect of changing fertility norms in the village as a whole.

Khandker (1996) reports that male borrowing from Grameen Bank has reduced fertility by 7 percent by increasing contraceptive use to about 43 percent (see Table 2.1). Interestingly, this is not the case with female borrowing (because contraceptive use was already 17 percent higher in Grameen as compared to non-Grameen villages), indicating that family planning programs need to be targeted to men as well as women.

Table 2.1
Gender Differential Effects of Grameen Bank Borrowing
(percentage)

Changes in Indicator	Male Borrowing	Female Borrowing
Per Capita Expenditure	1.8	4.3
Boys' Schooling	7.2	6.1
Girls' Schooling	3.0	4.7
Recent Fertility	7.4	0
Women's Labor Supply	0	10.4
Women's Nonland Assetholding	0	19.9

Source: Pitt and Khandker, 1996, quoted in Khandker, 1996.

The extent to which women face barriers on account of a gender division of labor, legal and customary barriers to access to land, labor, and capital markets, and social attitudes toward women's work, mobility, and autonomy, differ across ADB's DMCs. Women constitute by far the largest share of borrowers of several major microenterprise programs in South Asia, both rural and urban, as they do in other DMCs.[2] Many of these programs are exclusively for women, and include a strong component of building up self-reliant women's organizations through which women can develop leadership skills and lobby to remove some of the policy biases, market distortions, and legal and regulatory constraints in the working environment facing them.[3]

Interestingly, because women have built up their creditworthiness as reliable borrowers over a number of years, they are now accessing much larger and longer term loans for their families.[4] This aspect of empowerment contributes to the role of women in decision making in the family, and to their status outside it. It is true that in some societies many loans made to women are either fully or partially controlled by men, while the responsibility for repayment remains with women. Nevertheless, such lending is still welfare enhancing. The problem is not so much that many women hand over their loans to men, but the broader one of finding new and productive economic roles for women so that more women can use their loans themselves. Unless progress is made on this front, "a simple emphasis on disbursing loans to women is likely to encourage tokenism and the reinforcement of gender roles..." (Hulme 1995).

A recent study indicates that some 39 percent of loans provided to women by four major NGOs are either fully or partially controlled by men, while a further 24 percent are partially controlled by them (Goetz and Gupta 1994). When women do control loans, it is usually for traditional women's activities. Interestingly, the Goetz and Gupta study does find that a higher proportion, or 55 percent of widowed, separated, or divorced women fully control their loans. As another study (Hossain and Huda 1995) relating specifically to female-headed households points out, "… it was commonly felt by widows and abandoned women that it was difficult and perhaps even pointless for them to take loans because they had no one to help them use it. A common finding among women who had taken loans, was that in place of the usual husband-recipient there was a son-in-law or brother who made use of the loan..." Out of eight women who had taken loans, only one used the loan herself, two dropped out, and five transferred the loan to a relative. Hossain and Huda point out that the social rules about what work women can do have not changed at the same rate as the deterioration of the traditional social safety net system (with natal households finding it increasingly difficult to afford to take back a widowed, abandoned, or divorced woman), and it recommends (i) a program of legal information on women's marriage, inheritance, and maintenance rights; (ii) the creation of wage-employment rather than (or in addition to) credit, given the extreme poverty and risk-aversion of female-headed households; and (iii) special efforts to identify and retain female-headed households in the program and safeguard against the tendency of field staff to exclude them because of concern about repayment problems.

It is clear that credit has a greater effect on household welfare when women are the borrowers. The impact of Grameen Bank credit on per capita household expenditure, schooling, supply, and nonland household assets are all higher, as shown in Table 2.1 (Pitt and Khandker 1996).

Given differences in cultural attitudes to women's work and autonomy, women's enterprises are relatively more important in some countries than in others. However, women's enterprises are present in all countries, and share certain common characteristics.

Characteristics of Women's Enterprises

Women's enterprises tend to be home-based because of their family responsibilities, and in South Asia because of traditions of female seclusion as well. Therefore, women tend to suffer from "invisibility," making it important that projects be very carefully designed to identify them. Chen et al. (1996) point out that land-surplus, labor-scarce communities often assign women work outside the home, whereas land-scarce, labor-surplus communities are more likely to confine women to tasks within the homestead. Similarly, the norms of good and bad behavior vary. In land-surplus and labor-scarce societies, women's mobility outside the home tends to be more condoned than in labor-surplus societies. However, it remains true across most regions and social groups that "poor women work — everywhere all the time" whether as (i) unpaid domestic workers; (ii) workers engaged in income-saving activities, collecting fuel, fodder, and water; or (iii) paid workers.

Another characteristic of women's enterprises is the high degree of concentration in activities with the lowest capital and skill-entry barriers, which makes them overcrowded, with low return, and subject to short-term volatility (high birth and closure rates). Due to the burden of domestic work, such enterprises tend also to be part-time, to constitute a secondary source of household income (the main source being the husband's wage labor), to be seasonal, and to be one of several multiple activities.

Because women's enterprises are concentrated in sectors with particular ease of entry and low returns, new starts and closures tend to be higher for enterprises run by women, and to be particularly sensitive to changes in the overall level of the economy. However, closures take place not only (or even mainly) because of business failures; better opportunities (including those afforded by other microenterprises), as well as personal reasons, such as illness and retirement, are also important. When personal reasons are taken into account, female enterprise closure rates are no higher (Liedholm and Mead 1995).

Women's enterprises tend to be more concentrated in livelihood enterprises which is why the two objectives of poverty reduction and women's empowerment largely overlap, and why it is all the more important that development projects serving those objectives reflect a thorough understanding of livelihood activities. Project design should carefully consider nonfinancial as well as financial services, which should be identified with the participation of women through the subsector approach. Funding agencies need to pay more attention to target groups within the female population (especially the widowed, abandoned, and divorced), rather than treating women as a homogenous group.

Employment Generation

Most enterprises do not grow in terms of number of people employed. While similar survey data do not exist for Asia, in a recent study of microenterprises in a number of African countries, three quarters of all enterprises that started with less than five workers had not added even one worker since start-up (see Table 2.2.).

Table 2.2

Growth Characteristics of Microenterprises

(percent distribution of all enterprises more than one year old that started with 1–4 workers)

	No Growth	Small Growth	Graduates	Total
All Microenterprises	77.2	21.7	1.1	100.0
Female-Owned Enterprises	84.7	15.2	0.2	100.0
Male-Owned Enterprises	75.1	23.3	1.6	100.0
Manufacturing Enterprises	88.5	10.7	0.8	100.0
Trade and Commerce Enterprises	76.2	23.5	0.4	100.0
Enterprises in Urban Areas	77.3	21.8	0.8	100.0
Enterprises in Secondary Towns	73.5	26.2	0.5	100.0
Enterprises in Rural Areas	77.5	21.3	1.2	100.0

Note: This table refers to all enterprises that had been in existence for more than one year, and that started with less than five workers. Those with missing data, those whose employment declined or grew by intermediate amounts are excluded from these statistics. These exclusions account for less than 5 percent of those covered by the surveys that started with less than five workers.

Source: Liedholm and Mead, 1995, Table 6.2.

In the fourfold classification used by Liedholm and Mead (1995), based on past growth performance in terms of number of workers added, viz:

(i) new enterprises in the start-up phase (new starts);
(ii) existing enterprises that had survived the perils of start-up but had not grown (no-growth firms);
(iii) existing enterprises that had shown small growth (small-growth firms); and
(iv) existing enterprises that had graduated and become "small" enterprises with ten or more workers (graduates),

Liedholm and Mead found that new starts (firms less than one year old) accounted for 28 percent of all small and microenterprises (SMEs) (Table 2.3). New start rates are typically higher than 20 percent a year, but closure rates are also high. Thus, there is considerable churning and turbulence in the microenterprise population. Net new starts (new starts less closures) contribute over 80 percent of SME employment in the long run, the rest coming from net enterprise expansion (enterprise expansion less contraction). In other words, at any one time, about 80 percent of the persons working in microenterprises are in jobs that were created when the microenterprise was formed.

Nongrowing firms constituted the largest share of the universe of firms (43 percent) and three quarters of all microenterprises that had been in existence for more than one year. The bulk of new starts and by definition all the no-growth firms correspond to the category of livelihood enterprises mentioned earlier and discussed further in Chapter 3. Nongrowing enterprises were very small (averaging only about 1.2 workers, smaller even than the average new start with 1.8 workers), and relied almost exclusively on family labor.

Small-growth firms (corresponding to the category of growth-oriented enterprises discussed further in Chapter 3) constituted only 12 percent of all firms, and a little over one fifth of all enterprises over one year old. However, the proportion of small-growth firms is much lower for women than for men (Table 2.2). While the majority of these firms continued to rely exclusively on family labor, nearly 40 percent had one paid employee. On average, with 2.9 workers, they were more than twice the size of the nongrowers (Table 2.3). The share of women as owners declined from 60 to 40 percent, but a larger percent of small-growth enterprises contributed a major source of family income.

Table 2.3
Characteristics of Microenterprises: Contribution to Income and Welfare

	New Starts	Non-growing Enterprises	Enterprises Experiencing Small Growth	Enterprises that had Graduated	Total of All Enterprises
Contribution to Employment					
Share of All Existing Enterprises	28.1%	42.8%	12.0%	0.6%	100.0%
Share of Employment Among Existing Enterprises	26.0%	27.7%	18.4%	5.1%	100.0%
Source of New Employment Over the Long Haul	80.0%	0.0%	10.0%	5.0%	100.0%
Average Number of Workers Per Enterprise	1.8	1.2	2.9	16.3	1.9
Part-time or Full-time Activities					
Average Number of Months Worked Per Year	10.6	10.9	11.2	10.7	10.9
Average Number of Days Worked Per Month	23.3	24.2	25.4	24.8	24.3
Contribution of SME to Household Income *(percent of all respondents in category)*					
100 Percent of Household Income	30.7	35.6	34.0	21.7	33.7
50–99 Percent of Household Income	33.3	35.5	41.9	59.5	35.3
Less than 50 Percent of Household Income	36.0	28.9	24.2	18.7	31.0
Contribution of Distributional Objectives					
Percent of Female Owners	26.9	60.4	38.5	8.4	54.2
Percent of Female Workers	47.0	55.1	35.9	8.9	42.2
Percent of Employment in Rural Areas	71.6	74.1	70.4	79.5	72.7

Note: All data are from six core countries (Botswana, Kenya, Malawi, Swaziland, Zimbabwe, and the Dominican Republic).

Source: Liedholm and Mead, 1995, Table 6.1.

Only about 1 percent of all microenterprises were *graduates*, but they accounted for one quarter of all new jobs created by the expansion of existing enterprises, excluding new starts. Jobs arising from the expansion of both small growth firms and graduates were more likely to reflect profitable business opportunities based on the experience of the entrepreneur because of the percentage of new starts reflecting the demands of people who would have to find any source of income.

The findings from Africa are consistent with the observation that the means through which poverty-reducing microenterprise programs make an impact is by increasing income rather than by generating new jobs. However, given the fact that there is a minority, but still considerable number in absolute terms of enterprises that do grow, there is also scope for microenterprise development programs that focus more narrowly on growth-oriented microenterprises. Such enterprises tend to have a more complex set of requirements for growth than simply credit, and the need to meet those multiple requirements simultaneously makes it all the more important to provide for the cost-effective delivery of nonfinancial as well as financial services to growth-oriented enterprises.

Private Sector Enterprise Development

Liedholm and Mead noted that while only 1 percent of microenterprises succeeds in graduating to a size of ten or more workers, graduates contributed about one quarter of all new jobs created from the expansion of existing enterprises in the African countries studied because each enterprise added substantial numbers to its work force. Moreover, although only a minuscule proportion of microenterprises graduated, the share of existing enterprises with ten or more workers that started as microenterprises was much larger, about half. Proponents of private sector development see microenterprises as a fertile source of entrepreneurship for the future, a sort of seedbed for the universe of enterprises. In countries where the number of medium and large-scale enterprises is sparse, especially in the private sector, the importance of microenterprises as an incubator of new enterprises becomes even more important, as in the case of the Lao People's Democratic Republic and Mongolia. Setting maximum loan size liberally may be conducive to this objective, although possibly detrimental to the poverty reduction objective — an example of potential trade-offs. ❖

Endnotes

[1] India introduced a nationwide social security program covering these items for the poor in the 1995 budget. A suggestion has been made that it would be useful to divert resources to it from the Integrated Rural Development Programme (IRDP) (see Box 6.1) which is a program with repayments of only 30 to 40 percent. Unfortunately the balance 60 to 70 percent does not go entirely to the borrowers; much of it is lost to the delivery system.

[2] An example is the Grameen Bank replication program in the Philippines, being supported by ADB under the Rural Microenterprise Finance Project. In Bangladesh, women account for over 90 percent of borrowers and credit volume in Grameen Bank, and about 70 percent in BRAC.

[3] Examples are the ADB-supported Microcredit for Women Project in Nepal under Loan No. 1237-NEP(SF), the Rural Women's Employment Creation Project in Bangladesh, the Action Aid project in Viet Nam and even the more growth-oriented United Nations Development Fund for Women (UNIFEM) program in Mongolia through the Women's Federation. Some of the best known are the Self-Employed Women's Association (SEWA) in India, WWF in Madras, India, and Shakti in Dhaka. Interestingly, these are urban NGOs.

[4] An example is Grameen Bank's relatively large (maximum Tk50,000) family loans, and relatively long-term (eight year) housing loans and sanitary and tubewell loans (both for two years).

CHAPTER THREE

MICROENTERPRISES AND THEIR HETEROGENEITY

Contrary to common assumption, microenterprises are highly heterogeneous. As our understanding grows of the characteristics, dynamics, needs, and constraints facing different types of enterprises, it is becoming possible to replace the scatter-shot approach of the earlier generation of microenterprise projects with more differentiated interventions that takes this diversity into account.

This chapter first considers different dimensions of microenterprise heterogeneity and suggests that the most useful distinction between enterprise types for programmatic purposes is that between livelihood activities and enterprises with the potential for growth. The chapter then discusses how each of these types lends itself to the different development objectives and forms the client group of two different types of programs (livelihood programs and microenterprise programs, respectively). Finally, the chapter discusses some characteristics of enterprises of both types that should be recognized in designing and implementing microenterprise projects.

Dimensions of Heterogeneity

Some aspects of microenterprise diversity are size, gender, location, and sector of activity. Most microenterprises are single-person, owner-operated enterprises or slightly larger units engaging one or more family members. Enterprises that hire wage employees tend to be the exception.

A higher proportion of livelihood enterprises tends to be owned and operated by women than do growth-oriented microenterprises. Indeed, women-run livelihood enterprises outnumber those run by men in many countries. Certain livelihood enterprises tend almost invariably to be run by women, and indeed to be viewed as women's enterprises in some cultures, such as poultry rearing and weaving. In the seven countries studied in Liedholm and Mead (1995), the share of enterprises owned by women ranged from 46 to 84 percent, with women owning more than half in four countries (or 54 percent in the six core countries). Given the high share of single-person microenterprises, they also constituted the majority of the microenterprise work force in three of these countries (42 percent in six countries).

There is no standard classification by sector and subsector of activity for microenterprises. National level statistics tend most often to follow the Standard International Industrial Classification, but this is too highly aggregated to be of use for project design purposes, and in any case, is often not available for microenterprises separately as defined in this study. A standard classification system could be adopted for purposes of comparison across countries and over time within countries, as suggested in Table 3.1.

The Survival-Viable Enterprise Dichotomy

The most useful classification of microenterprises from the policy point of view is with respect to their needs and the constraints they face. A distinction often made in the literature is between "survival" (sometimes called "subsistence") enterprises on one hand, and "viable" enterprises on the other. A "survival" activity is said to be one into which the entrepreneur is often pushed for want of more profitable alternatives, whereas one is attracted, or pulled into a viable activity by considerations of profitability, and is an entrepreneur by choice. In the former case, the activity is often just one of many part-time or seasonal activities undertaken to support family income, whereas in the latter case it is usually the main source of family income. In the case of survival activities, usually no skills or very rudimentary skills are involved, so that there are very low-entry barriers to the activity, and it is overcrowded. In the case of "viable" activities, considerable experience and skills are often involved which restrict entry. In the former case, net earnings tend to be used for survival, whereas in the latter some part of the surplus is reinvested in the expansion and growth of the enterprise, with potential for growth, such as seamstresses or tailors moving into garment making. While the distinction between “survival” and “viable” enterprises in the form above is useful from a descriptive point of view, the value-laden terminology it uses has misleading implications for policy and should therefore be used carefully, if at all.

First, while it is true that many persons are “pushed” into survival activities, once in them, they often stay in them by choice, not only because they do make a living out of them, but for a variety of psychological reasons that are not easy to quantify. Comparisons with alternative possibilities in wage labor need to be made carefully because of difficulties in comparing the strenuousness and drudgery involved, as well as those psychological reasons, such as the sense of autonomy derived from “being one’s own boss.”

Second, survival activities are indeed often among several secondary sources of income of the household, while viable activities are more often the primary source. Survival activities tend to grow rapidly during times of macroeconomic stress. Several studies in DMCs have found that most of the enterprises financed by microenterprise programs are secondary sources of household income, and are often seasonal, intermittent, and part-time. However, it is misleading to move from this finding to the normative conclusion that survival enterprises do not require assistance. The challenge is to increase the vital supplement to the household income they represent. There may be a need to balance the abandonment of certain goods and services with the general process of growth. The effort should be to make them more productive as long as they exist. If they are part-time or seasonal, programs should be designed that take this into account.

Third, most survival enterprises do earn small surpluses. The fact that the surpluses tend not to be reinvested for expansion is not an inherent characteristic of survival enterprises. Rather, it is a reflection of the poverty of the entrepreneurs who operate them. They tend to apply their surpluses to household expenditure to sustain and raise their level of living (which is the main rationale for livelihood programs) because it is rational for them to do so, provided they are assured of the availability of further loans on a continuing basis (see Ghate, Ballon, and Manalo 1996).

Table 3.1
A Suggested Sectoral Classification of Microenterprises

	Sector	Livelihood Enterprises
1	Noncrop agriculture-related activities	Pig, goat raising, milch-cattle, backyard poultry, vegetable growing on leased land, fruit trees on homestead, sericulture
2	Trading	Small kiosk, ambulant vegetable vending, buy-and-sell fish
3	Food and refreshments	Juice stand, small tea-shop, candy and snack stall
4	Food and agro-processing	Rice cakes
5	Manufacturing	
	(a) Textiles	Pit loom, seamstress
	(b) Wood, rattan, bamboo, and grass products	Mat and basket weaving, rattan furniture
	(c) Footwear and leather	Wayside shoemaker
	(d) Bricks, tiles, and pottery	Village potter
	(e) Handicrafts	Hats for local market
	(f) Fabricated metal products and repair services	Simple agricultural implement maker, roadside bicycle repair
	(g) Other manufacturing	
6	Fishing	Single-person fishing boat
7	Transport	Cycle rickshaw, mule, bullock-cart
8	Other services	Wayside hairdresser

Fourth, the potential of survival enterprises for growth is usually limited by a host of factors relating to both the environment, and to the lack of skills of the entrepreneurs themselves. The absence of skill requirements in survival activities does indeed result in low barriers to entry and to overcrowding. Very few survival activities have the potential for growth beyond a certain size and level of income yielded, and this is the crucial distinction between the two types of enterprises.

Growth-Oriented Microenterprises
Stall-fed mini-dairy of high-yielding cows, "scientific" poultry or duck raising, fish fry, and fingerling raising
Larger grocery store, vegetable wholesaling
Restaurant or tea-shop at busier location with hired employees
Packaged candies, processed meat products, perhaps with labels
Power loom, garment maker, bulk orders for uniforms Larger furniture-making unit Larger ready-made footwear-making unit, leather bags Larger brick-making unit More sophisticated handicrafts for the export market Small engineering workshop doing job work, repairs to heavier agricultural implements
Larger mechanized boat with crew members
Mechanized three-wheeler, hand-tractor rental services
Beauty parlor

This study retains the essential dichotomy between survival and viable enterprises (or activities), but dispenses with its value-laden terminology to use the term "livelihood enterprises" for survival enterprises and "growth-oriented microenterprises" for viable enterprises. "Livelihood enterprises" is a term widely used in at least one country in the study, the Philippines. Livelihood enterprises are also commonly referred to as income-generating activities, “sideline” activities, or self-employment activities.

The fourfold classification used by Liedholm and Mead (1995) is based on past growth performance in terms of number of workers added. Liedholm and Mead’s work provides valuable insights into designing interventions that take into account different needs of the four types of microenterprises. They point out that high-enterprise birth rates (usually over 20 percent) as well as high attrition rates, both suggest caution in engendering new starts. They suggest it would be more useful to ensure a higher proportion of survivals by restricting new starts to those with prior experience, and to encourage on-the-job and other skill training programs for those without the requisite skills.

For nongrowing enterprises, the focus should be on increasing incomes through efforts to reduce costs, increase sales, or switch product lines. Both financial and nonfinancial assistance can contribute to each of these objectives, as Table 3.2 shows. An important

Table 3.2
Assistance Options and Objectives to Raise Enterprise Income

Objective	Financial Assistance	Nonfinancial Assistance
Reduce costs.	Lower interest rates on borrowed funds; more access to credit makes it possible to buy inputs in bulk, therefore at lower prices.	Better management or different production technology means lower costs per unit.
Raise volume of sales.	More access to credit makes it possible to purchase more inputs and thereby increase sales.	Better marketing systems can open up access to larger markets.
Switch to more productive product lines.	New products may require more fixed or working capital.	Product adaptation can help to serve a more profitable market.

Source: Liedholm and Mead, 1995, Table 6.4.

second goal would be to increase the number of such enterprises that succeed in growing. However, as Liedholm and Mead point out, the most serious problems nongrowing enterprises face, the availability of markets and inputs, are not amenable to credit-based solutions. Effective programs to address these noncredit needs must operate primarily at a systems level.

Liedholm and Mead's work is a major breakthrough in categorizing microenterprises in a policy-relevant way. However, the essential next step is to disaggregate enterprises on the basis of sector and subsector of activity, as it is the nature of the activity of an enterprise that largely determines its needs and constraints.

Growth is, of course, also a function of the characteristics of the entrepreneur. However, the eventual size that an enterprise is likely to assume is much more a function of the inherent nature of the activity it seeks to carry out. An enterprise grows to settle within a fairly standard size-range for that activity, given average entrepreneurial capabilities.

To begin to derive such a typology of livelihood and growth-oriented microenterprises based on sector and subsector of activity, an attempt was made in country studies to look at a few livelihood enterprises and microenterprises in each sector in a little greater depth than is possible in the course of a survey. Box 3.1 summarizes the findings of the study of Mongolia.

Table 3.3 summarizes the major differences between livelihood enterprises and microenterprises.

"Potential for Growth," the last of the differences in Table 3.3, relates to the different development objectives to which the two types of enterprises lend themselves. Livelihood enterprises have a contribution to make toward the objective of poverty reduction, and because they are run in large part by women, to increasing the share of household income that accrues to women, thereby empowering them. Microenterprises, on the other hand, make a contribution to growth objectives by generating employment not just for their operators, but for wage employees hired by them. Moreover, as noted in Chapter 2, they constitute a seedbed for the emergence of small and medium enterprises, although only a small proportion of them graduates.

Table 3.3
Major Differences Between Livelihood Enterprises and Growth-Oriented Microenterprises

		Livelihood Enterprises
1	Capitalization	Relatively low
2	Education	Little formal education
3	Skills and Experience	Relatively low, except for skills acquired traditionally, as in handicrafts; trading often a fertile training ground for later manufacturing of same product
4	Gender	High (often majority) participation of women
5	Sector	Higher proportion in livestock, backyard poultry, food processing, and petty trading
6	Competition	Usually function in perfectly competitive markets with low barriers to entry and little scope for cutting costs by intensive use of family labor and even by offering credit
7	Seasonality	Often seasonal, tied to crop cycle, school year, major festivals
8	Contribution to Household Income	Usually a secondary source (although vital)
9	Whether Only Enterprise	Usually one of several “multiple” enterprises (to compensate for seasonality and low returns)
10	Use of Hired Labor	Infrequent, mostly use family labor
11	Surpluses and Reinvestment	Surpluses limited and often plowed back into household expenditure
12	Use of Credit	Trading activities often started on a consignment basis, livestock acquired on a profit-sharing basis, boats and rickshaws on lease; however, in order to compete, often become net lenders, especially in trading and restaurants
13	Potential for Growth	Limited in terms of new employment generation, but offer scope for increases in sales, productivity, profitability, and income; growth blocked often by demand constraints, resource constraints (artisanal fishing), and physical constraints (space in home and yard)

	Microenterprises
	Higher, but initial capitalization often similar
	Usually at least secondary schooling
	Higher, more often acquired through vocational training and/or previous wage employment
	Lower participation of women, but still high in many cultures
	Higher proportion in manufacturing and services requiring skills
	Often occupy “niche” markets with more scope for specialization and product differentiation
	Less affected by seasonality and function throughout the year, even if at varying levels
	Often primary
	Usually the only enterprise
	More common, often relatives or children
	Reinvestment of surpluses the norm
	Credit available from a wider range (informal and semiformal) and a greater two-way flow of credit so that microenterprises are more often net lenders than livelihood enterprises
	Have growth potential; number of workers higher, with more paid employees; employment usually of “higher quality”

Box 3.1

Mongolia: Some Findings from the Country Study

Microenterprises in the urban areas of Mongolia fit into three categories: (i) street trading; (ii) small-scale production, "suitcase" trading, and services; and (iii) small growth-oriented businesses. Categories (i) and (ii) are livelihood enterprises. However, street trading is separated from other livelihood enterprises (category ii) because it engages the poorest and most vulnerable sections of society and has grown rapidly during the ongoing transition process from a state-controlled to a market-based economy.

Street vending of a number of goods such as bread, cigarettes, sweets, soft drinks, and vodka, and the provision of street services such as shoe shining and repair and leather coat cleaning, was an important source of income for 16 percent of households in an urban sample. There is both gender and age specialization in the goods and services provided. Interestingly, income from the street trading activities case-studied was relatively high in relation to the poverty line, daily earnings ranging from Tg500 to Tg4,000 (as compared to a poverty line of Tg4,200 per capita per month). However, income variability is also high, quite apart from the risk of fines and seizures, street trading being illegal.

Those involved in other livelihood activities are often wage earners supplementing their incomes part-time, or during vacations, as with suitcase trading of goods brought back from Russia and the People's Republic of China. One third of the household enterprises were involved in trading, either within the country or across its borders, a surprisingly large number. Investment typically ranges from Tg10,000 for hand-crafted production activities such as tailoring, to Tg100,000 for suitcase trading (as compared to Tg1,000 to Tg3,000 typically invested in street trading).

Small growth-oriented enterprises were operated by only 12 percent of the sample urban households and had investments upwards of Tg800,000. This segment consists predominantly of food-processing enterprises (such as bakeries, sausage making, and dairies) and restaurants and canteens, but also of some new services such as money changing. Many of the units were purchased during the privatization process, and as in other countries, engage wealthier, better-educated entrepreneurs, many of them former state sector employees with experience in the activity. While very few street traders move up a microenterprise ladder, many of the suitcase traders who have done well expand their activities to opening a kiosk or renting space in a market place or shop to retail foods imported by other traders.

Both livelihood activities and growth-oriented enterprises are strongly affected by seasonality given Mongolia's climatic extremes; examples are the demand for winter boots and hats, or the supply of meat, flour, and dairy products. Combined with poor infrastructure and the collapse of the former state sector-dominated raw material supply system, an assured and regular supply of raw materials is a major problem for a large number of activities. While individual enterprises attempt to protect themselves by buying materials (such as flour, meat, or leather) in bulk and storing them, this raises the demand for working capital, and pushes the burden of supply shortages onto other units. Clearly a viable economy-wide solution entails systemic improvements and higher investments in transportation and storage infrastructure.

Another common constraint for many activities is the lack of work space. Until recently, production was concentrated in large state enterprises. The new micro and small enterprises that are replacing them are mostly forced to work out of apartments or *gers*.

There is also a need for greatly expanding and improving sources of technical and business skills training. This is especially important if greater advantage is to be taken of import substitution and export opportunities, of which there are plenty given Mongolia's rich variety of animal products (for example, leather jackets).

The rural economy is overwhelmingly pastoral and almost every family has a herd of animals (27 out of 30 in the rural sample, the 3 households that did not have animals being among the poorest). Animal and dairy products are both consumed at home and offered for sale. Trading of livestock products was the most prevalent activity (47 percent) followed by handicrafts (boot making and traditional clothes production) and

(continued next page)

Box 3.1 *(continued)*

carpentry (14 percent). The lack of demand on account of the sparseness of the population and lack of purchasing power are by far the most important constraints in the rural areas.

Nonanimal product activities that have good prospects are vegetable storage (given the fivefold price fluctuation over the year because of the short growing season) and vegetable processing, not only pickle making (which is widespread, but which still shares the market with imports from Bulgaria), but also other potential new products (for which, however, demand will have to be created), such as dried vegetables, crystallized vegetables, potato crisps, sauces, and chutneys.

Livelihood Promotion and Growth-Oriented Microenterprise Development

Just as assistance rendered to the two types of enterprises corresponds to two different sets of development objectives, these objectives themselves correspond to two major types of programs. These sets of correspondences are shown in Figure 3.1.

Livelihood programs have poverty reduction as their main objective, and seek to upgrade the productivity or increase the turnover of the multitude of livelihood enterprises. They entail bringing about small improvements for many enterprises, often providing only credit, which is why they are sometimes characterized as being "minimalist." Growth-oriented microenterprise programs, on the other hand, have enterprise development as their immediate objective and attempt to lift microenterprises to a qualitatively higher level of sustainability, setting them on the path to long-term growth, and seeking to provide a comprehensive range of services, including credit, training, technical assistance, and the inculcation of business skills. Being more staff-intensive and entailing forms of assistance which, with the exception of credit, take a longer time to deliver, growth-oriented microenterprise programs can reach a much smaller number of enterprises. There is a trade-off, therefore, between making a short-term impact on poverty,

Figure 3.1
Two Types of Programs

Microenterprises consist of	*Livelihood Activities*	*Growth-oriented Microenterprises*
Which lend themselves to the objectives of	*Poverty Reduction and Women's Empowerment*	*Employment Generation and Enterprise Development*
Through	*Livelihood Programs*	*Microenterprise Programs*
Entailing	*Enterprise "Expansion" (but usually only one step up)*	*Enterprise "Transformation" ("Escalator")*

mostly through self-employment on the one hand, and longer term growth-oriented enterprise development on the other, but for a much smaller number of direct beneficiaries.

Project Design Challenges

In the project design process, organizations delivering credit should consider the following:

- The vast majority of enterprises are livelihood enterprises, and the vast majority of beneficiaries of livelihood programs are existing enterprises.

- The main benefit of livelihood programs for existing livelihood enterprises is higher turnover and productivity, and, therefore, income earned, and not new employment, although underemployment of the main operator and the family will decrease.

- Livelihood programs will reach some persons previously unemployed by helping set up some new livelihood enterprises which will result in both income and employment benefits.

- It is possible to make the very broad generalization that credit alone, unaccompanied by other inputs, tends to be more relevant for the "middle" poor operating livelihood enterprises, especially nonmanufacturing livelihood enterprises such as trading and agro-processing where working capital requirements are high. Credit alone is less relevant for the poorest of the poor starting new livelihood enterprises for whom skills training and social preparation are as important, or for the borderline poor for whom training, technology upgradation, marketing assistance, and the availability of inputs may all be more important than stand-alone credit. In designing projects it is important that project designers are careful to reach the poorest of the poor by adopting the design features noted in Chapter 2 being certain to include the requisite nonfinancial services as well.

- Project designers and organizations delivering credit should be very wary of model schemes purporting to show high profitability without assessing the probability of attaining it, or in other words, the risks involved. These will vary by borrower income level. A classic case is backyard livestock, which is prone to high mortality and disease, especially among the poor. According to studies done in Viet Nam, the general perception is that only half of pig-raising enterprises succeeds. The moral is not to avoid livestock, but for project designers and implementers to assess the risks through prior surveys and provide for their mitigation (in this case through veterinary care, training, and vaccinations) and to set up insurance mechanisms.

- Project designers need to be aware of the minimum economic size and the optimum size of an enterprise, so that they can match loan size to the project.

- Project designers need to be aware of cash flows, gestation lags, seasonality, and so on, so that they can adjust maturity periods and repayment schedules accordingly.

- Project designers need to be aware of complementarities between enterprises so that they can make "joint" loans for two or more multiple enterprises.

- Generally, project designers need to be much more aware of the economics and dynamics of each activity. While it may not be possible to pick winners all the time, NGOs need to be more interventionist at least in not financing certain activities which they know to be overcrowded and where one producer can only expand at the expense of another (as in fishing, or neighborhood grocery stores where there is little prospect of growth of demand), or by inflicting environmental externalities, such as brick kilns using wood fuel.

- Project designers need to be much more aware of the binding constraints facing each activity. This entails taking a close look at each activity, with the individual activity as the basic building block for identifying constraints facing a large number of similar activities.

Project designers should be clear about their objectives, and develop an understanding of both the environment in which microenterprises operate, and the microenterprises themselves. The inclusion of nonfinancial services is as important as the financial services. ❖

CHAPTER FOUR

THE FINANCIAL SERVICES APPROACH

The financial services approach looks upon the improvement of financial services for the poor as a worthwhile objective in its own right. Elements of the approach have already been noted: a demand-driven provision of services without restrictions on end-use, and the importance of long-term continuing relationships between clients and service providers. This chapter considers issues of financial sustainability, savings mobilization, and integrating financial services for the poor with the formal financial sector.

Financial Sustainability

Financial sustainability (sometimes called self-sufficiency) is not an end in itself, but the means of reaching a large and growing number of persons through microfinance programs. The key finding of a recent study is that with very few exceptions, microfinance programs that have pursued financial sustainability have achieved far greater outreach than programs that have provided subsidized credit and relied on continuing donor support to make up the resulting losses (Christen, Rhyne, and Vogel 1995). Financial sustainability is essential for continuing program growth, and is part of the virtuous cycle of sustainability increasing outreach, which in turn increases sustainability.

Financial sustainability is sometimes distinguished from institutional sustainability which is a broader concept relating to the existence of well-institutionalized systems and procedures to ensure sound management, continuity, and growth of an organization, and its lack of dependence on the leadership of any particular person. Financial sustainability is an essential but not a sufficient condition for institutional sustainability.

There are essentially two stages of financial sustainability. The first is operational sustainability, in which the revenues of an institution (or set of institutions in a program) cover its operational costs, usually defined to include loan-loss provisions and depreciation. The second stage is full financial sustainability when the institution succeeds also in covering adjustments for inflation and subsidies, treating all of its funding as if it had a commercial cost. Most microenterprise development projects include financial as well as nonfinancial components. Clearly, the objective of attaining financial sustainability applies only to the former.

There will be borderline cases in which a component, although not strictly financial, is so closely linked to credit delivery that it may not be possible to disentangle the costs entailed in providing it. An example of this may be seen in the ADB-financed Rural Microenterprise Finance Project (Loan No. 1435-PHI), a Grameen Bank replication project in the Philippines in which NGO field staff are to be trained to organize groups and then train group members in the norms of credit discipline and Grameen Bank procedures. Through this component, a credit reception mechanism will be created without which the credit delivery system could not function.

It is increasingly accepted that there is a case for subsidizing such "social preparation" for credit delivery by subsidizing the cost of funds to MFIs, rather than providing grants or concessional loans separately for noncommercial costs and market-priced loans for regular lending. This is the rationale for the concessional terms at which the Palli Karma Sahayak Foundation (PKSF), a Bangladeshi apex finance institution, will lend to MFIs under the World Bank's Poverty Alleviation Micro-Finance Project (at rates ranging from 3 to 4.5 percent for small and medium NGOs and at 5 percent to large NGOs) rather than changing to a loan-cum-grant system which would have imposed an administrative and reporting burden on MFIs and required changing the present accounting system. As a loan condition, PKSF is required to help MFIs develop a cost accounting system that separately measures the cost of lending and nonlending services.

Social intermediation is more a lending than a nonlending (or nonfinancial) service because it represents credit reception, which is the other side of the coin of credit delivery. It is necessary, also, to distinguish the share of nonfinancial services that some of the more holistic NGOs attempt to provide, such as skills training, and sometimes even marketing, and other forms of assistance. An argument the PKSF loan uses to justify the subsidy is the need to encourage NGOs to build up their equity base so as to increase their long-run sustainability and their outreach by bringing banking to the doorsteps of the poor, and to strengthen their ability and willingness to provide non-financial services.

However, it should be noted that ADB's project in the Philippines involving NGOs using the same (Grameen Bank) lending technology has a much higher cost of funds to NGOs of 10 percent, and NGOs borrow not just for credit funds but for social preparation, although at a lower rate of interest than for credit funds. Thus, in terms of cost recovery, ADB's latest microfinance project, Rural Microenterprise Finance Project, is well ahead of the latest World Bank microfinance loan in Asia. The World Bank loan does, however, stipulate as another loan condition that PKSF establish as a policy that its level of support to an NGO would depend, among other things, on the NGO's progress toward financial sustainability, and that it establish standards that would measure such progress.

PKSF's rates are lower even than the rate offered by the banks and some NGOs on savings. As noted above, if NGOs are to be encouraged to step up reliance on savings, and their members encouraged to save with them, it would seem important that the lending rate to NGOs be at least equal to the savings rate offered by the banks. However, so as not to discourage local savings mobilization by MFIs, the composite rate at which funds are made available should not, as a rule, be less than the weighted average interest rate offered by the banks on deposits.

Preferred Financial Intermediaries

In general, funding agencies should avoid including institutions in microfinance projects as credit intermediaries unless they offer the clear prospect of achieving full financial sustainability in the medium term. This principle would appear to rule out government agencies which are not legal entities and therefore are not able to borrow funds or accept outside equity. More importantly, these institutions tend to suffer from rapid turnover in personnel, discontinuity in leadership and mission definition, and procedural rigidities. Government corporations do not suffer from the objection that they are not legal entities. However, they generally lack the financial management skills that a specialized MFI has or is more likely to acquire. However, they are not much better placed than government agencies in terms of effective autonomy, freedom from political interference, or staff morale and commitment. They usually have broader objectives than an exclusive focus on providing financial services sustainably to the poor.

Specialized MFIs take on a variety of forms that include NGOs, cooperatives, credit unions, or banks. The banks are either branches of commercial or cooperative banks, or stand-alone "banks for the poor" such as Grameen Bank or BancoSol in Bolivia, all of which have evolved out of NGOs.

The advantages of using NGOs as credit conduits is that many of them exhibit a strong focus on the poor, such as the Grameen Bank replication NGOs in the Philippines. Some of them have acquired considerable mastery of financial services skills. However, they suffer in comparison to credit unions and other member-based or mutual institutions, whether formally registered or not, and private banks, in not having any private owners who are spurred to diligence because their own funds are at risk. They tend often to be personality-tied institutions, thereby showing uncertain prospects for financial sustainability.

Banks offer a variety of potential advantages, including a commercial outlook and relatively sophisticated skills. They tend to be much larger than mutual institutions. As profit-making institutions, they are already dedicated to the goal of financial sustainability, although in practice they are often not financially sustainable, especially government-owned banks which are often saddled with "social responsibilities" and tend to have lower staff morale and motivation than private commercial banks.

The greatest potential advantage of banks is that they are going concerns, and mainly require grant assistance to adapt traditional banking practices to the requirements of lending to the poor, rather than large injections of loan funds (although lines of credit providing such funds can be an incentive). Second, they are also in a position to mobilize deposits, although here, too, they need to "downsize" traditional savings instruments to the requirements of the poor, and, as recommended below, steps need to be taken to introduce a prudential regulatory system which would allow nonbank MFIs to mobilize deposits, too. Third, they have an extensive branch network in the rural areas in many countries.

Therefore, there are four alternative models of channeling microfinance to borrowers:

- The “transformation” model, a model which helps specialized nonbank MFIs such as NGOs, reach financial sustainability and commercial scale and become banks. BRAC in Bangladesh has applied for a banking license. In Indonesia, the local level, semiformal intermediaries such as the Lembaga Dana Kredit Perdesaans (LDKP), must convert to unit rural banks, or Bank Perkreditan Rakyats (BPRs), by October 1997, or stop accepting deposits. Several Indonesian NGOs are setting up new BPRs and transferring their credit operations to them. In Nepal, two NGOs conducting Grameen-type lending have assumed the legal status of regional rural development banks (RRDB).

- Another model would be to “downsize” existing commercial banks and other profit-making financial intermediaries so that they reach down and include microenterprises in their lending to individuals.

- There are banks that may be “linked” with mutual institutions of the poor including informal savings and credit (or “self-help”) groups which lend directly to such groups through NGOs acting as facilitators of such lending.

- There is a “wholesaling model” in which the banks and apex finance institutions (AFIs) lend to NGOs and other MFIs as credit intermediaries, with NGOs being willing to borrow and on-lend at their own risk.

In Bangladesh and the Philippines, the banks have largely opted out of microfinance. Under financial liberalization, both countries have abolished credit quotas and cheap refinancing of the formal banks.

The vacuum created by the demise of the rural banking system in the Philippines has left the market for small loans underserved. One reason why the ADB-financed NGO Microcredit Project 1 (Loan No. 940-PHI) disbursed so fast was that there was, and still is, a vacuum in credit supply at the lower end of the market and loan funds largely intended for poorer and smaller borrowers were rapidly absorbed by the larger ones who would normally be served by the formal banks in a properly functioning system (see Box 6.2).

In Bangladesh, while the specialized banks such as Bangladesh Krishi Bank (BKB), and the commercial banks have special microenterprise lending programs funded by donors, the volumes are small compared with NGO credit. The commercial banks are potentially interested, however, in wholesaling to NGOs in Bangladesh and the Bank of the Philippine Islands has been making loans to NGOs in the Philippines.

Both Bangladesh and the Philippines have a dense network of credit NGOs and other MFIs, and it has been possible for governments and donors to use NGOs as conduits for microfinance. NGOs need to increase their operational efficiency so as to be able to progressively dispense with concessional funds, compete with the banks for savings, and borrow from the banks and AFIs (both countries have them) at increasingly commercial rates, as discussed in the next two sections of this chapter. Thus, from being a parallel donor-funded financial system for the poor at present, the NGO credit system needs to move in the direction of sustainability, with MFIs becoming the bottom end of an integrated financial system, specializing in retailing mostly borrowed funds from the banks and AFIs, and providing savings services to the very poor. The flows involved in the "wholesaling model" may be described as follows:

Multilateral Development Bank → *Apex Finance Institutions* → *Credit Nongovernmental Organizations* → *Borrowers*

or

Local Branch Banks → *Credit Nongovernmental Organizations* → *Savings and Credit Groups* → *Borrowers* or

Commercial or Specialized Bank → *Credit Nongovernmental Organizations* → *Savings and Credit Groups* → *Borrowers*

Not all countries have such a dense network of credit NGOs. Many countries, such as India and Indonesia, have an extensive rural bank branch network. Indonesia is the world leader in the "downsizing" approach. The flows involved in the "downsizing model" are as follows:

Local Branch Banks → *Borrowers*

For India and Nepal, the "linking approach" may offer the best prospects for the future. In this approach, NGOs, instead of acting as financial intermediaries, act as facilitators, mobilizers, and catalysts, helping to channel bank credit to the poor who are usually organized into groups. The approach has been popularized by the German Agency for Technical Cooperation (GTZ), and the International Fund for Agricultural Development (IFAD), and indeed has been adopted by ADB in Nepal. The "linking model" is likely to become the dominant model of microfinance in a number of countries in the region, wherever bank branch networks exist:

Local Branch Banks → *Savings and Credit Groups* → *Borrowers*

Women's Development Corporation ······ *Credit Nongovernmental Organizations*

The linking model is already in place in Viet Nam, one of two transitional economies in the study. The Viet Nam Bank for Agriculture (VBA) has a dense branch network and has been lending both directly

Box 4.1
Savings by Women's Groups and Linking Them to the Banks

By the end of 1994, about 3,400 informal women's groups, organized under the IFAD-assisted Tamil Nadu Women's Development Project in India, with about 78,500 members, had saved about Rs26 million (about $1 million). The average saved per member was approaching Rs500 in some districts. Each group meets regularly once or twice a month when members save a fixed amount of between Rs10 and Rs20. Most of the savings are used for lending out within the groups in amounts of between Rs500 and Rs1,000 for medical expenses, house repairs, repayment of old debts, school expenses, social commitments, and productive purposes. The availability of these loans provides a safety net for the use of larger loans extended by the banks to individuals directly, minimizing their diversion to emergency consumption purposes and other credit needs for which the banks do not lend. The loans are usually short term and bear an interest rate of between 2 and 3 percent a month. Interest income is plowed back into group funds. The repayment rate is close to 100 percent as these are members' own savings.

Under the National Bank for Agriculture and Rural Development (NABARD) guidelines, the banks are encouraged to lend to self-help groups of between 10 and 20 members, whether formal (registered) or informal, which have saved regularly for at least six months, have established a successful track record of rotating these savings for intergroup lending, and which keep proper accounts. The amount of the first loan should bear a reasonable relationship (of not more than 1:4) to the accumulated savings of the group, but subsequent loans can be for larger amounts as the group builds up its credibility. No collateral is required and the bank does not concern itself with the identity and loan purposes of the individual members to whom the group on-lends.

The interest rate is the same as for individual loans, or 12.5 percent, but the transaction costs to both bank and borrower are much lower. According to one study of a sample of actual loans made so far, the transaction cost to the bank was 40 percent lower than direct loans of the same size to individuals, and will come down further as loan size increases.

Borrower transaction costs were found to come down even more, by about 85 percent, to persons receiving loans through self-help groups. NABARD refinances the banks for self-help group loans at 6.5 percent. It extends bulk loans to intermediary NGOs, such as Friends of Women's World Banking (FWWB), at 8.5 percent for on-lending to smaller NGOs. A bank branch on-lending to an intermediating NGO charges 10.5 percent. The final on-lending rate to a self-help group or federation of self-help groups cannot exceed 12 percent, but there is no restriction on the rate the self-help group (or federation) can charge its own borrowers.

A study of groups organized under the more recent Maharashtra Rural Credit Project (MRCP), also IFAD-financed, found that self-help group savings had grown faster than expected at the time of appraisal. The office bearers of the groups were mostly elected on the basis of consensus. Most of the groups maintained basic accounts and records. Some of the groups had started internal lending and a few had received their first linking loans from the banks. It is encouraging that most of the groups in MRCP have been organized not by NGOs, whose presence is limited in the project districts but by *sahayoginis* (or animators) appointed by the Maharashtra Women's Development Corporation (there is one in every state) and trained with the assistance of NGOs. A third project, the National Women's Development and Empowerment Project, financed jointly by IFAD and the World Bank, seeks to extend the concept to five more states, and using credit through self-help groups as the entry point, develop them as the platform for other aspects of empowerment such as literacy and the dissemination of information on family planning, health, nutrition, and legal rights. It expects the groups to be able to absorb an average of about Rs180,000 spread over three loans over about five years.

The experience of the projects confirms worldwide experience that poor rural women respond immediately to the opportunity to save small amounts regularly, and manage to rotate their savings as small flexible internal loans with an almost 100 percent repayment rate. However, the strength and cohesiveness of the groups depend a great deal on the care and patience with which they are organized and trained. It is essential to let them develop at their own pace. The new project proposes to stipulate that the groups must conduct interlending for a minimum of one year before

(continued next page)

Box 4.1 *(continued)*

they become eligible for a linking loan. Some refinements that have to be made on the basis of further experience are allowing the minimum monthly payment to vary by season, allowing members to save more than the minimum, especially after they have received a bank loan, paying interest on savings (as the Cooperative Development Foundation does) and allowing members to draw on their savings in emergencies and to withdraw their savings on leaving the group (so that the savings are not merely disguised equity). A great deal more needs to be learned about group dynamics and ways to encourage genuine participation, including that of the poorest women. Training needs to be strengthened in the keeping of basic accounts and minutes of meetings. Arrangements for annual audits need to be streamlined. However, given organic development along healthy lines, self-help groups offer the best prospect of developing into a system of consumption and petty production credit without which any program seeking to extend longer term and larger investment loans will remain unviable. Moreover, they provide a means of channeling those loans to poor borrowers at the least transaction cost and without subsidies.

to the poor, and through the "linking" approach to joint-liability groups organized by the Women's Union and other mass organizations which have tremendous grassroots outreach and were previously essentially political in nature, but are now looking for a new social and economic role. In reaching about half of the roughly 50,000 savings and credit groups organized by the Women's Union, or about 5 percent of the total number of households, Viet Nam may have one of the largest linking programs in the world. However, the members of the groups belong mostly to the middle third of rural households and those in the poorest third are still excluded.

Mongolia is rehabilitating the Agricultural Bank which has the widest rural outreach, and the Mongolian Women's Federation (MWF) could play a similar role to its counterpart in Viet Nam. MWF is one of the NGOs facilitating lending (to individuals, not groups) under the ADB-financed Employment Generation Project (Loan No. 1290-MON). It has also been intermediating funds from UNIFEM and other donors to women microentrepreneurs. Group lending is the exception rather than the norm, but given the sparseness of Mongolia's population, this will have to be resorted to more widely, especially in the rural areas, if greater coverage of microenterprises is to be achieved. The World Bank in its new Poverty Alleviation for Vulnerable Groups project, is planning to make grants to rural *sums* (administrative units) to set up revolving funds out of which loans can be made to Vulnerable Group Organizations for collective and presumably individual activities.

The linking approach is crucially dependent on fully compensating NGOs for their mobilizing work. There is a need to carefully assess the amount of work involved at the time of appraisal and fund it adequately, with the right efficiency incentives.

Savings

It is only recently that savings have been given an equal place with credit in microfinance. To rectify the balance, a "no credit without prior savings" approach to microfinance came into being, best exemplified by GTZ and IFAD in their series of projects around the world, linking banks with savings or self-help groups. Under this approach members have to establish a prior history of savings, and the amount of credit extended by the bank is geared to the amount of savings.

In contrast, another approach may be characterized as the "savings with credit approach" in which savings take place side by side with credit activities, ideally out of incremental income generated by credit, but often, in practice, out of existing income.

Under the first approach, savings are mobilized by group members themselves and either re-lent or deposited in a bank or MFI where they serve as collateral for group loans. Under the second, the savings are mobilized primarily by MFIs, which utilize them as a source of funds. Either way, while the typical savings installment may be so small as to appear trivial, savings can build up rapidly over a period of time to constitute a significant financial asset for the saver and a significant share of the outstanding loan portfolio of an MFI. Savings already account for about one third of the funding base of Bangladeshi MFIs, helping to sustain an outstanding loan volume of almost $500

Table 4.1
Sustainability of Bangladesh Microfinance Institutions

		Loan Disbursement *(Tk million)*	Borrowers *('000)*	Average Loan Size *('000 Tk)*
		I. Mostly Credit		
Large				
Grameen Bank	1992	5,200	1,280	4.1
	1993	10,622	1,680	6.3
	1994	13,912	1,861	7.5
Medium				
Association for Social Advancement	1992	195	86	1.9
	1993	573	198	2.9
	1994	887	262	3.4
Small				
Samaj Unnayan Samity	1992	0.1	0.1	0.7
	1993	1.6	0.8	2
	1994	3.7	1.4	2.6
		II. Multipurpose		
Proshika	1992	224	340	1.5
	1993	303	374	0.8
	1994	423	561	1.3
BRAC	1992	733	287	2.5
	1993	1,368	476	2.8
	1994	2,035	706	2.8

Notes: Figures in parentheses are subsidy dependency indexes (SDIs) for 1994, 4.

1 Interest income as percent of operating costs (total operating costs for credit-only MFIs) and estimated credit-related costs of multipurpose MFIs.
2 Interest income as percent of operating cost including financial expenses.
3 Interest income as percent of operating cost plus imputed economic cost (10 percent) of grant funds, concessional loans, and savings.
4 An SDI of 1.0 implies that interest rates would have to increase by 100 percent to eliminate all forms of subsidy.

Source: World Bank, 1996.

Savings/Loan Outstanding *(percent)*	Sustainability Ratios *(percent)*		
	Operational[1]	Financial[2]	Economic[3]
34	89	88	56
27	114	93	66
30	137	98	75
			(0.22)
22	160	160	121
34	143	139	101
41	145	113	102
18	—	—	—
14	148	115	98
18	166	109	109
—	61	61	38
—	58	58	36
—	74	74	41
			(3.16)
32	111	89	69
29	90	73	60
30	120	96	72
			(1.06)

million annually, as shown in Table 4.1. Grants and concessional loans are estimated to constitute 37 and 30 percent of the funding base respectively, with the share of grants going down and that of loans increasing, especially with the large, new World Bank loan of $105 million to PKSF.

The most important argument for encouraging savings mobilization relates not to the sustainability of MFIs but to that of the borrower. As noted in Chapter 2, savings help give the poor a degree of control over their lives without which the productive utilization of credit is not possible.

Enhancing the Attractiveness of Microfinance Institution Savings

To enhance their attractiveness, savings must be liquid. The five attributes of savings of interest to borrowers are (i) safety; (ii) yield (or interest); (iii) liquidity; (iv) convenience; and (v) reciprocity (the expectation that making a deposit will entitle the saver to a loan). The formal sector performs better on the first three, and the semiformal on the last two. For the typical member of an MFI, there is little choice between the two sectors as a repository of savings is academic because the formal sector does not accept very small savings. Nonetheless, to entice a growing volume of savings, MFIs need to increase the attractiveness of their savings services on all five fronts.

Many MFIs are now offering bank rates on deposits despite the fact that their unit transaction costs of accepting very small deposits are higher. The use of borrowers' savings by MFIs in Bangladesh tends to fall into two categories. The mainly credit NGOs such as Grameen Bank and the Association for Social Advancement (ASA) pay members for the use of their savings at the commercial bank rate. However, the savings are not liquid; borrowers are not allowed to withdraw savings until they cease being members. Other MFIs such as Proshika do not use borrowers' savings for credit, but require members to save regularly through the banks.

Being much closer to the "ground," MFIs have a strong potential advantage in terms of convenience, although many of their procedures (such as weekly attendance at meetings, although desirable for other reasons) tend to dilute this advantage considerably (see below). The principle of reciprocity is, of course, built into most microfinance programs, with all members not only being entitled, but usually expected to borrow. Interestingly, the principle of reciprocity pushed to this degree becomes a disadvantage instead of an advantage.

It is important to note the distinction between compulsory and voluntary savings. The former involve up-front deductions made from loans at the time of disbursement and compulsory weekly savings thereafter. Voluntary savings usually take the form of additional weekly savings, the size of which depends on the borrower. While the Grameen Bank mandatory savings requirement has changed from time to time, presently 5 percent of the principal is deducted and credited to a "group fund" which in principle is self-managed and can be used for mutually agreed purposes but in practice is used by Grameen Bank as part of its fund base. Another Tk5 per every Tk1,000 of loan amount is contributed to an "emergency fund" managed by Grameen Bank to pay for insurance against potential default because of death or disability and to pay for life and accident insurance of members. In addition, each member has to buy one equity share of Tk100. Weekly savings are typically Tk5 to Tk10 per member (with a prescribed minimum of Tk5) which go into a fund managed by the group itself, out of which emergency consumption loans can be made to members. Montgomery (1996) describes the various features of "illiquidity" in BRAC's savings system (compulsory weekly savings, a security deposit, and contributions to the Group Trust Fund deducted from loans) which renders savings unavailable as a potential coping strategy.

Compulsory (or "forced") savings are often criticized as not being genuine savings and something to be discouraged. Forced savings raise the effective cost of borrowing and make this cost difficult for the borrower to assess. However, this can be remedied by making interest rate computations more transparent and making borrowers more aware of the concept of effective interest. In addition, the interest rate should be expressed monthly on a current balance (and not flat) basis. Viet Nam, because of historically high inflation rates, expresses interest rates on a monthly basis.

It should be recognized that compulsory savings play an important role in the formal sector, too, as in pension and provident funds, or in any scheme in which the borrower undertakes a commitment in advance, to save according to a predetermined schedule.

What is important is that savings, whether compulsory or voluntary, are quickly accessible and can be relied upon in the variety of contingencies discussed in Chapter 2, or, in other words, that they are liquid. While some savings will be withdrawn to meet these contingencies, it is likely that a much larger volume of savings will be forthcoming voluntarily, so that the savings program gains on balance.

Another argument for emphasizing savings mobilization is that it increases the sense of ownership of borrowers and thereby strengthens repayment discipline. This is best seen in mutual institutions such as credit unions and informal savings and credit groups in which the fund base consists entirely of members' own savings. Finally, savings deposited with MFIs serve as implicit collateral for members who borrow.

Prudential Oversight of Deposit Acceptance by Nonbank Microfinance Institutions

Providing for an optimal degree of prudential oversight of MFIs' savings activities is often overlooked. To the extent that most NGOs only accept savings from borrowers and that amounts borrowed exceed amounts on deposit as savings, prudential concerns are less pressing with nonbank MFIs such as NGOs, than with banks which accept deposits from nonborrowers as well as borrowers. This is the reason why some central banks have not encouraged in most countries deposit mobilization and use for on-lending by NGOs, even in countries where deposit mobilization is ubiquitous and encouraged by donors, including ADB in its projects.

It is increasingly being argued that NGOs should not confine deposit acceptance only to borrowers. Given the pervasive demand for savings services, NGOs should introduce a much broader and flexible range of savings services for both borrowers and nonborrowers. For example, Bank Rakyat Indonesia (BRI) mobilizes about twice as much in deposits as it disburses as loans by more than five times as many as savers, through the unit *desa* system.

There are many poor persons who do not want to borrow but want accessible financial services that will enable them to save conveniently, frequently, and in small amounts. Rutherford's view

(1996) is that under the Grameen Bank system, the poor can save only by going into debt, and that at 20 percent a year, and only by attending 50 separate compulsory daytime meetings to make their savings contributions. For most men, and particularly the laboring poor who depend on scarce job opportunities, this is a very high cost, especially as many projects do not offer meetings after working hours. Rutherford observes that many Bangladeshi NGOs are already offering savings services to nonborrowers, such as "deposit pension schemes" in which the saver makes recurrent deposits (collected at the saver's doorstep by mobile collectors). Other "savings only" NGOs allow members the chance to accumulate capital at their own rate, without the stress of the weekly repayment regime. One such NGO is BURO Tangail in some of whose groups one third or more of members save without taking loans.

As MFIs move into extending the range of their savings services to nonborrowers, there will be a need for an appropriate regulatory framework and institutions for monitoring compliance with it. It has been suggested that self-regulation by networks of NGOs themselves, such as the Credit Development Forum in Bangladesh, could provide part of the answer. AFIs with sufficient outreach might be able to take on the task because there would be economies of scope between prudential regulation and its other functions. PKSF in Bangladesh is certainly such an institution. Another possibility would be entrusting the task (for a fee) to a bank with a sufficient branch network. In Indonesia, BRI and the provincial-level banks are entrusted with the task of supervising the local-level financial institutions, a task not always performed altogether successfully; this is one reason for requiring LDKPs to transform themselves into full-fledged banks as BPRs.

The World Bank's loan to PKSF provides for a study to be carried out by the Bangladesh bank to formulate a suitable regulatory system. In the Philippines, ADB's latest Rural Microenterprise Finance Project requires the government to carry out by June 1997, a policy review of existing rules, prepare appropriate prudential regulations, and initiate draft legislation by the end of 1997. ADB's Microcredit for Women Project (Loan No. 1237-NEP) in Nepal also requires the government to develop a regulatory framework for NGOs to act as financial intermediaries within a year of loan effectiveness.

Linking Microfinance Institutions to the Formal Sector

Despite the crucial importance of increasing the savings of the poor, conceptually there is no reason why MFI lending operations cannot be based entirely on equity, plowed-back surpluses, and commercial funds borrowed from the banks and AFIs, provided lending costs are low enough and interest and fee income high enough to pay for such borrowing.

While MFIs are in a better position than the banks to mobilize savings from the poor, as we have seen, the formal financial sector has a comparative advantage in mobilizing a much higher volume of savings from the economy as a whole. On the credit side, MFIs enjoy a comparative advantage in retailing credit to the poor, while the formal banks are better suited to “wholesaling” it to MFIs for on-lending to the poor, or wholesaling it to groups of the poor directly. In the long run, linking the two sectors in an integrated financial system increases the efficiency of the system as a whole and is the optimal solution. While this may seem a distant goal, it is important to have a clear vision of the goal so that the financial system can move toward it.

The goal may not be as distant as it seems. Agrani Bank in Bangladesh recently made a loan of Tk40 million (about $1 million) to ASA, the country’s third largest NGO, on commercial terms. At a time of excess liquidity, it made sense for the commercial bank to lend to a reputable NGO that had transparent accounting procedures and had attained sustainability. For ASA, it was an attractive increment to its funds base even at 9 percent.

There are some other linkage possibilities being discussed, mostly involving larger NGOs, which have either achieved operational sustainability or are on the verge of achieving it. It will be some time though before the flows involved become a significant source of funds for the sector as a whole. For the smaller NGOs, financing by an AFI such as PKSF in Bangladesh, is a more realistic possibility, both because a higher degree of concessionality is required by the smaller NGOs and only a specialized AFI has the expertise to appraise the typical small NGO. Progress in increasing transparency in accounting will be an important factor in increasing linkage flows. AFIs are discussed in Chapter 5. ❖

CHAPTER FIVE

OPERATIONAL APPROACHES TO SUPPORT MICROENTERPRISE DEVELOPMENT

Lending through Apex Finance Institutions

In projects involving global lines of credit from ADB for on-lending, it was not possible to make a large number of relatively small loans to individual NGOs or other MFIs for lending to final borrowers. ADB has lent through government agencies, such as the Department of Trade and Industry (DTI) for the two Philippine NGO Microcredit projects, or boards, such as the Bangladesh Rural Development Board (BRDB), to on-lend to NGOs and cooperatives respectively, with the attendant disadvantages that these organizational forms have as credit intermediaries.

There are several advantages in lending through AFIs, which can be thought of as development finance institutions for MFIs:

(i) AFIs allow for the buildup of a critical minimum level of expertise in poverty lending within a single institution.

(ii) By virtue of continuing links with the credit NGO sector, over time AFIs are in a much better position to gain an understanding of the particular financing needs of the sector than are organizations with many other concerns and functions.

(iii) AFIs are in a better position to appraise and monitor loans and take timely remedial action if need be.

(iv) AFIs fulfill a valuable training and institutional development role, and open a separate window for capacity building of their NGOs or "partner organizations."

(v) AFIs contribute to the development of indicators and standards of financial performance and to a system of transparent accounting and reporting.

(vi) AFIs can assist the central bank in supervising prudential regulations.

(vii) AFIs provide a means for several donors to pool their financial assistance, and to build up the requisite degree of expertise and professionalism, in one organization.

(viii) Finally, AFIs provide a means of moving toward an integrated financial system, linking the formal sector with the microfinance sector by borrowing from the banks and mixing the commercial funds thus obtained with concessional funds obtained from funding agencies or governments.

The essential feature of such an AFI is that it must be autonomous. Only this will enable it to withstand political pressures in lending and recovery decisions, and allow it to build up a professional management and staff. It is interesting to compare the experience of the two AFIs that were promoted by the World Bank in the late 1980s, the Janasaviya Trust Fund in Sri Lanka and PKSF in Bangladesh. The former failed to "take off" for a variety of reasons, but the most important was a perception of political bias in its choice of partners to work with. Moreover, its "management culture, staffing and relationships with other institutions reflected a public sector orientation rather than the 'dynamic, outgoing and creative organization' envisioned by project documents" (Bennet and Goldberg 1993).

PKSF, on the other hand, has retained its character as an autonomous institution, which was strengthened further in late 1995, with a change in its constitution to give the Governing Board and not government, the authority to appoint the Managing Director. PKSF has full autonomy on staff compensation and recruitment. Thus far, it has received funding from the government on a grant basis but will only receive loans in the future and will pay 1 percent on the 20-year, $105 million World Bank loan. It expects to continue to recover its costs including an appropriate loan loss provision from its lending margin (see Box 5.1). PKSF and the Indian AFI, Rashtriya Mahila Kosh (RMK) are described in Box 5.1. Two other countries that have fledgling AFIs in the study are the Philippines and Nepal.

In the Philippines, the People's Credit and Finance Corporation (PCFC) has been designated as the primary entity for the provision

Box 5.1

Apex Finance Institutions:
The Palli Karma Sahayak Foundation, Bangladesh,
and the Rashtriya Mahila Kosh, India

PKSF was set up as an AFI in 1990 to assist promising small- and medium-size NGOs to expand their microcredit programs. It is registered under the Companies Act as a nonprofit organization. Overall direction is provided by a 25-member governing body, about half of which consists of private sector members, including leading personalities and social workers of international repute. Policies and operations (including loan approvals) are the responsibility of a Governing Board consisting of seven members. The Chairman and two other members of the Board are appointed by government; the former, however, cannot be a serving official. Three other members, who are individuals of high repute with outstanding achievements in development are selected by the private sector members of the Governing Board. The Governing Board selects the Managing Director.

The Board has full autonomy on staff compensation matters. Salaries are higher than those of government and even large, national NGOs. Moreover, professionals must have first-class masters' degrees. PKSF employs about 40 professional staff.

PKSF has received grants of Tk750 million so far from the government. By 1995, it had made loans to about 125 NGOs (or partner organizations, who have about 1.2 million members), at rates ranging from 3 to 4.5 percent per annum (depending on size), with maturity periods of three years. PKSF encourages its partner organizations to fully recover recurring credit delivery and funding costs from interest income and lays down a minimum lending rate to final borrowers of 16 percent. It favors the gradual expansion and capacity building of its partner organizations, prefers no specific model, encourages innovation, and seeks to learn from and diffuse innovations through a program of research and evaluation. Overall, PKSF's independent and autonomous governance structure and prudent operation policies have been

(continued next page)

Box 5.1 *(continued)*

responsible for its almost 100 percent repayment rate since inception, and for having greatly increased the access to loan funds of well functioning small- and medium-size NGOs and their borrowers.

Although much smaller, RMK provides an interesting contrast to PKSF. In the first place, although registered as a society in 1993, it is for all practical purposes part of a line ministry, the Department of Women and Child Development, with the Secretary chairing the loan approval committee (consisting of one state government representative and three NGO representatives). RMK has only a skeletal full-time staff with little field experience with NGO credit and management positions being occupied by ministry officials. Second, it prescribes a maximum lending rate of 12 percent at which ultimate borrowers can receive loans. Because it lends to NGOs at 8 percent, this leaves little margin to intermediating NGO borrowers to cover organizing, training, and other social intermediation costs. RMK does grant 1 percent of the loan amount to the NGO to meet these costs on a matching basis, but this is insufficient.

Third, short-term loans of 15 months have to be repaid by NGOs in quarterly installments, and long-term loans of three to five years in half yearly installments. This schedule prevents NGOs from fully rotating the loan fund within the maturity period of the loan so as to enable them to make repeat loans to borrowers. The assured prospect of repeat loans is necessary, not only to enable borrowers to finance their enterprises, but because it constitutes one of the strongest incentives for timely repayment.

of credit services to the poor. It was set up as a corporation in 1993, primarily with resources transferred from the National Livelihood Support Fund (NLSF) but with share subscriptions also held by the Land Bank of the Philippines and nine private individuals. It is located in the bank and will be managed initially by staff transferred from NLSF. Apart from lending to MFIs, it will assist in their institutional development. PCFC has been set up as a financial institution, and with the expansion of its operations, assisted by further injections of equity, is projected to continue to be profitable. It is intended that PCFC will be privatized, with majority ownership by NGOs, partner organizations, and cooperatives. PCFC is the executing agency of ADB's Rural Microenterprise Finance Project for which it will receive funds through the Land Bank of the Philippines (the official depository and trustee bank) at 5.25 percent for on-lending at 10 percent. The project entails a much lower degree of concessionality than the World Bank's loan to PKSF.

The Rural Self-Reliance Fund in Nepal has been (much as the Viet Nam Bank for the Poor) set up in the central bank, under a committee headed by a deputy governor and with two full-time staff. It has been funded by budgetary grants so far, and wholesales to NGOs and savings and credit cooperatives in amounts up to 15 times the savings mobilized by their members. It has lent Rs11 million to 47 NGOs and savings and credit cooperatives since it was set up in 1991. The loans are for a maximum of three years, at 8 percent per annum, but with 6 percent refundable for timely repayment. The on-time loan recovery rate has been only 80 percent so far, largely on account of ten cases of willful default occasioned by the hope that because it is government money, it will one day be converted into a grant. It has been suggested that RSRF should consider the possibility of becoming an autonomous institution along the lines of PKSF in Bangladesh and PCFC in the Philippines to set a precedent for ADB's proposal to lend through NGOs as credit intermediaries in Stage III of the Microcredit for Women Project.

Nonfinancial Services and the Subsector Approach

Credit is very often neither the only nor the most important requirement for the success of an activity. Credit tends to be relatively more important in capital-intensive activities which do not require any demanding skills and in which backward and forward linkages are not problematic. Examples are many forms of processing where working capital requirements are high, or in transportation services where the initial fixed capital outlay is lumpy. Retailing and wholesaling are also working-capital intensive.

However, noncredit inputs such as design, product development, market information, and marketing assistance are usually much more important for a large number of manufacturing activities such as handicrafts. Appropriate technology development and the provision of common facility centers also often have an important role to play in assisting manufacturing enterprises. Wherever skills and know-how are involved, as in animal husbandry, sericulture, a large number of services, and in many manufacturing activities, skills training is crucial. Business skills training and entrepreneur development training are important for growth-oriented microenterprises. Veterinary services are required for animal husbandry. Generally speaking, noncredit inputs and support services are particularly important for growth-oriented microenterprises, and activities with relatively numerous backward and forward linkages, such as manufacturing.

Trading and services usually require fewer nonfinancial services, with the exception of training in services which are skills-based. "Social intermediation" is regarded as a financial service, because it is inextricably tied up with credit delivery for the poorest of the poor, making possible "credit reception," and constituting the other side of the coin of credit delivery.

A recent paper for the Inter-American Development Bank categorizes "business development service" delivery mechanisms as (i) networks (associations of entrepreneurs which provide mutual support); (ii) subcontracting and franchising; (iii) technology transfer; (iv) counseling (or business advice or mentoring on a range of topics, usually delivered through one-on-one interaction); (v) consultancies (often conducted on-site and related to solving a specific problem); (vi) business incubators (or what are referred to as a common facility center above); and (vii) referral centers. These service mechanisms are targeted on four aspects of business activity: (i) production; (ii) marketing (the most common); (iii) management; and (iv) regulatory compliance. Two examples from Asia included in a matrix are the Association of Craft Producers in Nepal (a network which offers shared production facilities to craft producers), and the *retaso* worker project of Save the Children in the Philippines (a network that provides marketing assistance by eliminating the intermediary in input and output marketing (see Box 5.4). Training is treated separately (Goldmark 1996).

Given the multiplicity of noncredit as well as credit inputs required for various activities, only an organization with a detailed understanding and considerable experience in a particular subsector is in a position to identify all the inputs and support services required. It takes considerable field experience to identify all the bottlenecks constraining an activity because many constraints reveal themselves only in the process of implementation. The constraints change as implementation proceeds. While only one constraint may appear to be binding currently, it is often replaced by another when one has been removed and the activity has grown. Box 5.2 describes how BRAC's program to improve the quality and quantity of backyard poultry raising in Bangladesh evolved as a series of responses to different bottlenecks over time.

There are a number of subsector-specific promotional organizations in the government sector in most countries such as silk boards, dairy development corporations, and handicraft training-cum-production centers. There are also sector-specific functional organizations such as (i) research institutes (for leather and food processing); (ii) industrial estates that also provide common services such as testing and other quality control facilities (diamond and gem processing "parks"); (iii) training centers; and (iv) financial institutions dedicated to particular sectors. However, organizations in the government sector tend to be less effective in catering to the needs of micro as opposed to small and medium enterprises on account of such factors as wide geographic coverage, inflexible procedures, and the pressure to show results which can be more quickly attained by focusing on a clientele above the micro level.

There is a need for subsector-specific NGOs to complement organizations in the government sector. Usually operating in a smaller area, they have the advantage of detailed local knowledge, better motivated staff, more flexible procedures, and a more focused commitment to the micro sector. Such NGOs would carry out at least five tasks. One of these we have already noted — the diagnostic and analytical task, which is itself a continuous process, a subsector study being only the beginning.

The second, and perhaps most important role is to access and make available to enterprises in their subsector a greater flow of existing support services offered by the government sector (extension,

Box 5.2
Some Subsector Interventions by BRAC

By 1994, BRAC's backyard poultry program was reaching 55,000 poor village women who are given training in the rearing of a flock of about 14 birds as a supplementary source of household income and nutrition, and are supported by a system of trained vaccinators, feed suppliers, and egg sellers. The main constraint the program faced when it started in the late 1970s was the unavailability of high-yielding variety chicks. The system that has gradually evolved to supply these is a network of specialist chick rearers who rear day-old chicks supplied by government hatcheries and distributed by trucks provided by BRAC. About 600 chicks are reared in batches for two months each by the chick rearers who complete three to four cycles a year. The trucks are eventually to be run by the producers in village organizations, set up by BRAC.

As chick rearing increased, high mortality from diseases became a problem. The solution eventually found was to train village women to administer vaccinations for a fee, creating another source of supplementary income. A third bottleneck that was solved was to train other village organization members to become feed producers and merchants. A final constraining problem as the activity grew was that of egg marketing. The solution found was to extend credit to village organization members to become egg traders, collecting their eggs from the vaccinators. All the activities were supported by credit, but what made them successful was their integration into a package by BRAC which accessed the Directorate of Livestock and Poultry for training services, and the Danish International Development Agency (DANIDA) for financing the operational expenses.

BRAC has similar subsectoral programs for sericulture, livestock, fisheries, and irrigation. They have been developed by sector specialists who work on breaking each successive sectoral bottleneck as it emerges, and in providing training and consultancy to borrowers and staff. Without these development infrastructure services, the productivity of the activities financed would have been much more limited.

veterinary care, training), or what is usually referred to as the linking role. Thus, in Bangladesh, BRAC works with the Directorate of Livestock and Poultry to arrange for the training of women backyard poultry operators, day-old chick rearers, and vaccinators (Box 5.2). Creating business linkages with services provided by the private sector is another aspect of this role. Encouraging "linkages" of small microenterprises with larger firms has been a long-standing objective in microenterprise development as through the encouragement of franchising and subcontracting, but has been receiving increased emphasis lately by some funding agencies (such as USAID through its recent Microenterprise Initiative). Very few new concrete ideas have emerged, however, although one possibility being discussed in Indonesia is tax incentives for procurement from microenterprises, and tax write-offs for investments in training microenterprise suppliers.

National business associations are involved in one way or another with small, if not microenterprise, promotion. GTZ's Small Business Promotion Project in Nepal is using the business chambers in Nepal as one of the channels through which to provide entrepreneurial training under the Competency-Based Economics Through Formation of Enterprises (CEFE) program (see Box 5.3), known locally as the New Business Creation program. IRIS, an international NGO in Nepal, has been considering providing gender-sensitive training to the office bearers of selected district units of national business associations such as the Federation of Nepal Chambers of Commerce and Industries and the Association of Nepal Chambers of Commerce and Small Industry to increase effective local support from these organizations for women microentrepreneurs. In the Philippines, the Philippine Chamber of Commerce and Industry participated in several "flagship projects" as part of the declaration of 1996 as Small and Medium Enterprise Development Year by the President, including (i) the setting up of one-stop SME centers; (ii) the Big Brother-Small Brother Program targeted to result in the conclusion of procurement and technology transfer relationships with at least 500 SMEs in 1996; and (iii) business encounters between small and large firms to be organized by DTI.

NGOs in Nepal are attempting to link handicrafts producers with private exporters. To this end, IRIS is considering assisting efforts to establish and gain acceptance for quality standards and standardized product descriptions for various product categories, and to disseminate these through national and local business associations. It is also considering assistance for strengthening mechanisms to disseminate information on input suppliers and output buyers, setting up data bases through local networks such as the Women's Entrepreneur Association of Nepal (WEAN). The idea is not to duplicate inputs and services already available elsewhere by attempting to provide them oneself, but to channel them to microentrepreneurs, usually by organizing the latter into groups so that they can be reached more easily, and so that they can put pressure on the system to be served.

There will often remain, however, crucial gaps in the existing infrastructure of support services. In such cases it may be necessary for the NGO to fill these gaps. This is the third possible function of a subsector-specific NGO. Examples are a feed-mixing plant, the services of a technician or a veterinarian, the provision of a vehicle, and the setting up of a design center, showroom, or storeroom, to enable the bulk procurement of supplies of raw materials to take advantage of price discounts. WEAN in Nepal has set up a cooperative showroom in Kathmandu. Handicraft production and exports took off in Negros in the Philippines with the setting up of a showroom in Bacolod with the assistance of the provincial government.

The principle in each case is for the NGO to undertake a capital, skill, or management-intensive function itself, at least initially, while leaving the actual process of production in the hands of the individual producer. It has been applied in fields as diverse as dairying (by the world famous Anand system of cooperatives in India which undertakes health care, chilling, transportation, processing, and marketing); pottery production (where kiln-firing and the procurement of coal and other raw materials is centralized in the mother unit); fisheries; waste fabric recycling (in which the NGO provides input sourcing and marketing services; see Box 5.4); and handicrafts (in which design and marketing are the main services usually centralized).

Adhiti is an NGO applying the concept to fisheries in Bihar, India, where it has organized about 30 women's groups of about ten members each to develop and carry out fish culture in about 80 village ponds. After long, drawn-out negotiations with the district administration, Adhiti managed to obtain the ponds for its members on ten-year leases. It then assisted the groups in making the ponds suitable for fish culture by developing them (through deepening and weeding, and constructing embankments and inlet and outlet channels). The costs are to be recovered as loans to the groups. The project is headed by a technical specialist and engages eight social animators as field workers. To support the groups, Adhiti has developed a hatchery, breeding unit, and training center (Economic Development Associates 1994).

Pekerti is an organization in Indonesia dedicated to preserving traditional handicrafts and organizing local associations of craftsmen into self-reliant groups, mobilizing their own savings, and assisting them with product development and export marketing. Pekerti works with local craft NGOs in various parts of the country, contributing to their staff expenses initially, but seeking to graduate NGOs to full partnership after a few years. Because of its credibility and reputation for careful quality control, Pekerti has developed trade with importers overseas, many of them "alternative trade organizations" such as Oxfam and other members of the International Federation for Alternative Trade. It is in a position to ask for partial prepayment, which is then passed on to the producing groups, easing their financing needs. Some producer groups have also been able to access the banks on the basis of purchase orders from Pekerti. Ninety percent of Pekerti annual sales are to the export market. During the 1980s, the growth products were baskets, wooden toys, and jewelry. In the 1990s, export demand has shifted to inexpensive jewelry (made out of wood and silver), woodwork, and batik clothing. In the domestic market, the high performers have been decorative articles and accessories (bags and purses); textile demand has sharply declined. Pekerti headquarters in Jakarta is divided into marketing development and production development units. The latter includes a small team of designers who work on product development based on feedback from overseas buyers. Pekerti fully covers its operational costs by sales and consultancy business revenues. However, about four fifths of development and training costs are covered by bilateral donors.

In Viet Nam, a group of mostly international NGOs working with handicrafts groups have formed Craft Link, which acts as a wholesaler and retail distributor for its member groups, and intends to use the commission it earns to expand its training, designing, and low-cost sourcing of raw material services. Unlike Pekerti, Craft Link sells most of its members' products through periodic crafts bazaars to the local expatriate market, and is in the process of setting up a retail showroom in Hanoi. The focus has mostly been on (i) mountainous ethnic communities whose intricate weaving and basketry is in high demand for its rarity; and (ii) disadvantaged groups in the urban areas, especially street children. Craft Link hopes eventually to access the export market of alternative trade organizations which are also known as fair trade organizations, because they educate their customers on the importance of the producer receiving a higher share of value added, and of adequate working conditions.

The concept is similar to the nucleus-estate smallholder concept in agriculture projects, with processing and technical assistance being provided to the smallholder by the nucleus estate. It helps if there is a clustering of activities in particular locations, as there often is, based on the availability of raw materials or a traditional skill. In filling gaps, an NGO enjoys economies of scale. The detailed understanding of the subsector acquired in filling one gap puts it in a unique position to identify others. Moreover, relationships built up with clients in filling one need, enables it to obtain their cooperation in meeting others' needs.

While an NGO may undertake an activity itself initially, it may seek eventually to transfer it to an organization of clients themselves. Thus, in its poultry project in Tamil Nadu, the Professional Assistance for Development Action (PRADAN), an Indian NGO, has organized its assisted broiler poultry producers (each with 300 birds) into basic units, or clusters of about 15 producers each. Each basic unit is represented by its office bearers in the general body of a registered association. The association runs a hatchery and feed plant, and provides training, marketing, and technical backstopping services through staff headed by a chief executive recommended by PRADAN, but appointed by the board of the association. The present chief executive is a poultry technician with several years of service in the private sector. Members pay a monthly fee for the centralized services. It is expected that the association will eventually become financially self-sustaining. PRADAN has similar subsectoral projects in mushroom growing, sericulture, horticulture, and irrigation in other parts of the country. Also, Adhiti has set up a separate registered association of its fisherwomen groups, which is expected to take over the management of the project. Similarly, in BRAC subsector projects, a number of activities are carried out by the village organizations, such as leasing of land for mulberry cultivation, leasing and development of village ponds for fisheries, and so on.

Thus, a fourth function subsector-specific NGOs have to fulfill is organizational development. Two aspects of this role have already been noted: organizing producers into groups so as to achieve economies of scale in the delivery and reception of services, and forming organizations (often cooperatives or registered societies) to own and manage the infrastructure created in the gap-filling role. A third objective of organizational work is to undertake policy advocacy and put pressure on the system. Thus, leather workers organized by PRADAN in Uttar Pradesh in India, have been agitating to protect their traditional rights to flay dead carcasses against the proposal to auction these rights off to contractors who supply the hides to the large-scale tannery sector.

Policy advocacy is a fifth important role of subsector-specific NGOs. Through access to the media and the representational system, NGO publicists and activists have done much in some countries to make the voice of the poor heard. With their expertise in the requirements of the sector, they are often in a position to influence policymakers at various levels of government. As noted in Chen et al. (1996), "...in working with vegetable vendors, SEWA in India, moved from membership cards (which served as licenses) for the women, to lobbying against cases of harassment by the local police, to lobbying against unfair prices by wholesalers, traders, and input suppliers, to winning a Supreme Court case which mandated that municipal governments provide space in municipal markets to street vendors." SEWA distinguishes between what it calls "development" strategies and "struggle" strategies. Unlike BRAC which organizes its members into neighborhood village organizations, SEWA organizes women along trade lines (vegetable vendors and dairy producers, among others). Another Indian NGO, WWF (see Box 2.2) also organizes its members along trade lines, including lace making, *agarbatti* rolling, *beedi* rolling, fishing, and silk sari weaving. Simple policy changes are often the most important interventions required by a sector.

What are the implications for funding agencies? For one thing, microenterprise programs need to be more aware of advantages of the subsector approach both in designing and implementing programs. It provides a framework within which the constraints and opportunities facing a large number of similar enterprises linked to a particular final product or raw material or commodity can be identified with much greater specificity than has been possible in the past. Working with microenterprises in one subsector makes possible much greater leverage for the chosen interventions. Thus, training components in some microenterprise projects have not been particularly successful partly because technical skills training has been provided in a very generic way rather than being addressed to the specific needs of enterprises in one or a few subsectors. Box 5.3 describes types of training for microenterprises. Components other than training, such as marketing assistance and technology transfer have not been attempted at all. Box 5.4 describes an example of the advantages of the subsector approach in the context of assisting the large number of women workers recycling waste fabric in Manila.

Because there will usually be a large number of subsectors in which a project target group (the rural or urban poor, women, workers retrenched as a result of industrial restructuring, demobilized soldiers) are or could be profitably involved, it may not always be possible to analyze all of them at the time of appraisal itself, but projects can provide for mechanisms and funding by which subsector analysis is undertaken as a continuing process during implementation.

Similarly, even assuming all the constraints facing one or more subsectors can be identified in advance, it will usually not be possible to include all the required components in a single project. However, subsector analysis increases the chances that the identified constraints will be tackled through other projects (perhaps in other sectors such as vocational training or agricultural extension) or through policy dialogue.

Because one of the most important mechanisms available both for analyzing and catering to subsector requirements is subsector-specific NGOs providing an integrated package of services, funding agencies should find a way of supporting them. NGOs providing noncredit services tend to be less numerous than credit NGOs, partly because many nonfinancial services entail a high degree of specialized business acumen (such as in marketing), or knowledge of specific technologies. NGOs are understandably wary of venturing into areas in which they lack the requisite business and technical skills. Subsector-

Box 5.3
Training in Microenterprise Development

After credit, though training is the most frequently included component in ADB microenterprise projects, it remains a relatively nebulous activity. The importance of training is universally acknowledged, but its effectiveness remains little understood. The most common types of training in small- and medium- size microenterprise programs are (i) management-oriented or *"business" training* (in such skills as costing, accounting, bookkeeping, business plan preparation, and so on); (ii) *production-oriented or technical skills training;* and (iii) *entrepreneurial development training.*

Two other categories of training sometimes identified (Goldmark 1996) are (i) *credit-oriented training*; and (ii) general community development or *pre-entrepreneurship training* which targets potential entrepreneurs rather than borrowers who have already been selected for programs, and which focuses on more general skills such as literacy or leadership. However, as noted earlier, the training of poor borrowers in credit procedures, group discipline, and savings obligations is an essential part of the "social preparation" or social intermediation component of poverty lending projects, rather than constituting a distinct training activity. *Business skills training* is the most ubiquitous in ADB projects because, unlike technical skills training, business skills are relevant to a large number of diverse activities so that microentrepreneurs from a variety of subsectors can be brought together conveniently to receive the training. *Technical skills training* is just as important, especially for manufacturing, food processing, handicrafts, livestock, and some service sector activities of both the livelihood and microenterprise type, as well as for microenterprises generally, the main barriers to entry to which, as we saw in Chapter 3, are the lack of skills and at least a secondary education. Skills training is as important for ensuring the survival, if not growth of, existing enterprises as it is for engendering new starts. According to Liedholm and Mead (1995), some NGOs in Latin America show great caution in engendering new starts, given already high enterprise birth and attrition rates. They believe it is more useful

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Box 5.3 *(continued)*

to ensure a higher proportion of survivals by restricting new starts to those with prior experience, and undertaking on-the-job and other skills training programs.

However, skills training tends to be very activity or subsector-specific, and trainers with the right specialization are usually not available. Skills training is thus much more difficult to organize. Indeed, the only way to organize it may be by using the subsector approach, bringing together a large number of participants from the same subsector, such as handicrafts, sericulture, poultry, and livestock. In the Philippines there are several examples of such an approach: (i) the Canadian International Development Agency-assisted Micro and Cottage Business Linkage Project in Cebu, which targets fashion accessories, furniture, toys, and houseware subsectors for the integrated delivery of enterprise support services, including training; (ii) the Craft Village Development Program in Region 11; and (iii) the Swiss-assisted METASHAPE program to assist metalworking enterprises. Training is often integrated with production in training-cum-production centers such as in Nepal.

More generic technical skills such as metalworking, or carpentry, are imparted by the regular vocational or technical education system. Although it is usually too late in life for borrowers in microenterprise programs to go back to technical institutes, many programs work with agencies to provide training under special projects such as the Philippines Technical Education and Skills Development Authority and METASHAPE mentioned above. Viet Nam is evolving a less formal alternative to the formal vocational and technical school system through about 200 vocational training centers, which offer shorter courses at lower cost, in skills and trades linked to perceived opportunities in the local area. Viet Nam also offers an example of a third, but more novel mode of training, in the handicrafts sector, in which an NGO from the Netherlands (Komitee Twee) supports apprenticeships of disadvantaged youths with established artisans, and also helps in marketing their products.

Bot (1994) found the effectiveness of skills training in livelihood programs to be limited in the Philippines, a reminder that like anything else, training is worth doing well, if at all. On the other hand, one of the best known technical training organizations in our sample countries (which organizes shorter, activity-specific courses for micro, as distinct from livelihood enterprises is the Technology and Livelihood Resource Center (TLRC) in the Philippines. Courses are usually conducted by industry experts and practitioners at cost-recovering rates. TLRC is planning to extend its activities from Manila to the provinces. In 1990, it launched a highly acclaimed television program called *Negosiete* which had by the end of 1995, aired over 110 business and livelihood technology courses in about 950 thirty-minute episodes. To reinforce what they learn from *Negosiete*, viewers can refer to illustrated manuals that accompany the courses. About 90 percent of those who set up enterprises are women, of which 60 percent engage in handicrafts, 15 percent in food processing, and the rest in garments, soap making, and sewing.

Business training is probably more relevant to microenterprises than to livelihood enterprises (with the possible exception of simple business plan preparation). Some NGOs, such as the various units of the Business Resource Center in the Philippines, make prior business training a condition for credit assistance and integrate it also with post start-up consultancy and counseling.

Entrepreneurship development training (focusing on the motivational, attitudinal, and behavioral aspects of entrepreneurship) is particularly evident in certain countries such as India, where it was pioneered by the Entrepreneurship Development Institute, Ahmedabad. The Institute has initiated a considerable number of programs and institutions, many of them in the government sector. Every state in India has an Entrepreneurship Development Corporation which is expected to reach down to microenterprises, apart from catering to the needs of larger enterprises while still recovering its costs. Proponents of entrepreneurial training do not claim that entrepreneurs can be created. However, they do believe that it is possible to develop entrepreneurship in persons who have the latent potential. Several international donors such as the International Labor Organization and GTZ set much store by the approach, most notably GTZ through its CEFE program being implemented in over 76 countries including Nepal, Philippines, and Viet Nam.

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Box 5.3 *(continued)*

In the Philippines, the CEFE approach being implemented by DTI through the Community Development Program, focuses on developing competencies of the individual entrepreneur to access information, make business decisions based on the assessment of one's own capabilities and the requirements of the business being contemplated, and to prepare a business plan acceptable to financial institutions. Prior screening takes place of participants to make sure that only those who are actually interested participate, and is followed by a 20-day course, for prospective entrepreneurs (or ten days for existing entrepreneurs). The training is experiential and action-based. Follow-up assistance is also envisaged. In Viet Nam, where there is a subsectoral focus on handicrafts, ceramics, consumer goods, and carpets, and the program is being implemented by the Viet Nam Central Council of Small and Medium Enterprises, free consultancy services after the training are provided four times a month for the first six months. Thereafter, it is available on a fee basis.

The CEFE program intends to develop a pool of resource persons and institutions who will be linked to the CEFE international network and hold

specializing NGOs cannot be created overnight. However, there are NGOs in most countries that have always followed a holistic approach. Moreover, an increasing number of other NGOs are beginning to recognize the importance of nonfinancial services and funding agencies could encourage this trend by earmarking technical assistance funds to assist NGOs in acquiring the necessary skills and staff within the context of well thought-out and time-bound subsector plans. The leading minimalist NGO, Grameen Bank, has recently launched Grameen Udyog, a specialized unit to promote handloom exports on behalf of its members. As a sign of increasing interest in venturing into nonfinancial services, several prominent NGOs sponsored a well-attended conference in Washington, D. C., in June 1996. Many of them such as Appropriate Technology International, Save the Children, and Technoserve shared their experiences on the subsector approach.

the franchise to train new trainers as part of a fee-based program that should eventually be able to recover full costs. In Nepal, over 2,300 participants have been trained with a start-up rate of over 50 percent.

The CEFE program is explicitly not designed for livelihood enterprises. For such entrepreneurs the *community or pre-entrepreneurship training* being developed by the World Bank Economic Development Institute-sponsored Women's Enterprise Management Outreach Training Programme (WEMTOP) may turn out to be more relevant. WEMTOP's approach envisages a "preparatory" literacy course for women, who may then later show interest in an entrepreneurship course. The literacy course addresses community issues relevant to women's lives (Viswanath 1995). WEMTOP is being implemented through NGOs in India (Udyogini) and Nepal. Udyogini and its partner training institutions train "enterprise support teams" from local NGOs who then provide "grassroots management training" to producer women's groups. The training material is mostly pictorial and involves simulation exercises, focusing on gender, empowerment, and enterprise management issues.

Funding agencies should be willing to countenance subsidies in noncredit inputs and services for much longer than is necessary in credit provision. It is more difficult to recover the costs of services such as training and technology development and transfer, the benefits of which tend to be harder to quantify although they are potentially just as real and of a longer term nature, than it is to recover the costs of credit delivery services.

One training project that was successful in recovering part of the cost of training was an Inter-American Development Bank-assisted project in Paraguay that offered courses in both management and production. Entrepreneurs were given vouchers good for 50 percent of the course tuition (the project was willing to pay for at least half the price of the course). Participants were free to pick from one of 46 participating training programs. The training institution could redeem the vouchers only after the microentrepreneur had attended

75 percent of the course. Because the entrepreneurs decided for themselves which course was best meeting their needs, the subsidy was directed to those courses for which there was a demand. These courses tended to be those designed to transmit a specific skill in a short period of time (such as for caterers, the recipe and procedures for making a new dish, or for electricians, a new type of wiring system) (Goldmark 1996).

Box 5.4

Reaching *Retaso* Workers in Manila through the Subsector Approach[1]

Save the Children USA analyzed 14 possible subsectors in Metro Manila and chose *retaso* (waste fabric) recycling for its first project using the subsector approach because it employs about 25,000 low-income women mostly working out of their homes in the squatter areas, needs to respond to growing demand, and offers the prospect for coalition building with other NGOs and peoples organizations working with *retaso* workers. After doing a preliminary analysis of the subsector, Save the Children facilitated the formation of an alliance of people's organizations (the Partnership for Subsector Development) to design the major components of the next phase of the program and simultaneously to begin implementation.

The most critical immediate constraints identified were high prices and unreliable sources for inputs (the waste fabric produced by the rapidly growing export garment industry). The strategy adopted was to progressively reduce reliance on intermediaries, with the alliance purchasing in bulk from the garment factories directly. Members are now getting *retaso* at a lower rate than they used to from intermediaries, and the alliance is making progress in recovering its costs of bulk procurement. As a legal entity, it is able to raise funds for its operations and sign contracts with supplying companies.

Another constraint was the legal environment. Garment factories are not allowed to sell remnants on the domestic market without paying import duties. The hold of the intermediaries was based largely on the advantage

The IFAD-assisted MRCP in India attempted a novel way to recover the cost of the services of "barefoot" district level consultants provided under the project. The consultants were expected to assist at least 100 entrepreneurs in setting up new or expanded enterprises per year. They were to obtain part of their remuneration by charging the entrepreneurs 5 percent of their profits. However, several difficulties were becoming more apparent as implementation proceeded. Among

of secrecy they offered the factories in disposing of *retaso*. The alliance is trying to get the industry recognized as a cottage industry and exempted from payment of taxes.

A major opportunity exists in supplying the rapidly growing and more reliable business and industrial (as opposed to consumer) market with cleaning rags, shoe covers, and so on. The alliance hopes to become a trader in finished products on behalf of its members. For this purpose, it is setting up a financial and accounting system so as to be able to buy on a cash basis and sell on credit if need be. It is also being prepared by Save the Children and other NGOs to (i) establish systems for quality control and product storage; (ii) provide market information; and (iii) channel product development services to its member producers so that they can make higher-value products.

Thus the alliance is undertaking six key interventions. Accessing sources of credit and product development involves linking the producers to existing services provided by government agencies and NGOs. Assistance with sourcing inputs and marketing involves the development of new services and infrastructure by the alliance, assisted by subsector NGOs. Strategic interventions including organization and advocacy, are designed to improve the recognition and position of the women in the subsector, and build a sustainable basis for undertaking strategic interventions with more significant results in the future. The alliance hopes to reach at least 10,000 *retaso* workers over the next three years.

[1] Based on Overy and Giray (1996) and on presentations by the authors in various forums.

Box 5.5

The Provision of Nonfinancial Services through Escort Workers: The Rural Industries Project in Andhra Pradesh, India[1]

The Rural Industries Project (RIP) which started in 1993 in three districts of Andhra Pradesh, was the pilot for similar projects that have been started since in ten other states. Partly as a reaction to deficiencies in the Integrated Rural Development Programme (IRDP), RIP defined itself clearly from the outset as an enterprise development rather than poverty reduction program. Thus, clients were chosen for their entrepreneurial potential rather than socioeconomic background, although two fifths of those covered were below the poverty line, and were thus entitled to the IRDP subsidy. About 23 percent of the entrepreneurs were women. RIP attempts to provide the full package of services to its clients, including market analysis, project formulation, escort services in dealing with the banks and equipment suppliers, and linkages with technology providers, trainers, and others.

One of the novel features of the project is to provide these services through two escort workers at the district level. They are appointed by the Andhra Pradesh Industrial and Technical Consultancy Organization (APITCO) and backed up by consultants in APITCO headquarters. (Most states in India have a technical consultancy organization, set up by the national level industrial financial institutions, originally to assist larger enterprises, as well as a state level entrepreneurial development corporation, set up along the lines of the Entrepreneurship Development Institute in Ahmedabad, charged with conducting entrepreneurship training programs.) The sponsoring agency of the project, the Small Industries Development Bank of India (SIDBI) contributes to the salaries and travel expenses of the escort workers through a performance-linked incentive scheme.

About 90 percent of the approximately 1,400 units set up in the first two years of the project were new starts and 10 percent expansions. Average investment was about Rs30,000 (about $900) in the ratio of 7:2:1 as loan, equity, and capital subsidy. Average investment was a little higher for services. The enterprises created an average wage employment of 1.4 jobs each. About two thirds of the enterprises were in nontraditional activities and one third in traditional. Manufacturing accounted for about two thirds of the activities and nontrading services for one third. The proportion of nontraditional enterprises was higher in services (such as spray painting and pathology labs) than in manufacturing (for example, acid batteries, cream separators, cement products, and crop threshers).

About two thirds of the enterprises were based on existing markets (both local and regional) in which success depended on successful price competition. Most of the entrepreneurs already had some experience in the activity as apprentices and wage employees. For them, if the enterprise failed, exit was relatively easy as they could go back to wage employment. About one third of the enterprises, mostly started by relatively better educated entrepreneurs, sought to create new markets for their products and services (such as tire carts, duck hatcheries, metal furniture, computer training, and fabric painting). The success rate of the market-creating enterprises tended to be lower (only about one third had succeeded), but their profitability was higher when they did succeed. Overall, for RIP as a whole, the success rate was about 60 percent, which is relatively high for projects with such a high proportion of new starts. Repayments of loans had begun, and the program enjoyed relatively high credibility with the local banks, largely because of the emphasis placed on thorough market analysis and on follow-up services provided by the escort workers.

Some of the reasons for the relative success of RIP in Andhra Pradesh were clarity of program definition, an emphasis on quality rather than targets, commitment to the program on the part of the local bank (a regional rural bank), and continuous monitoring of the units by the district level escort workers.

[1] Purushotham, 1995.

them, it was difficult to assess profits for microentrepreneurs, and willingness to pay was low unless the consultant had made an identifiable contribution to profitability (such as solving a specific technical problem or removing a marketing or supply bottleneck). While the "hand holding" role played by district-level consultants was appreciated by both the microentrepreneurs and banks and greatly facilitated bank lending under the project, it was not sufficiently appreciated to result in a willingness to pay for the services of the consultants.

Cost recovery is important for enhancing the value that clients place on services, and on signaling information about which services clients do value. Services that are aimed at better-off clients should attempt to recover a higher proportion of costs than those of primary interest to the poor. However, it should be accepted that for nonfinancial services, cost-effectiveness and net social benefit are more appropriate immediate goals than full cost recovery or sustainability. For this purpose, developing indicators of impact, even if qualitative, becomes more important than in financial services, where a high repayment rate at a cost-recovering rate of interest is evidence in itself that something of value is being provided.

Meeting the Important Need for Technical Assistance

Microenterprise development has a direct contribution to make to three of the five strategic development objectives of ADB (poverty reduction, improving the status of women, and human development). However, the single-most important constraint to expanding microfinance and nonfinancial enterprise development services is not funding but institutional capacity. There are three steps that may be taken.

First, for ADB to be able to assist in building the capacity of MFIs, it may need to assess and enhance its capacity to provide this assistance. The rapidly growing importance of the sector in the development community as evidenced by the Microcredit Summit held in Washington, D.C. in February 1997, and the emergence of new mechanisms to undertake donor coordination such as the Consultative Group to Assist the Poorest, are already placing demands on ADB to respond to the various issues facing the sector.

Several of the world's most successful MFIs developed indigenously in Asia. They exhibit a diversity of approaches and far exceed in scale the outreach of MFIs in other parts of the world. However, there is a great deal to be learned from experience in Latin America. BancoSol in Bolivia is the best known example of the transformation approach. However, see Cuevas (1996) for some of the challenges facing the transformation approach. BancoSol has placed certificates of deposit in the United States and French financial markets. "Thus, the world's most sophisticated capital markets have actually been linked with the promise to pay a woman microentrepreneur selling her wares on a street corner in La Paz" (Microcredit Summit Draft Declaration, August 1996 version). A Paraguayan NGO, the Fundacion Paraguay de Cooperacion y Desarollo, has issued $150,000 worth of local paper on the local capital markets. In Asia, in 1995, Grameen Bank sold Tk6 crore worth of bonds mostly to the commercial banks.

Latin American experience tends to be much better documented partly because international NGOs have been more active there. ADB will have to develop the capacity to assess the relevance of this experience and adapt it selectively to its own conditions. The concentration of abject poverty in Asia will call for greater emphasis in the mix of ADB projects on poverty reduction and women's empowerment objectives (and the social intermediation they entail). At the same time, with some of the most dynamic developing economies located in Asia, there is an urgent need and tremendous scope for ADB to develop a much more differentiated mix of projects, with a higher proportion of (i) enterprise development and employment generation-oriented projects in the newly industrialized economies (with a greater emphasis on nonfinancial services and business linkages with the private sector); and (ii) private sector development-oriented projects in the transitional economies.

The most successful method for building institutional capacity is the structured exchange of experience among practitioner organizations and their networks whether global such as Women's World Banking (WWB) and Grameen Trust, or regional, such as CASHPOR based in Malaysia. An important role that ADB could play would be to assist and promote such interaction. There is also a significant staff training task (quite apart from the training of clients in business and production skills) involving the training of field workers, managers, commercial bank staff, and so on. While part of it can be financed through concessional loans to MFIs, some of it will involve technical assistance funds for developing training materials, identifying best practices, and setting up training centers.

Second, there is an urgent need to develop, in consultation with leading practitioners, agreed-upon "industry" standards and definitions (such as common accounting formats and uniform conventions on reporting recovery rates) which are essential for (i) donors; (ii) commercial lenders if microfinance is to be linked up with the rest of the financial system; and (iii) individual small savers if MFIs are to fund themselves increasingly from deposits. ADB can also play an important role in catalyzing the development of such standards and prudential regulatory systems by governments.

Third, an ongoing program of studies may be implemented to deepen understanding within ADB and member countries on how to increase the effectiveness of financial and technical assistance to microenterprises and on the policy and regulatory changes required in member countries to create a conducive enabling environment. Policy forums could be organized based on these studies to spread awareness and build consensus. ❖

CHAPTER SIX

The Policy and Institutional Environments for Microfinance

The policy and institutional environments in which microfinance institutions operate vary substantially among countries. This chapter describes the main features of these institutional and policy environments in the seven countries that were studied under the regional technical assistance. These countries include Bangladesh, India, Indonesia, Mongolia, Nepal, Philippines, and Viet Nam. The information given in this chapter adds to the growing body of literature which describes these features. See I. Getubig, J. Remenyi, and B. Quinones (1997) for another significant recent addition to this literature.

Bangladesh

Bangladesh probably has the densest network of credit NGOs in the world. Including Grameen Bank (which, since 1983, is no longer an NGO but a bank with its own charter), MFIs disbursed more credit in 1994 than total agriculture loans to much larger borrowers by the formal financial system (the commercial banks, specialized agriculture banks, and cooperative networks) put together. It is estimated that there are at least 1,000 NGOs offering credit, of which about 125 have received loans from PKSF, an AFI for NGOs (described in Box 5.1). More than 3.8 million poor borrowers have been reached, 80 percent of them women, with typical repayment rates of about 95 percent.

The sector is dominated by Grameen Bank and a few large credit NGOs which are professionally managed and staffed, with Grameen Bank providing about three quarters of total credit among these (see Table 4.1). Of the large MFIs, Grameen and ASA (the third largest) are primarily credit providers, while BRAC (the second largest) and Proshika (the fourth largest) pursue a more holistic and integrated strategy, focusing as much on community and human resource development. Both strategies have worked well, although the latter has higher operating costs.

Resources have come until now in almost equal parts from grants, concessional loans, and borrowers' savings. Most MFIs operate at or below break-even levels. Volume of lending and how it is achieved (by increasing average loan size as opposed to increasing outreach, or horizontal expansion), scope of nonlending services, wage level of staff, and whether interest is calculated on a declining balance or "flat" basis (which almost doubles the effective interest rate) are some of the determinants of profitability. However, sustainability has been increasing over time. Many of the "mostly credit" institutions are operationally viable; that is, interest income exceeds operating costs including financial expenses (subsidized though these are), whereas many of the multipurpose institutions which emphasize training as part and parcel of the credit program, do not even recover operational costs. As of 1995, ASA was the only major NGO that was economically as opposed to financially viable, recovering also the imputed economic cost of subsidized funds (Rutherford 1995).

Given its profitability, ASA has recently been able to access a loan of about $1 million from a commercial bank for on-lending to its borrowers. This is a landmark event, constituting as it does the first instance of a credit NGO acting as an intermediary for a large volume of funds borrowed from the commercial banks at the market rate of interest, thereby linking the formal and semiformal sectors. It will probably be some time though, before a large number of NGOs are profitable enough to borrow from the banks, although it is now official policy to encourage the banks to lend to NGOs. Much greater flows are anticipated in the short run from the expansion of PKSF lending to NGOs based on a 1996 World Bank loan of $105 million (which is also a first of its kind). The higher volume of lending MFIs will be able to conduct, as a result, will increase their profitability, and enable them to access commercial funds in the longer run. Thus, from being a parallel financial system for the poor at present, MFIs will increasingly become the bottom end of an integrated financial system, specializing in retailing borrowed funds and providing savings services to the poor.

India

Microfinance has been dominated by government-sponsored programs in which government subsidizes through an outright grant part of the loan extended by a bank to a target group borrower. The most important of these programs is IRDP (see Box 6.1).

India has a dense network of over 55,000 rural bank branches through which these sponsored antipoverty programs are administered. Unlike Indonesia, where microfinance is also primarily bank-based, in India, the banks, controlled by the central government, implement uniform, nationwide credit programs under policies and procedures laid down by the central bank in consultation with the central government.

One of the most significant policy constraints under which the banks operate is an interest rate ceiling of 12.5 percent on loans smaller than Rs25,000, which account for 97 percent of sponsored loans and about three quarters of loan volume, and 92 percent of nonsponsored loans (about half of loan volume), which results in the banks participating in sponsored programs unprofitably and reluctantly.

Unlike in Bangladesh and the Philippines, credit NGOs handle a minuscule part of poverty lending. Until recently there were very few NGOs that intermediated between formal finance and other smaller NGOs or borrowers directly. However, their number has grown with the increase in the supply of "wholesale" finance from the two apex banks, NABARD and SIDBI, and RMK, an AFI funded by the government (see Box 5.1). The apex banks lend not only to individual NGOs but also to umbrella NGOs such as FWWB, an affiliate of WWB which then on-lends to its member NGOs. By 1995, 70 of FWWB's 300 members had borrowed Rs22 million. Only 1 percent of the revolving loan fund has been funded by WWB, the rest by NABARD, Industrial Financial Corporation of India, SIDBI, and Industrial Development Bank of India. FWWB is one of the WWB affiliates that received institutional building technical assistance under the ADB technical assistance for Low-Income Women Entrepreneurs in Asia in 1995.

Most NGOs prefer, however, not to operate as conduits for formal finance, but to promote direct linkages between the banks and self-help groups, which they help organize. Prominent examples are two Indian NGOs: MYRADA, which has been responsible for a great deal of the action research, documentation (Fernandez 1994), and popularization of the self-help group concept; and PRADAN which follows the subsector approach. Under encouragement from NABARD and a series of IFAD loans, this model has the potential to emerge as the dominant mode of poverty finance in India, although it is still insignificant in relation to IRDP. By March 1995, NABARD had provided refinance amounting to Rs23 million to the commercial banks who had made loans to over 2,000 self-help groups in 14 states. The IFAD loans have provided not just credit support to NABARD, but assistance to state government women's development corporations and NGOs to pay for the services of animators for a limited period of three years to organize and train women's savings and credit groups. Savings mobilization by the groups has been very encouraging. The first NGO to demonstrate the potential of female thrift societies was the Cooperative Development Foundation, Hyderabad. The 80 groups it has set up since 1991, with a total membership of about 12,000 women, support their credit operations entirely from their own monthly savings (which they accept at 12 percent and lend out at 24 percent per annum), receiving only technical and administrative support from the Cooperative Development Foundation, which eventually they hope to pay for entirely themselves through a central apex organization or federation. Loans are usually of eight- to ten-month duration and vary in size from Rs100 to Rs1,000. It will be interesting to see how much the average loan size and maturity period can be increased to support larger and longer term investments without abandoning the policy of not accepting external credit funds.

For intermediating credit, NGO bulk loans are available at 9 percent from SIDBI and 8.5 percent from NABARD. This rate provides the NGOs with sufficient margin for them to be able to on-lend to smaller NGOs or to self-help groups within the prescribed ceiling of 12.5 percent, but is insufficient for individual (as opposed to group) lending by NGOs, of which there is very little in India. There are no restrictions on the self-help group on-lending rate to its members, which is usually 2 to 3 percent a month, with the groups' interest earnings being distributed to members periodically.

RMK funds are available at 8 percent. However, RMK insists that the 12.5 percent ceiling apply to lending to the ultimate borrower, leaving insufficient margin with NGOs and self-help groups, and doing much to negate the usefulness of this source of wholesale finance (see Box 5.1).

Some NGOs are beginning to form federations of self-help groups to conduct intergroup lending, and to make it possible for the banks to give larger loans to the federations for on-lending to their member self-help groups than the size of the separate loans the individual groups could absorb directly, cutting down transaction costs further. One such NGO is PRADAN which has set up six federations (or cluster associations) to cater to almost 300 groups. A smaller effort is that sponsored by the NGO Chaitanya, which has organized a federation (or *sangh*) of 57 groups. Chaitanya trains elected group leaders in credit management, audits group accounts, and facilitates linkages with the banks under the NABARD scheme. Three groups have been able to access seven loans from two bank branches so far, the largest being for Rs70,000. Chaitanya has also borrowed on behalf of the *sangh* (for on-lending to the groups) from FWWB and could also borrow from NABARD directly. However, the bulk of the groups' lending activities has so far been based on their own savings. After meeting their own members' credit needs, they place surplus funds with the *sangh* which then lends them to other groups. Thirty-nine groups had outstanding loans with the *sangh* in March 1996, although only 19 of them were net borrowers. Chaitanya is progressively handing over its role to the *sangh* and the case study assesses the prospect of the *sangh* becoming financially sustainable eventually.

India is unusual in having several large urban NGOs meeting the credit needs of women. Two of them, SEWA in Ahmedabad and WWF in Madras, have organized themselves into banks, like Grameen Bank in Bangladesh, under the cooperative law. For a recent description of SEWA, see Chen et al. (1996). WWF (the subject of Box 2.2), although headquartered in Madras, has branches in three states, a shareholding membership of 130,000 women, and over $5 million in cumulative disbursements. Its share capital and members' savings deposits are roughly equal to the amount of a loan it received from WWF at 11 percent per annum. WWF has prepared a list of 144 petty trades and services its members are engaged in. Loans are charged an 18 percent rate of interest and are supervised and guaranteed by a network of credit organizers and group leaders.

Box 6.1

The Integrated Rural Development Programme: The World's Largest Microenterprise Program

The Government of India's IRDP is one of the largest poverty reduction programs in the world with the number of loans advanced since its introduction in 1978 having reached some 45 million and provided financial assistance worth Rs214 billion by March 1995. It is "a direct instrument for attacking India's rural poverty, which is both extensive and endemic." IRDP was designed to provide the rural poor with access to assets, skills, services, and institutional support to enable the rural poor to enhance employment and incomes and enable them to "cross the poverty line."

The objective of IRDP is intended to be achieved through the acquisition of assets by the rural poor in the form of credit advanced by the commercial banks and subsidy provided by the Government of India. The rates of subsidy applied to the total cost of the project, defined as *approved* cost of physical assets plus *approved* amount of working capital, are as follows:

Type of borrower	**Subsidy rate** *(percent)*
Small farmer	25.0
Agricultural laborers Marginal farmers Rural artisans	33.3
Scheduled castes/tribes Physically handicapped	50.0

IRDP beneficiaries are able to acquire assets for activities subdivided into four sectors:

- agriculture – agricultural implements, draught animals, bullock carts
- minor irrigation – irrigation channels, borewells, persian wheels, well deepening, pump sets

- animal husbandry – milch cattle, buffaloes, sheep, goats, pigs, poultry along with sheds/pens
- industry, services, or business – carpentry, blacksmithy, leather work, pottery cycle, radio or watch repair, oil expellers, grocery shops, horse carts, and so on.

Activities belonging to the last two sectors constitute microenterprises as defined for the purpose of study. According to the Expert Committee report, 56 percent of all those assisted under IRDP are in the secondary or tertiary (microenterprise) sectors.

The concept of IRDP is that borrowers' (or potential borrowers') earning capacities can be enhanced through support programs such as the following:

- TRYSEM – the Training of Rural Youth for Self-Employment to provide technical skills to young people in rural areas to enable them to obtain self-employment;
- DWCRA – Development of Women and Children in Rural Areas to provide women with the skills and support their economic activities so as to enable them to generate incomes through group entrepreneurship. Their participation in these activities is facilitated by providing linked child care and nutritional programs. Within IRDP there is a subtarget allocating 30 percent of all assistance to women; and
- Infrastructure to enable local authorities to create/provide facilities such as shop buildings, feeder roads or electric lines, common deep borewells, and milk collection vans which help the borrowers to realize the potential of the activities undertaken by them. Of the total Government of India subsidy funds available at the district level, 10 percent is allocated for this purpose.

An extensive organization infrastructure at the district and subdistrict levels has been created for the implementation of this huge program and all the roughly 30,000 rural bank branches are *required* to participate in providing loans to the families selected.

(continued next page)

Box 6.1 *(continued)*

Numerous evaluation studies have shown that IRDP in practice has not achieved the expected results. One major shortcoming has been the inappropriate identification of borrowers for assistance under the program. Unfortunately, the subsidy orientation of the scheme creates substantial temptations for the nonpoor to participate in the program, largely through dishonest means. The poor, in any case, are seldom able to deal effectively with the rigidities and requirements of the bureaucratic delivery systems, including the banks. The transaction costs entailed in obtaining assistance are, therefore, high – as high as 20 percent according to some estimates. Inevitably, this results in the exclusion of many of those who are really in need.

Second, in an attempt to regulate the cost of implementation and limit malpractice, the activities and size of loans available were specified by the banks/government in each area. This was often undertaken without any real borrower consultation and resulted in substantially inappropriate or inadequate assistance being provided. When compounded with the failure of the implementation agencies to coordinate properly with TRYSEM, to provide backward and forward linkages through the infrastructure provisions, and to coordinate among a multiplicity of implementing agencies, a weak program results.

Not surprisingly, the Government in 1989, revealed that only 28 percent of those assisted under IRDP had, in fact, been able to cross the poverty line, though the performance of the tertiary sector (services and business microenterprises) was somewhat better at 33 percent.

Overall, the recovery (repayment) performance in respect of IRDP loans has been extremely poor and has never exceeded 45 percent. In recent years, IRDP recoveries have been in the range of 30-35 percent. As the Expert Committee pointed out, this has affected the credibility of the entire program. The poor recovery has hindered the recycling of funds for other loans, and has made the banks unenthusiastic about lending to poor borrowers in rural areas. This has naturally hindered the flow of funds to other microenterprises.

Given India's dense network of rural branches of commercial banks and the regional rural banks, and the promise so far of "linking" experiments, the crucial need now is to reform the rural banking system so that rural bank branches can wholesale to self-help groups more effectively. This is a complex subject that goes beyond the scope of microenterprise lending.

Indonesia

Indonesia has had more success than any other developing country in reaching down to microenterprises in a sustainable manner through formal sector bank finance (the "downsizing" approach referred to in Chapter 4). Much of the lending has been through provincial and local-level institutions which are technically nonbanks, although they are presently allowed to accept deposits (see Table 6.1). About one third of all Indonesian households are served by the Indonesian financial system, and as many as 12 percent by the local financial institutions, described below. Indonesia's experience holds out many valuable lessons, the most important of which is the crucial significance of an appropriate policy environment.

The rural financial structure began to take its present shape with the financial sector reforms of 1983, when interest rates were largely liberalized and it was decided to turn more than 3,000 unit *desas* (subdistrict units) of BRI into semiautonomous, self-sufficient, profit centers based on savings as their major source of funds. Today BRI's unit *desa* system covers two million borrowers with annual disbursements of about $1 billion under the Kredit Umum Pedesaan (KUPEDES) rural credit program, and has over 12 million savers with savings in excess of $2 billion, two thirds of it in SIMPEDES, the most liquid of BRI's four savings instruments. Two thirds of BRI's profits come from the unit *desa* system, which has attracted worldwide attention and been extensively documented (Patten and Rosengard 1991; Robinson 1994).

About 15 percent of KUPEDES lending is to persons below the poverty line, about the same proportion as their share in the population as a whole, and 25 percent to women as opposed to more than half of lending by the provincial level, nonbanking financial institutions (see below). The two types of financial institutions that have much smaller loan size and lend almost entirely to the poor are the "secondary banks" sponsored by the provincial governments (LDKPs) and the village-based banks or BKDs (found only in about 20 percent of the villages in Java and Madura).

Unlike BRI's KUPEDES loans, LDKP lending is mostly noncollateralized and is conducted by mobile staff serving village posts on set days of the week. Interest rates range from 24 to 43 percent calculated on a flat monthly basis (as against 22 to 30 percent in KUPEDES). The village-based banks make even smaller and shorter term loans and charge higher interest. Thus, there is a progression of higher interest rates down the institutional ladder in accordance with the increasing transaction costs of small loans (and the higher potential risk of noncollateralized loans, although actual repayment rates are maintained at a high level). Unlike Grameen Bank, which relies on group pressure to ensure repayment, Indonesia's grassroots-level financial institutions rely on community pressure and "character-based" lending, loan applications having to be sponsored by the village head.

Table 6.1

Summary of Rural Financial Institutions: Indonesia

(as of April 1994)

	Financial Institution	Number of Servicing Units	Loans Outstanding *(Rp billion)*	Total Number of Borrowers	Loans Outstanding per Borrower *(Rp)*
1	Banks: KUK Financing	193	27,166	5,304,872	5,120,953
2	BRI Units: KUPEDES	3,220	1,831	1,856,714	986,151
3	BPRs	1,645	1,131	1,526,294	741,011
4	LDKPs	1,575[1]	79	613,539	128,761
5	BKDs	5,345	72	867,282	83,018
	Total	**11,978**	**29,148**	**10,168,701**	**7,059,894**

Notes: KUK= Kredit Usaha Kecil; BRI= Bank Rakyat Indonesia; KUPEDES= Kredit Umum Pedesaan; BPR= Bank Perkreditan Rakyat; LDKP= Lembaga Dana Kredit Perdesaans; BKD= village-based banks

[1] Excluding 9,800 village posts

Source: Asian Development Bank, 1994, Table 1.

Referred to collectively as "small financial institutions," LDKPs and BKDs encompass considerable diversity, given different organizational structures, and different ownership by the various provincial and local governments, and have provided a fertile ground for experimentation in financial service delivery at the grassroots level.

The Latest Reforms

The quality of supervision of LDKPs and training of LDKP staff by the provincial-level banks has been variable, and BKDs are too small to become financially viable. The latest set of financial reforms introduced in 1993, decrees, therefore, that no new BKDs may be set up, and existing ones must either convert to BPRs (see below) or become cooperatives and join the *sinpam-pinjam* or savings and loan cooperative system under the Ministry of Cooperatives. Likewise, LDKPs must convert to BPRs by October 1997, or stop accepting savings deposits from the general public.

The number of subdistrict-level branches of LDKPs has already declined to about 1,600 under the new law, and is expected to decline further as more of them become BPRs. Thus, the rural financial structure in Indonesia is emerging in the direction of consisting of the following main players, three of which are banks: the BRI unit *desa* system, BPRs, and branches of private commercial banks. The fourth set of institutions will be the cooperative system, incorporating the unconverted LDKPs which will be member-based and will not be allowed to accept savings from the public after October 1997. Individual lending is likely to remain the dominant mode of credit delivery, supplemented by noncollateralized group lending for the poorest borrowers of the kind being encouraged by such experiments as the GTZ-sponsored Linking Banks with Self-Help Groups Project (PHBK).

Bank Perkreditan Rakyat

BPRs are mostly small rural unit banks except those which have availed of permission to set up branches after two years of satisfactory performance. They were introduced by the financial reforms of

1988. Licensed by the central bank, they can have the legal status of cooperatives, or of private or local government-owned joint-stock companies. Over 2,000 BPRs have been registered since 1988, most of them as private companies, commonly referred to as the "new" BPRs (as opposed to the "old" BPRs typically owned by local governments as the converted branches of LDKPs and BKDs). They must have a minimum paid-up capital of Rp50 million, and cannot operate beyond the subdistricts contiguous to the one in which they are located.

Some BPRs have been set up by NGOs and foundations of ethnic groups, who raise money from members living in Jakarta. To compete with the larger commercial banks, BPRs have to offer higher rates on savings (3 to 4 percent higher for time deposits, but the same rates for savings deposits), and many of them also compete by providing services at the customer's doorstep (collecting loan repayments, savings, and paying interest). Given the higher cost of funds and door-to-door services, their interest rates tend to be higher, too (about 1 to 1.5 percent a month higher than that of the banks). Many of them have had "teething" problems on account of lack of experience and have not yet been able to inspire the confidence to attract significant funds from the commercial banks, lending in fulfillment of the Kredit Usaha Kecil (KUK) obligation to lend 20 percent of their portfolio to small businesses. However, their arrival on the scene has already extended financial services in the rural areas and put downward pressure on informal financial sector rates.

Average outstanding loan size for BPRs in Indonesia as a whole is about Rp0.8 million, about the same size as loans currently being made under KUPEDES. Loans below Rp0.3 million are generally not collateralized. Most of the lending was to small traders. While a valuable addition to the rural financial scene, BPRs will probably not be a major instrument of poverty lending, the best prospect at present being the expansion of group-based lending by the banks (including BPRs).

There are two important credit programs that seek to meet the relatively unserved needs of the poorest borrowers. First is the IFAD-funded Income Generating Project for Marginal Farmers and the Landless (or P4K program) with a total project cost of about $29 million. So far it has lent to over 40,000 poor farmer groups of about ten members each, through BRI's KUPEDES; there is a proposal for ADB to cofinance an expansion project with IFAD. Second, is the much smaller and more own-savings-based GTZ-sponsored PHBK, referred to above. Both projects link the banks to poor borrowers organized in groups, unlike regular lending by BRI and BPRs to individuals. Participating NGOs help in supporting and training the groups but do not act as credit intermediaries, and receive a share of the spread to cover their costs.

In addition, a major new poverty lending program, the Presidential Poverty Initiative, was launched in 1994, in about 20,000 of the country's poorest villages (about one third of the total). Funds sourced from the budget are extended as grants of about $10,000 a year to the villages to set up revolving funds, for which no standard terms or institutional structure has been prescribed. The program was expected to terminate in 1996/97. As structured, it may not adequately address financial sustainability considerations, and risks adversely affecting loan and savings services demand enjoyed by existing local-level financial institutions.

Some Lessons

The Indonesian experience is valuable in demonstrating that financial institutions can profitably provide a large number of lower-income people with financial services, and can do so sustainably, at cost-recovering interest rates that are still substantially below informal rates. Interestingly, it demonstrates that the transformation of the rural financial system does not require the removal of all subsidized lending. Agricultural lending by BRI through the cooperatives is still subsidized and the banks still have to meet a quota of 20 percent of their total portfolio for small business lending as a result of the KUK program introduced in 1990. However, removing restrictions on financial intermediation on even part of the system enables the deregulated part of the system to grow at the expense of the rest, because its growth can now be based on a highly elastic supply of savings as happened with the BRI unit *desa* system. The lesson is particularly relevant to highly controlled systems like India. Another lesson is that it is prudent to introduce policy reform such as removing interest rate restrictions, before opening the system to competition so that existing public institutions have a chance to compete (very often successfully) on a "level playing field."

Apart from market orientation, character-based lending, and mobile disbursements and collections down to the level of village "posts," there are some other features of lending by Indonesian rural financial institutions: (i) the simplicity of procedures, computerization, treating individual branches as profit centers with transferred funds being priced a little higher than savings so as to encourage the latter, and charging even supervision costs incurred by higher levels of the bank to the branch; (ii) delegating adequate authority to each branch coupled with accountability, intensive training, and local hiring and placement incentives to repay given to borrowers in the form of interest rate rebates (0.5 percent by BRI); and (iii) incentives to staff for deposits mobilized, loan repayment rates, and profits.

Mongolia

Of the seven countries reviewed under the study, Mongolia has the least-developed institutional structure for microfinance. Unlike Viet Nam, the other transitional economy in the study, Mongolian banks do not benefit from high repayment rates engendered by a strong repayment culture. Moreover, although Mongolia inherited "mass organizations" from the communist regime similar to Viet Nam's, their spread and influence is much lower. Thus, MWF has a reported membership of only 10,000 out of a total of 600,000 qualified women. The banks have thus been able to rely much less on MWF (or other mass organizations) to play the important social intermediation role that the Women's Union plays in Viet Nam. This is not to say that MWF does not offer the best prospect of developing the capabilities of a credit NGO (among its other tasks) with suitable technical assistance. However, at present, in the absence of alternatives to the banks, there is little microfinance activity in the semiformal sector.

The banks themselves are showing less enthusiasm for microfinance lending than in the period immediately after liberalization in 1990, when they were used as conduits for a number of government-funded, employment-generation loan programs at below-market rates of interest. Inflation, and the perception by borrowers that the loans did not require repayment, has left the programs largely decapitalized, and the banks with high overdues. Even with the programs, average loansize for the one third of the banks' portfolios lent out to microenterprises was as high as $1,500 at the time of the inception of the ADB-financed Employment Generation Project (Loan No. 1290-MON). The project set maximum loan size even higher, at $5,000, and average loan size under the project so far has been $4,400. Even this loan size has made the program administratively expensive for the three participating banks, who view lending under the project as an unprofitable activity.

The Asian Development Bank's Employment Generation Project

Disbursement under the project has been much slower than expected, although this is in part because of monthly credit ceilings imposed on the banks to control money supply. However, portfolio quality is also low (with the on-time collection rate being 37 percent in October 1995), partly because the early loans made under the project included relatively large loans that neglected the debt capacity of borrowers, and because bank staff are still in the process of acquiring sufficient skills in loan screening, appraisal, and monitoring.

The project was justified as a poverty reduction project for small and microenterprises. However, microenterprises are not defined as a separate category in Mongolia (which unlike Viet Nam, has not had private individual businesses for 70 years), and small manufacturing enterprises are classed together with medium enterprises, to be jointly defined as enterprises with fixed assets up to Tg200 million (currently about $410,000) and up to 150 employees. As against this, the per capita income of Mongolia is about $320. However, given the high loan size ceiling and the decision not to lay down a means test, the lack of any alternative to the banks as microfinance institutions in Mongolia, and the reluctance of the banks to lend to unregistered, individual businesses, it was perhaps inevitable that classic transaction cost considerations would lead to average loan size drifting upwards to use up all the head room provided by the ceiling.

Mongolian Women's Federation Projects

There are a number of credit programs funded by United Nations agencies, bilateral donors, and international NGOs, many of them implemented through MWF or the local Women's Councils affiliated to it. However, they are mostly small, and entail interest-free loans or even outright grants. The program that has proved the most productive as a learning experience has been the UNIFEM revolving loan fund set up with the Women's Union in Ulaanbaatar and Darhan in 1992.

The revolving fund set up with the $30,000 granted by UNIFEM has helped in the establishment or expansion of 60 small businesses, many of which have received repeat loans. The loans were administered through the now defunct Mongol Cooperative Bank, whch has been absorbed by the People's Bank. Average loan size rose from $350 initially, to about $1,250 when the project closed with UNIFEM's withdrawal in July 1994, when the ceiling for repeat loans was $5,000. The loans were collateralized and the repayment rate has been good.

The borrowers, entirely women, were not the poorest of the poor. However they are reported to have provided employment through their enterprises to an average of ten persons each, mostly family members and former coworkers in state enterprises, and mostly under the poverty line. This is a surprisingly large ratio, especially when compared to the average of 3.9 jobs created under the Employment Generation Project with a much larger average loan size, and bears further analysis including standardization for number of hours worked and wages earned. It certainly suggests the possibility that labor absorption through the enterprise development approach, as opposed to the direct poverty reduction approach, may be more effective in the conditions of Mongolia.

The interest rate has varied with movements in the commercial bank interest rate, but has been 5 to 7 percentage points below it, finishing at 8 percent a month when the revolving fund was handed over to MWF. MWF plans to continue the project through the People's Bank in Darhan, but to administer the loans itself in Ulaanbaatar. The interest rate will continue to be 5 to 7 points below the market rate, which will put it at about 4 percent per month. About half of interest income will go into a risk fund, 20 percent will pay for administrative costs, 20 percent will go to the bank (in Darhan) and 10 percent will be used to establish a social fund. It has yet to be seen whether the share of interest paid to the bank serves as a sufficient incentive, whether the administrative, default, and inflation erosion costs can be covered, and whether MWF can successfully administer the lending itself in Ulaanbaatar. If it can do so, the experience may turn out to be an important step to MWF emerging as a credit intermediary, borrowing funds in the future at their full commercial cost either from the banks or an apex finance institution.

MWF and two other NGOs are participating in the Employment Generation Project as facilitators. They are expected to assist their members in identifying opportunities and help prepare loan applications, provide training, monitor performance, and assist in repayment and collections. However, the service fee of 2 percent of the loan amount, with half payable up-front and the other half after full repayment has proven to be an insufficient incentive. There is a proposal to increase the fee and to provide additional incentives to individual staff.

The only bank with outreach in the rural areas is the Agricultural Bank. A viable plan for financing rural microenterprises has yet to emerge. Given the sparseness of the population, some form of group lending organized by the local Women's Councils may be appropriate.

Nepal

Two distinct models of microfinance appear to be emerging in Nepal: the more recent, but rapidly growing Grameen Bank model, and the older model under which the banks have been lending to groups of borrowers under a series of programs mostly sponsored by funding agencies, such as the Small Farmers Development Program (SFDP), the Intensive Banking Program (IBP), the Production Credit for Rural Women (PCRW) program, and most recently, the Microcredit for Women Project financed by ADB.

Grameen Replication in Nepal

There are now two NGOs and four government-sponsored RRDBs modeled on Grameen Bank, one in each of four development regions into which the *terai* (plains) are divided. RRDBs are owned jointly by the central bank (58.5 percent), the government (16.5 percent), and each of the five major commercial banks, with shares of

5 percent each. The high population density, relatively well developed road and transport network, and availability of market outlets in the *terai* make it suitable for Grameen-type lending.

The six organizations have reached almost 50,000 borrowers so far, through 84 branches, disbursing Rs400 million (Table 6.2) since the first NGO (Nirdhan) was set up in 1991. With expansion, the operating cost of the largest of the RRDBs (the Eastern Rural Development Bank) has declined to 13 percent. With 6 percent as the financial cost of funds obtained from the commercial banks in fulfillment of their priority sector lending target of 12 percent of their loan portfolio, this yields a small operating surplus at the 20 percent lending rate. However, with interest rates and the cost of funds going up (the one year deposit rate had gone up to 11 percent by April 1996), operating efficiency will have to improve further for RRDBs to become sustainable in the long run.

Table 6.2
Nepal: Lending Operations under Major Credit Programs
(Rs million)

		Year Started	Disbursement *(cumulative)*	Number of Borrowers	Recovery Rate *(percent)*	Savings Mobilized	SDI[1]
1	4 RRDBs and 2 Grameen NGOs (March 1996)	1991 onwards	399	44,000	100	28	–
2	SFDP (July 1995)	1975	2,991	183,000	44	56	1.39
3	IBP (July 1995)	1981	3,000	85,000	41	n/a	1.79
4	PCRW (July 1995)	1982	168	27,000	72	n/a	3.65
5	RSRF (April 1996)	1991	11	n/a	84	n/a	–
6	MCPW (February 1996)	1994	23	2,100	–	0.6	–

Notes: n/a= not available
RRDB= Regional Rural Development Bank; SFDP= Small Farmers Development Program; IBP= Intensive Banking Program; PCRW= Production Credit for Rural Women; RSRF= Rural Self-Reliance Fund; MCPW= Microcredit for Women Project;

[1] Subsidy dependency index (as calculated by World Bank, 1993).

Source: Sharma and Acharya, 1995.

The main requirement is to insulate RRDBs from external pressures (particularly changes of management with each change of government), and generally to prevent them from acquiring the image of being government organizations. The 80 percent interest rate subsidy paid by the government to all bank borrowers in Nepal on loans of less than Rs5,000 (and 33 percent on loans up to Rs15,000) hardly helps in this respect. The amounts received are deposited in the group savings fund, but are too small to be of any real interest to borrowers while constituting a growing drain on the budget. Also, premature expansion needs to be avoided, and thorough in-service staff training emphasized. As suggested in a report by Latifee of the Grameen Trust (Latifee undated), it would help if the employees themselves of each branch were to be involved in the preparation of a plan for that branch to achieve viability within a certain period as a profit center.

The Hilly and Mountainous Areas

The Grameen model is less applicable in the hilly and mountainous areas, with their lower population density, more scattered households, less developed cash economy, and lower scope for trading and service activities (suitable for loans with weekly repayments). In these areas, bulk lending by the banks to savings and credit groups is the more suitable model, with NGOs either facilitating (the linking model), or borrowing from the banks and on-lending as intermediaries. Given the dearth of NGOs, government agencies such as the Women's Development Department have been helping organize groups in Nepal (see below). There are no examples of banks lending to NGOs yet, although as noted in Chapter 5, several NGOs have borrowed from the central bank's Rural Self-Reliance Fund, and this is the model envisaged in the second stage of ADB's Microcredit for Women Project if there are enough NGOs willing and capable of participating.

SFDP, IBP, PCRW, and the Microcredit for Women Project are all target-driven, target group-oriented, "linking" programs with credit sourced from the banks. In the first two programs the groups are organized by the banks themselves (Agricultural Development Bank of Nepal in the case of SFDP, and the two nationalized commercial banks in the case of IBP) whereas in PCRW and the Microcredit for Women Project, which are exclusively for women, they are organized by the Women's Development Department, as well as by NGOs in the case of the Microcredit for Women Project. All the projects include training components.

While the first three programs have achieved extensive outreach, they are neither institutionally nor financially sustainable, and have heavy arrears (see Table 6.2). It has been suggested by the Nepal Rural Credit Review financed by ADB that as many of the groups as possible be helped to graduate into small farmer cooperatives, and the programs be handed over, thereafter, by the banks to autonomous subsidiaries.

The Microcredit for Women Project is just getting started. It hopes to stimulate the growth of NGOs by providing institutional support to them. One of the crucial issues it faces is providing NGOs with the proper incentives to participate, either as facilitator or intermediary. At present, NGOs are being supported by grant funds by the project itself, but in the long run they will have to be paid a commission by the bank out of the interest rate spread. Although Nepal does not have direct interest rate ceilings, the spread banks are allowed to earn under priority sector lending, limited by the central bank through moral suasion to 6 percent, which is clearly insufficient to pay for NGO services.

The Legal Environment

Another long-standing issue is clarifying and creating a conducive legal environment for the development of savings and credit groups to which the banks and NGOs can lend. A recent study (Canadian Centre for International Studies and Cooperation 1996) estimates that there are about 12,000 savings and credit groups in Nepal, of which about 3,500 are self-created. The rest are organized by NGOs. It is notable that such a large proportion of groups has evolved autonomously and organically out of the perceived need of their members to save. As member-based institutions utilizing their own savings to lend out to each other, the need to regulate them would seem less pressing than regulating organizations which seek to accept savings from nonmembers. It should not be necessary for such groups to become formal cooperatives if they do not want to solicit savings from nonmembers, and it should be possible for the banks and NGOs to lend to them on the basis of their savings performance and their willingness to use their savings as collateral (as the banks do in many other countries; see Box 5.1 relating to India) without requiring the groups to abandon their informality and acquire legal status.

For groups that do wish to mobilize nonmember's savings, the prudential regulations should be sufficiently supportive to encourage registration in a simple manner. It may be useful for the central bank to review the conditions under which it grants credit cooperatives permission to accept savings from nonmembers and withdraw those conditions which are impracticable or unnecessary. Registering as NGOs under the Societies Act is suitable only for NGOs with community or social development as their major objective. The Societies Act does not allow NGOs registered under it to make a profit. Cooperatives can make a profit, but only 158 savings groups have registered themselves as cooperatives, so far. One reason for the unwillingness of more savings and credit groups to register as cooperatives has been Article 26 of the Cooperative Act 1992, requiring cooperatives to seek the permission of the central bank for conducting banking transactions, including deposits taken from nonmembers. Permission has been granted to only ten out of the 158 so far, but under conditions which are largely impracticable and unnecessary, such as maintaining a maximum 6 percent spread between deposit and lending rates. Amendment of the Cooperative Act may provide for savings and credit cooperatives at the grassroots level, and more than one union or federation of cooperatives at the district and national level so as to allow primary units a real choice of organizations with which to affiliate. One of the conditions of the Microcredit for Women Project is that the government formulates a suitable legislative package within one year of the loan becoming effective.

Philippines

Of all the countries in the study, and possibly in the region, the Philippines has the most vibrant voluntary sector, consisting of NGOs as well as member-based, or "peoples," organizations, such as credit unions, cooperatives, and unregistered associations. Given the individualism of Filipino culture, each of these types of microfinance institutions supports several federations, networks, and umbrella organizations which coexist. This individualism carries over into the public sphere, too, so that in 1988, as many as 150 livelihood programs were being run by 13 different line agencies and government corporations, most of them using NGOs and partner organizations as conduits, but some of them lending directly, too. Thus, the institutional context of Filipino microfinance is extremely complex, and new bodies continue to be set up at the highest policy-making level to impose some rationality on it, the latest being the National Credit Council. Credit for the poor is given great importance in public pronouncements; for instance, it is one of the nine flagship programs in the recently announced Social Reform Agenda. The recent setting up of PCFC as an AFI for all poverty lending programs is a positive development.

While direct lending by government agencies has virtually ceased with the possible exception of DSWD's Self-Employment Assistance Program, there are still too many small, cost-ineffective programs duplicating each other (Bot [1994]; CAPS [1993]; and Ghate [1993]). Many of the programs have been consolidated (for example, all those run by the Department of Labor's Integrated Livelihood Program) and the number is down to about 50 with the promise of further consolidation as one of the conditions of ADB's Rural Microenterprise Finance Project. Monitoring remains a problem, and data on annual flows, target groups, lending terms, and repayment rates are still hard to come by. However, only four agencies have programs that have achieved significant scale in reaching the poor through noncrop activities. The most prominent of these is DTI's Tulong sa Tao, involving 2,000 partner organizations and NGOs and 80,000 microenterprises which has been assisted by two loans from ADB.

The two projects involving DTI have been a valuable learning experience. One of the main lessons to emerge is that a more differentiated approach is necessary in a country like the Philippines with its higher proportion of growth-oriented microenterprises, if both of two distinct goals are to be achieved: (i) making a quick impact on poverty by providing a supplementary source of family income (and in some cases a new main source) by financing "livelihood" activities; and (ii) initiating the longer term task of developing more growth-oriented microenterprises, with greater benefits in terms of income, but for a much smaller number of borrowers in the short run.

It has become clear that the two objectives have very different implications in terms of (i) the credit delivery system to be adopted (for example, group versus individual lending); (ii) noncredit requirements; (iii) activity mix; and (iv) the skills and organizational culture of the implementing agency. ADB has already moved to implement a third NGO-based project directed at serving the first, poverty-reducing objective, building on the valuable experience already acquired by the Grameen Bank Replication pilot project, sponsored by the Agriculture Credit Policy Council (see Table 6.3). The Philippines comes second only to Malaysia in replicating the Grameen model outside

Table 6.3
Status of Major Government Lending Programs for the Poor[1]

Agency	National Livelihood Support Fund	Department of Trade and Industry	Department of Social Welfare and Development	Agriculture Credit Policy Council	Total
Program		Tulong Sa Tao	Self-Employment Assistance Program	Grameen	
Information as of	31 Mar 96	31 Mar 96	15 Mar 96	31 Dec 94	
Program Age *(years)*		6			
Amount of Loans Released *(P million)*	126	1,231	164	31	1,552
Number of Conduits	70	1,944	Direct	23	2,037
Number of Clients	19,785	82,157	45,250	13,432	151,445
Average Loan per Client *(pesos)*	6,368	14,984	3,624	2,307	
Average Number of Clients per Conduit	283	42		584	

Note: [1] All figures are cumulative. In the DTI/Tulong sa Tao case, the number of conduits and clients may be lower asthere are repeat borrowers at the conduit and client level.

Bangladesh. The Rural Microenterprise Finance Project seeks to extend the benefits of the Grameen Bank approach to 300,000 poor borrowers nationwide, by providing loan and institutional development funds to NGOs for sufficiently long maturity periods to enable them to meet start-up costs (including careful training) and attain economies of scale.

The task now is to address the second objective based on a careful review of the experience of the first two DTI projects. On one hand, with poverty reduction being addressed separately through a specialized poverty-focused project consisting essentially of a "minimalist" package of credit and social intermediation, it should be easier to concentrate on the specific requirements of more growth-oriented microenterprises. (As brought out by Box 5.5, one of the reasons for the relative success of RIP in India is that it defined itself clearly from the outset as enterprise development rather than as a poverty reduction project). On the other hand, much less is known about what these requirements are, and how they are best delivered. Thus, ADB should treat its next project as a learning experience in the provision and development of nonfinancial (as well as financial services), utilizing among other things the subsector approach.

Given the greater importance of manufacturing in growth-oriented as opposed to livelihood enterprises (a higher proportion of which tends to belong to the trading, noncrop agriculture, and simple processing sectors), and the greater importance of nonfinancial services in manufacturing such as design, product development, labeling, packaging, market information, marketing (including trade fairs), and technology development and transfer, there may be a case for continuing to have an agency such as DTI execute a follow-up project. These are services in which it has a comparative advantage over a financial institution. The actual lending will have to be done by NGOs, preferably with specialization in particular subsectors, and others by microfinancial institutions, and it is important that it is done in a manner which leads to long-term sustainability. But the executing agency of the project does not necessarily have to be a financial institution.

The other issue which will have to be addressed much more carefully is the long-term sustainability of the conduits (see Box 6.2) and of the project as a whole. If the cumulative repayment rate of NGOs

Box 6.2

The NGO Microcredit Projects in the Philippines

ADB provided two loans to the Philippines to help expand and strengthen DTI's Tulong sa Tao (Helping the Poor) Self-Employment Loan Assistance, NGO Microcredit Project 1 for $8 million in 1988, and NGO Microcredit Project 2 for $30 million in 1991. The first loan was disbursed one and a half years ahead of schedule and the last *tranche* was released at the end of 1996. The two loans have benefited about 80,000 microentrepreneurs through about 2,000 NGOs and partner organizations, raising the incomes of borrowers, reducing underemployment in their families, and creating some wage employment. From a social cost-benefit point of view, the projects have been undoubted successes.

However, only about 30 percent of the borrowers in the first project were poor, and judging by average loan size, most of the benefits of the second project will also accrue to those above the poverty line (Balisacan 1995; Ghate 1993). This outcome is the result of an initial lack of clarity about objectives and the huge unsatisfied demand that exists for small loans by the nonpoor as well as the poor in the Philippines, a market that the formal sector does not serve. Loans under the project were sucked into this credit vacuum and in large part went to nonpoor persons. The project may have discouraged the slow, ongoing extension of formal sector lending by some rural banks and "lending investors" to this market segment.

Although the explicit objective of the two projects was poverty reduction, enterprise growth and transformation ("graduation") were clearly implicit objectives judging by the fact that the upper limit on loan size was relatively high (P25,000) in the first project, and was increased further to P35,000 for a second loan and P50,000 for a third loan in the second project. Moreover the borrower did not have to be below the poverty line at all in the case of loans in which the investment cost per job created was less than P15,000. The cost of creating a job under NGO Microcredit Project 1 was reported to have been only P4,400, although this is likely to be an underestimate for various reasons. As

(continued next page)

Box 6.2 *(continued)*

many as half the conduits (NGOs and cooperatives) required collateral, and none of them used a means test to screen borrowers. Small initial loan size is preferable to means testing as a way of self-selecting poor borrowers, but this mechanism applied to the projects. About two thirds of the conduits were cooperatives, which tend to serve a relatively homogenous group of middle-income members, such as market vendors.

It could be argued that it is unfair to judge the projects by an objective (poverty reduction) they were not designed to serve, and that a better test would be aggregate benefits, irrespective of whether they accrued to the poor or nonpoor. On this test, the projects have been a success, as suggested above. But the success has been in filling a credit gap (which explains the rapid disbursal under the first project, and the much higher than expected number of conduits that mushroomed to avail of loan funds), than in raising the productivity of the enterprises assisted through the provision of nonfinancial services (as implied in the objective of enterprise transformation and development), or in building a sustainable set of microfinance institutions to continue lending in a sustainable manner after the project is over.

to DTI is only about 85 percent as reported, the interest rate of 12 percent currently being charged NGOs is insufficient to cover both defaults and an inflation premium to ensure that the revolving fund with DTI retains its real value. The repayment rate of borrowers to the conduits is reported to be even lower. The five-year time limit on maturity of loans to the conduits is probably insufficient, and is likely to be even more of a constraint if a follow-up project gives equal emphasis to the provision of nonfinancial services and attempts to recover at least part of their costs. Obviously a great deal of financial analysis is called for on such interrelated questions as minimum portfolio size of conduit NGOs, on-lending rates to final borrowers, and loan maturity periods during preparation of the next project.

Viet Nam

Two salient features of formal sector credit in Viet Nam are extremely high repayment rates and the extensive use of mass organizations to reach poorer borrowers organized in groups. VBA replaced a system of credit cooperatives and initiated direct lending to farmers only in 1991. By mid-1995, it had expanded its network to reach about 30 percent of rural households directly and another 5 percent (more than half a million) through joint-liability groups organized by the Women's Union, the Farmers Association, and other mass organizations. Both features will prove advantageous in enabling the system to extend outreach further in a sustainable manner. A third feature, cost-recovering interest rates, are not reflected in loans to poor borrowers and ethnic minorities that are now extended at preferential rates.

Despite innovative approaches to group lending, the poorest borrowers remain largely excluded from formal sector credit. Borrowers organized in joint-liability groups mostly belong to the middle third of rural households (those in the upper third being reached directly through loans collateralized with land use certificates). The mass organization does not on-lend funds, but acts as a broker rather than a financial intermediary bearing credit risk. It does sometimes issue a guarantee to VBA, but this is usually a moral or "prestige" guarantee, rather than one that is legally enforceable.

A major issue is compensating the mass organizations adequately for organizing and supporting joint-liability groups. If this were done, local branches of the Women's Union and other mass organizations would be able to designate specialist staff for the purpose, unburdened with other duties, who could be trained in the relevant skills. A second priority is to provide for the training needs of a mass organization staff. A third task is to develop risk fund mechanisms to support borrowers whose investments fail (for example, when a pig financed by the loan dies), and to repay failed loans to VBA. If the commission payable by VBA to the mass organization was high enough, part of it could go into a risk fund. Alternatively, a joint-liability group could add on a contribution for the risk fund when collecting repayments. Fourth, much greater emphasis on savings mobilization is required.

A great deal of well-documented field experimentation is still required to find viable solutions to these and other issues. Considerable useful experience has been gathered by 60 or so international NGO-financed credit projects around the country.

Viet Nam Bank for the Poor (VBP) was set up by a decree in August 1995. One of its express purposes is to centralize all poverty lending programs. It plans to reach 3.2 million poor households by the year 2000 (a little less than the total number of households covered by VBA today). At present VBP is still only a fund with virtually no staff and outreach of its own. It will take over the loan portfolio already lent out to the poor by VBA at preferential interest rates and it is to receive budgetary subventions and contributions from the central bank. It is reportedly planning to operate through VBA, paying VBA an agency fee of 3.6 percent out of the lending rate of 14.4 to 18 percent to be charged to borrowers (compared to the rate of 28.8 percent for regular VBA lending). The rate to borrowers has not been decided. The lower rate is derived by adding the cost of funds to the fee payable to VBA, while the higher rate adds the cost of inflation. In the Red River Project assisted by the French government, VBP has agreed to charge the same rate as for regular VBA lending, with the VBP retaining only 14.4 percent and allowing borrower groups to retain the remaining 14.4 percent for social intermediation costs. Unless that principle is enacted nationwide, VBP lending may not be able to cover the entire costs that must be incurred in reaching out to the poor.

Whether the setting up of a separate VBP turns out to be effective will depend greatly on how the institution evolves, and in particular, whether it succeeds in developing over time the special orientation, expertise, and social intermediation systems required to conduct poverty lending. ❖

CHAPTER SEVEN

MICROENTERPRISES IN POVERTY REDUCTION AND EMPLOYMENT GENERATION: COUNTRY EXPERIENCES

Microenterprises: A Residual or Dynamic Sector of Employment?

There are two views on the development contribution of microenterprises. One is that microenterprises are a residual category of employment which expands and contracts countercyclically with economic growth. The other view regards microenterprises as a growing and dynamic sector contributing significantly to income, employment, equity, mobility, and the broad basing of entrepreneurship and skills.

Both views are correct, but apply to different parts of the microenterprise sector. The first view corresponds to that large segment of livelihood enterprises into which persons tend to be pushed for want of more profitable alternatives. During times of macroeconomic growth when wage employment opportunities are good, the rate of new livelihood enterprise starts goes down and many low-productivity livelihood enterprises are closed down. There is, thus, a contraction of employment from net new starts, although employment grows strongly in existing growth-oriented microenterprises, taking advantage of strong demand conditions so that total employment in microenterprises increases.

In times of macroeconomic stagnation, on the other hand, with wage employment opportunities contracting (including wage employment opportunities in microenterprises), the rate of new starts in livelihood enterprises increases, and exceeds the rate of closures, so that employment growth from net new starts becomes positive. However, total employment in microenterprises may still decrease because of loss of employment in existing enterprises.

In a vivid demonstration of the safety net function of livelihood enterprises, employment in microenterprises grew by 4 percent in the Philippines between 1991 and 1993, when per capita gross domestic product declined by 1.3 percent, whereas it contracted in enterprises with ten or more workers (by 3 percent) to enable total nonagricultural employment to grow by 2 percent. (The same happened in agriculture, in an even more pronounced way, to result in overall growth of employment by 3 percent.) These trends are in accordance with those described in Liedholm and Mead (1995) in Africa when considered with changes in the composition of employment. Wage and salaried employment grew very slowly during the period (2 percent) while that of employers contracted (by 1 percent).

In the subsequent years, 1994 and 1995, however, when the economy grew by an average of 1.1 percent a year, the reverse happened, with wage and salaried employment growing strongly (at 6 percent), and the number of employers increasing sharply by 11 percent (own-account workers growing to take on hired labor). The rate of growth of self-employed, own-account workers remained the same in both periods but that of unpaid family labor grew sharply in the second period while declining in the first. Thus, not only did microenterprise employers grow in the second period, the self-employed took on more family workers.

The pattern of fluctuations described above relates to the short term. In the very long term, one would expect to see a secular decline of livelihood enterprises, especially in manufacturing, as economic growth puts them out of business. For growth-oriented enterprises, the second view is applicable in the long run more than in the short when growth-oriented as well as livelihood enterprises undergo contraction or closure during times of economic recession.

It is important to be aware of these possibilities when analyzing statistics, such as those discussed in this chapter, relating to the number and share of workers and households engaged in microenterprises, as the statistics do not usually distinguish between livelihood and growth-oriented microenterprises. Livelihood enterprises do constitute an important safety net by providing a cushion to poor families in times of macroeconomic adversity, and it is important to be able to assess the size and movements in the size of the cushion. However, a high (let alone increasing) share of dependence on microenterprises is not in itself enough. As important is the income contribution (or productivity) and growth potential of the microenterprises concerned. It certainly should not be assumed that increasing this dependence by the creation of new livelihood enterprises is the only means of reducing poverty.

In assessing the potential of microenterprises for reducing poverty, one should note (i) the share (and trends in the share) of poor households dependent on microenterprises as their main or subsidiary source of income; and (ii) the share (and trends in the share) of microenterprises to the income of such households (or workers) below the poverty line. Before considering the information available from the study countries, however, it is useful to note the findings in Table 7.1 relating to the countries in Liedholm and Mead's study (1995) in Africa. The study defines SMEs as all enterprises employing up to ten workers (in the case of micro) and between 11 and 50 workers (small) that are engaged in nonprimary activities. This chapter looks at similar findings from the literature.

Bangladesh

In Bangladesh, the main source of employment data, contained in the series of Labor Force Surveys, does not distinguish between self-employment and salaried or wage employment. Nor does it disaggregate by enterprise size. Despite these uncertainties, the rural nonfarm sector (RNFS) in Bangladesh appears to engage 34 percent, as compared to 20 percent in India, of the total rural labor force. Employment in the nonfarm sector has grown faster than total rural employment (3.7 percent as against 2.2 percent). However, RNFS female workers as a proportion of all rural women workers declined from 89 to 61 percent between 1984 and 1991. Because the share of female employment in RNFS was steady at about 22 percent between 1984 and 1991, women's employment must have grown more rapidly in agriculture.

It must be noted, though, that these shares refer to the primary occupations of "main" workers in both countries. Indeed, the share of total household income contributed by RNFS enterprises is a more meaningful measure, because it is independent of the time dimension of employment, and on this variable there is more data for Bangladesh

Table 7.1
Characteristics of Microenterprises in Selected Countries

	Botswana	Kenya	Lesotho	Malawi	Swaziland	Zimbabwe	Dominican Republic
SME employment/ population age 15-64 *(percent)*	17	18	17	23	26	27	19
SME employment per 1,000 persons in the population	71	83	84	92	118	127	109
Share of all SMEs that are one-person enterprises *(percent)*	65	47	79	61	69	69	22
Share of all SMEs with 10-50 workers *(percent)*	3	2	1	1	2	2	18
Share of hired workers in SME labor force *(percent)*	39	24	10	18	15	16	36
Location Breakdown of SME Employment *(percent)*							
Urban areas	24	15	18	12	25	30	46
Rural towns	28	7	10	4	10	6	18
Other rural areas	48	78	72	84	65	64	36
Sectoral Breakdown of Enterprises: Urban Areas Only *(percent)*							
Manufacturing	15	18	35	29	33	64	21
Commerce	71	74	41	62	56	30	63
Sectoral Breakdown of Enterprises: Rural Areas Only *(percent)*							
Manufacturing	34	27	62	36	70	75	15
Commerce	64	66	27	60	24	16	75
Share of enterprises owned by females	75	46	73	46	84	66	46
Share of all workers who are females	67	40	76	40	78	57	38

Note: SME = small and microenterprises

Source: Survey data except for the population data in the first line, which are taken from United Nations and World Bank statistics. Taken from Liedholm and Mead, 1995, Table 2.1.

than for India. Several studies put the contribution of RNFS enterprises as constituting about one third of village income. Moreover, they agree that the contribution increases with increases in household income. A study of 62 villages by Hossain (1992) found that the extreme poor in these villages derived 22 percent of household income from nonfarm enterprises, whereas the moderate poor and the nonpoor derived 26 and 30 percent, respectively (see Table 7.2). If one uses the findings of another study (Rahman and Sen 1994) that shows that 25 percent of the members of poor households were employed in microenterprises, a doubling of the income of those persons would increase the income of poor households by 20 percent.

Table 7.2
Composition of Rural Household Income for Poor and Nonpoor Households

	Sector	Percent of Household Income		
		Extreme Poor	Moderate Poor	Nonpoor
1	Agriculture:	66.6	63.5	61.8
	a. Crop cultivation	22.2	31.9	43.7
	b. Kitchen garden	9.2	8.1	5.8
	c. Noncrop agriculture	7.4	11.2	9.9
	d. Agricultural wage	27.8	12.2	2.4
2	Nonagriculture:	28.5	32.3	31.8
	a. Industry	5.0	4.9	4.8
	b. Trade	6.8	10.4	16.0
	c. Service	7.4	8.0	6.9
	d. Transport and Construction	2.4	2.3	2.5
	(Nonagriculture self-employment equals 2a+2b+2c+2d)	(21.6)	(25.6)	(30.2)
	e. Nonagriculture wage	6.9	6.6	1.6
3	Remittances	5.0	4.2	6.4
	TOTAL	**100.0**	**100.0**	**100.0**

Source: Based on Hossain, 1992.

The picture that emerges from several recent surveys and studies is that (i) about 34 percent of the rural labor force is employed in nonagriculture and that this share is even higher, at 38 percent, if semi-urban (but nonmunicipal) areas are included; (ii) RNFS employment grew faster, at 3.7 percent, than total rural employment (2.2 percent) with more than 20 percent of the increase in RNFS during 1981 to 1991 being semiurban (if this is included); (iii) per capita RNFS income grew at 2.8 percent during 1983 to 1992, when other sources were stagnant or declining, growing at 2.9 percent for the poor and 2.3 percent for others; (iv) RNFS households are not the poorest; they have a lower incidence of poverty than agricultural labor households, and they have gained in terms of poverty incidence between 1983 and 1992; (v) RNFS wage labor households have lower poverty than agricultural labor households; and (vi) rural manufacturing has been growing faster than trade and services and accounted for 40 percent of RNFS employment in 1990/91.

In this last respect, the experience of Bangladesh is the opposite of India. It is known that textiles and apparel, furniture and wood products, and metal products, have been particularly dynamic components of the RNFS employment, and the 12 percent annual growth rate of manufacturing for the country as a whole (including the urban areas) between the two Labor Force Surveys of 1983 and 1990 may reflect this. Two thirds of all rural manufacturing employment is in handweaving. However, if only the 11 percent of RNFS employment that is provided by "permanent establishments" is considered, half the workers are in the food, beverage, and tobacco subsector, with another 20 percent in wood and wood products.

By 1990, a much higher share of females (67 percent of all females in RNFS employment) was employed in rural manufacturing, than males (32 percent). The next most important sector of employment for females was the household sector (domestic service). Only 4 percent of women were employed in trade and restaurant work. Thus, trading is not a "woman's" activity in Bangladesh (or in India and Nepal, for similar reasons to do with restrictions on women's mobility), unlike in Southeast Asia. For men, trading and restaurant work were as important as manufacturing, so that manufacturing, trading, restaurant work, and all other services provided about one third of male RNFS employment each. Male employment in community and personal services has declined not only in relative, but also in absolute terms.

Bangladesh has among the best statistics on the size distribution of enterprises. Among permanent establishments, 82 percent of microenterprises (with nine or fewer workers), employ one or two workers, and only 2 percent six to nine. These percentages are 53 and 8 percent for manufacturing enterprises (with 39 percent employing three to five workers). Thus, manufacturing enterprises tend to be larger than average. Trading enterprises are the smallest.

India

India has detailed national level statistics on microenterprises collected through the periodic Economic Census. According to the Economic Census of 1990, India had 24 million microenterprises, constituting 97 percent of all enterprises, providing employment to at least 45 million people, and employing 63 percent of all nonagriculture workers as shown in Table 7.3.

The overall density of employment in microenterprises was 54 workers per 1,000 persons in the population, which is somewhat lower than the 71 to 127 workers per 1,000 in the countries in Table 7.1. The average is brought down by the continuing predominance of the agrarian sector in the economy, with a density of only 40. However, a larger proportion of rural nonagriculture workers is employed in microenterprises (75 percent) than in the urban areas (52 percent).

Table 7.4 shows the sectoral distribution of rural and urban employment. It will be noted that in the rural areas, cultivators account for almost one half of the rural labor force, agriculture laborers for nearly one third, and those engaged in RNFS, for a significant part of the remaining one fifth.

However, the countrywide average of 20 percent hides significant variations from state to state, ranging from 44 percent in Kerala to 11 percent in Madhya Pradesh. The higher-income and agriculturally more commercialized and diversified states appear to have a larger RNFS than the poorer and more densely populated states. This is, of course, what one would expect with the secondary and tertiary sectors

Table 7.3
Distribution of All Microenterprises and Persons Usually Working in Them by Size, Class of Employment, and Rural-Urban Location
(numbers in hundreds)

Size-Class of Employment	Rural			
	Number of Units	Total Units *(percent)*	Number of Workers	Total Employed *(percent)*
1 to 5 Workers	140,720	95.58	224,958	67.56
6 to 9 Workers	3,590	2.44	25,198	7.57
Total	**144,310**	**98.02**	**250,156**	**75.13**
- Workers/1,000 Pop.			40	
- Workers/Unit			1.73	

Note: Percent totals do not equal to 100 percent as units with employment of ten and above have been excluded.

growing at the expense of the primary, with development. However, the figures would not show the dependence on nonfarm enterprises as a secondary, but nevertheless vital source of income of those whose primary occupation is cultivation or agricultural labor, especially as livestock is excluded.

It will be noticed from Table 7.4 that about one third of all urban workers are engaged in microenterprises while the proportion for the rural sector is only a little more than one-tenth. Trade, transport, and other services account for 62 percent of employment in the urban areas while household and nonhousehold manufacturing account for another 19 percent. In the rural areas, manufacturing accounts for the highest share (29.4 percent, although the share of the household component is declining not just in relative, but in absolute terms), followed by trade (28 percent) and allied activities (mainly livestock). Trade and commerce and other services grew at a rate higher than that of the sector as a whole.

The share of women workers in RNFS appears to be considerably lower in India than in Africa, although the 1991 census found that it had increased to 32.3 percent from 29.1 percent in 1981. However,

Urban				All Areas			
Number of Units	Total Units *(percent)*	Number of Workers	Total Employed *(percent)*	Number of Units	Total Units *(percent)*	Number of Workers	Total Employed *(percent)*
92,834	90	167,599	43	233,554	93.41	392,557	54.46
5,052	5	35,497	9	8,642	3.46	60,695	8.42
97,886	**95**	**203,096**	**52**	**242,196**	**96.87**	**453,252**	**62.89**
		94				54	
		2.07				1.87	

the share of women in the 11 percent of the rural labor force who were marginal workers (those who worked less than 183 days in a year) was considerably higher, at over 90 percent.

The RNFS study estimates that the sector will have to grow by over 8 percent in order to bring about full employment by the end of the century. This compares to a growth rate of 5.4 percent achieved over the decade 1978 to 1988.

Indonesia

Data comparable to those available for the South Asian countries and the Philippines on the share of males and females employed in microenterprises are not readily available from Indonesia. According to Table 7.5 below, 63.5 percent of the working population is employed in the informal sector.

The male and female force participation rates were 71 and 39 percent, respectively. The informal sector is defined by the Indonesian Central Bureau of Statistics as comprising enterprises to

Table 7.4

Sectoral Distribution of Employment in Microenterprises

(numbers in hundreds)

	Category	**All Main Workers**		
		Total	**Urban**	**Rural**
I	Cultivators	110,702,346	3,133,883	107,568,463
II	Agricultural laborers	74,597,744	4,259,404	70,338,340
III	Allied activities	6,040,739	1,099,741	4,940,998
IV	Mining/quarrying	1,751,275	712,006	1,039,269
V	Manufacturing-hh	6,804.02	1,993,947	4,810,074
	Manufacturing-non-hh	21,867,458	13,963,981	7,903,477
VI	Construction	5,543,205	3,224,808	2,318,397
VII	Trade/commerce	21,296,337	13,994,945	7,301,392
VIII	Transport, communication	8,017,746	5,270,542	2,747,204
IX	Other services	29,311,622	15,989,657	13,321,965
I-IX	Main workers	285,932,493	63,642,914	222,289,579
	Total population of microenterprise workers/1,000			

Note: hh= households

Source: Population Census of 1991.

which three or more of the following criteria apply: (i) the enterprise employs fewer than four persons, most of them as unpaid family workers or part-time workers; (ii) the activity is not a full-time, year-round activity; (iii) the enterprise is not on a permanent location or its workplace is the house; and (iv) the number of working hours per day or days of work per week is not fixed. Thus, the definition is a little more restrictive than that used in this study for microenterprises. Data and studies are presumably available on the basis of which assumptions could be made on the share of males and females

Urban Main Workers			Rural Main Workers in Microenterprises			Main Workers in Microenterprises		
Total	Urban Workers *(percent)*	Micro-enter-prise Workers *(percent)*	Total	Rural Workers *(percent)*	Micro-enter-prise Workers *(percent)*	Total	All Workers *(percent)*	Micro-enter-prise Workers *(percent)*
747,090	67.9	3.7	4,012,619	81.2	16.0	4,759,709	78.8	10.5
9,367	1.3	0.0	51,963	5.0	0.2	61,330	3.5	0.1
1,794,552	90.0	8.8	4,810,074	100.0	19.2	6,604,626	97.1	14.6
2,094,597	15.0	10.3	2,564,441	32.4	10.2	4,659,039	21.3	10.3
1,008,240	31.3	5.0	2,086,557	90.0	8.3	3,094,797	55.8	6.8
7,779,885	55.6	38.3	6,236,531	85.4	24.9	14,016,416	65.8	30.9
3,178,472	60.3	15.6	2,200,071	80.1	8.8	5,378,543	67.1	11.9
3,699,168	23.1	18.2	3,059,363	23.0	12.2	6,758,531	23.1	14.9
20,311.37	31.9	100.0	25,021,620	11.3	100.0	45,332,992	15.9	100
215,771,612 94			**622,812,376 40**			**838,583,988 54**		

employed in nonagriculture in each of the three categories of the informal sector.

On the size and sectoral distribution of all microenterprises (including agriculture) defined as enterprises with total assets except land and buildings below Rp10 million and with paid employment of no more than five persons, one study estimates over 98 percent of about 35 million enterprises to be microenterprises. Forty-three percent were nonagriculture, of which only 17 percent were manufacturing enterprises and 83 percent trade and service enterprises.

Table 7.5
Employment in Indonesia, 1990

	Category	Males *(million)*	Females *(million)*	Total *(million)*
	Working age population	66.82	68.48	135.26
	Informal employment			
1	Self-employed	9.83	4.32	14.15
2	Self-employed with temporary help	12.92	4.44	17.36
3	Family workers	5.02	8.84	13.86
	Total informal employment	27.77	17.59	45.37
4	Total formal employment	18.21	7.89	26.10
	Total employment	45.98	25.49	71.47

Source: Census 1990, Reproduced from Lucock and Moyes, 1994, 2.

In a further analysis of microenterprises, using Bureau of Statistics 1991 data from the Household/Cottage Industry Statistics and Small Scale Manufacturing Industry Statistics, in 1991 there were 2.35 million household/cottage industries employing up to five workers, and 123,000 small-scale industries employing six to 20 workers, 80 percent of which employed ten or fewer workers. Those calculations indicate about 2.4 million microenterprise level industries with ten or fewer workers. Two of USAID's institutions established through its innovative Financial Institutions Development Project, the Provincial Development Banks and the unit *desas* of BRIs, had three million outstanding borrowers in 1994, 72 percent of which were nonagriculture-based microenterprises. Those 2.1 million microenterprises comprised 1.7 million traders, 330,000 service enterprises, and 70,000 micro and small industries.

Mongolia

Mongolia's gross domestic product declined for four years in a row between 1990 and 1993 as the country underwent rapid transformation to a market economy. Despite a turnaround since 1994, recorded unemployment continued to rise as a result of privatization and downsizing of state enterprises, to an estimated 19 percent in 1995. A large number of persons were pushed into dependence on microenterprises, including salaried employees seeking to protect their incomes against rapid inflation by working in microenterprises on a part-time basis, or during vacations, as well as members of vulnerable groups such as female-headed households, or the elderly without care. Trading, in particular, proliferated as a microenterprise activity, with the changing structure of domestic production and shortages on account of the cessation of trade with Mongolia's traditional trading partners.

At the same time, many former employees of state enterprises, including small ones, such as hair salons, pharmacies, bakeries, and television repair shops, took over as the new owners under the privatization process. Thus, not only has Mongolia experienced the classic phenomenon of relatively rapid growth of livelihood enterprises in times of economic contraction (as in the Philippines during 1991 to 1993), but an increase also in the number of more growth-oriented enterprises providing the main source of income for a relatively better educated and wealthier type of entrepreneur.

Although detailed national level employment data by occupational category and enterprise size is missing, there is data to show the rapid increase in sole proprietorships by 830 percent between 1991 and 1994, as against an increase of 540 percent of all types of enterprises (the other three types, in descending order of importance being cooperatives, private companies, and state-owned enterprises). Sole proprietorships are the smallest of the four types, with an average of 1.3 employees. In addition, there has been an increase in the large number of enterprises that do not register at all, carried out in homes or on the streets. Of the registered sole proprietorships in 1993, 28 percent were in the wholesale and retail trading sector.

Fifty percent of the registered sole proprietorships are in Ulaanbaatar (with 30 percent of the country's population) and another 9 percent in the other two large cities. The study carried out two participatory appraisal exercises, one in an urban district in Ulaanbaatar, and the other in a rural slum. In the urban district, 40 percent of the households engaged in some form of microenterprise activity, and the gender distribution of those involved was almost even (54 percent men,

Table 7.6

Mongolia: Socioeconomic Status of Households Involved in Microenterprise Activities

Sector	Households		Socioeconomic Status[1]									
	No.	%	Below poverty line				Above poverty line					
			I		II		III		IV		V	
Domestic Trading	12	3.3	3		4		3		1		1	
Street Vending (vodka and cigarettes)	2	5.5	1		0		0		1		0	
Sewing	5	3.9	0		3		2		0		0	
Sausage Making	3	8.3	1		0		0		2		0	
Taxi	2	5.5	0		2		0		0		0	
Vegetable Gardening	2	5.5	1		0		1		0		0	
Bakery	2	5.5	1		0		0		1		0	
Milk Production	2	5.5	0		2		0		0		0	
Souvenir Making	1	2.8	0		0		0		0		1	
Electronics Repair	1	2.8	0		0		1		0		0	
Restaurant/Canteen	1	2.8	0		1		0		0		0	
Shoe Production	1	2.8	0		0		1		0		0	
Iron Work	1	2.8	0		0		0		0		1	
Automotive Repair	1	2.8	0		1		0		0		0	
			7	19.4	13	36.1	8	22.2	5	13.9	3	8.4
Percentage	100		55.5				44.5					

Note: [1] Socioeconomic Status Classification:

Below poverty line (Tg4,200 per capita, per month)

Group I Households with an income <Tg2,000 per capita.

Group II Households with an income Tg2,000-Tg4,200 per capita.

Above poverty line

Group III Households with an income from Tg4,200-Tg6,000 per capita.

Group IV Households with an income from Tg6,000-Tg10,000 per capita.

Group V Households with an income >Tg10,000 per capita.

46 percent women). Growth-oriented enterprises engaged only 16 percent of those involved.

Data on the socioeconomic status of about half the households is presented in Table 7.6. The largest proportion of households involved are those living just below or above the poverty line. It is not known what proportion of household income these households derive from microenterprises, but case studies of street trading activities show that income from even street trading was relatively high in relation to the poverty line.

The rural *sum* was better connected to a major road than is typical. The focused survey found that as many as 60 percent of working age individuals in the 30 sample households were without official (registered) employment. In keeping with the overwhelmingly pastoral and barter nature of the rural economy, 27 of the 30 sample households derived income as producers of meat, dairy, and animal products, as both producers and traders. Excluding these animal husbandry activities, the 30 households engaged in 44 microenterprise activities among them, of which 21 activities entailed the trading of livestock products. Rural households tend to phase in and out of nonlivestock-related enterprises with the seasonal nature of livestock productivity. The poorest households tend to be those that received less than the subsistence size herd of ten animals in the privatization of the national herd, and tend to be almost entirely dependent on microenterprises such as handicrafts and services.

Nepal

Data classifying the workforce by broad occupational category are not readily available for Nepal. However, there has been a Survey of Small Manufacturing Establishments which defined small industries as those employing less than ten persons. The 46,000 small industries surveyed in the country employed about one third of all persons engaged in manufacturing, about 2 percent of the population; generated 16 percent of manufacturing value-added; and more than two thirds of Nepal's total exports (mainly woolen carpets, garments, and handicrafts). Only 20 percent of the persons engaged were women.

Similar data are not available for nonmanufacturing microenterprises. However, the study examined a sample of 51 households operating microenterprises as either a primary or secondary source of income in one Village Development Committee of 1,260 households in Surkhet district, which is in the middle hills. Forty-seven percent of the households in the village depended on off-farm activities (including wage labor) as their primary source of income and 58 percent operated microenterprises. The proportion of those who operated microenterprises was higher for the nonpoor and ultrapoor (65 percent and 61 percent, respectively) than for the borderline poor (51 percent), but the reasons were not immediately apparent. The four types of enterprises (manufacturing, services, trading, and noncrop agriculture) were fairly evenly distributed across the three income groups.

A little less than one third of the microenterprises in the sample of 51 were in the manufacturing sector, slightly more than one fourth in the services sector and one fifth each in trading and noncrop agriculture. Only one quarter of the enterprises were operated by women, who were particularly underrepresented in manufacturing and services entailing skills such as shoe, bicycle, and metal utensil repair. As in other countries, women tend to be better represented in trading and in noncrop agriculture (mainly livestock rearing, which is home-based). Only 10 percent of the households depended entirely on one sole microenterprise for their entire family income. These were vegetable trading, butchery, bicycle repairing, copper utensil repairing, and iron smithy work. However, half the households derived more than half of total household income from microenterprises. About four fifths of the households carried out crop farming in addition to microenterprise activity and about 30 percent had at least one other microenterprise in addition to the main enterprise.

Philippines

The Philippines data do permit a disaggregation of employment between micro and larger enterprises across various "industry" groups, excluding workers employed in public administration, education, and health, and separates wage from nonwage microenterprise employment for urban and rural areas for both males and females. For the country as a whole, 36 percent of all workers were in nonagriculture microenterprises.

Several features of microenterprise employment distinguish the Philippines from the other countries in the sample. First, employment in urban microenterprises (67 percent) exceeds that in rural enterprises, with female employment being a little more evenly divided (65 percent in the urban areas) than that of males (68 percent urban).

Second, half the persons employed in the sector are wage and salary employees rather than owner-operators or family workers. (See the 1993 Integrated Survey of Households Bulletin and the 1993 Yearbook of Labor Statistics from the National Statistics Office (NSO), and the 1992 Socioeconomic Survey of Special Groups of Families from NSO and the National Economic and Development Authority). This is probably a reflection of the fact that the average size of microenterprises in the Philippines is higher than in the South Asian countries and there is a stronger presence of growth-oriented microenterprises with greater potential to absorb hired labor. Because data are collected separately for units below five workers and those between five and nine, it should be possible to examine this issue further. Moreover, the ratio of the self-employed to the wage-employed changes in favor of the former as one descends the income ladder.

Wage and salary employees exceed nonwage employees in services, construction, transportation, and manufacturing, whereas the opposite is the case with wholesale and retail trade. Females are more likely to be self-employed than males, and in the rural areas (unlike the urban) the majority of women are self-employed.

Third, unlike the South Asian countries in the sample (but perhaps not unlike the rest), women totally dominate wholesale and retail trade, constituting more than two thirds of all persons engaged in the sector. Indeed, 70 percent of self-employed women in microenterprises in the urban and rural areas (and 45 percent of all women employed in microenterprises, including wage employees) are in the wholesale and retail trade sector, as against 48 percent of men. Women exceed men self-employed in manufacturing too, in both urban and rural areas, but not when wage employees are included.

Wholesale and retail trade is by far the largest microenterprise employment sector (35 percent of all microenterprise employment and 13 percent of the total employment). Manufacturing and transport come next (18 and 12 percent, respectively), although only two thirds of manufacturing employment is in the microenterprise sector (as against 92 percent of wholesale and retail trade).

On the issue of the contribution of microenterprises to total household income, there is evidence from the Urban Informal Sector Survey in Metro Manila conducted in 1995 (NSO/International Labor Organization 1995), that about 55 percent of informal sector households (defined similarly to microenterprises in this study) rely on the "business operations" either of the household head or other members of the household. As against this, 30 percent rely on wage employment. Reliance on business operations is higher for female-headed (69 percent) as against male-headed (51.4 percent) households.

There is also evidence from evaluations of Grameen Bank replications and ADB's NGO Microcredit Project 1, that the contribution of microenterprises to the household income of borrowers assisted by the projects is high, typically in the order of 50 to 60 percent.

Viet Nam

There is a relatively comprehensive data set on the role of microenterprises in Viet Nam, largely due to the Viet Nam Living Standards Survey (VLSS) conducted in 1992/93 based on a sample of 4,800 households. VLSS found that in the rural areas only 30 percent of households are pure farm households (defined as deriving less than 5 percent of total income from nonfarm activities), 65 percent are "mixed" households, and 5 percent are nonfarm households. Mixed households as a group derive an average of 45 percent of their income from agriculture, as against 31 percent from nonfarm self-employment. Animal husbandry is included in agricultural activity.

For the country as a whole, nonfarm rural households are better off than mixed households, which in turn, are better off than farm households. Household income rises by 70 percent from farm to mixed, and by 41 percent from mixed to nonfarm households. However, this overall pattern is largely the result of very high nonfarm household income in the southeast region which enjoys proximity to Ho Chi Minh City and a number of smaller towns, with all the opportunities this affords for self-employment and nonagriculture wage labor (United Nations Development Programme (UNDP) 1994, Table 1.3.3.). It is not known what proportion these households constitute of the total number of households in each poverty category. In only one other region is the income of nonfarm households higher than that of mixed households. In the central highlands the national pattern is reversed and farm households have the highest income. This may be because this is an area still being settled with higher than average farm size and relatively high "industrial" crop production, such as coffee.

For the country as a whole, nonfarm self-employment contributes 28 percent of total income and 55 percent in the urban areas. As in the other countries where data on this point is available, the share of household income contributed by nonfarm self-employment increases with increases in income (UNDP 1994, Table 2.1.1.4). The relationship is likely to be stronger where land is relatively uniformly distributed and where the better off families have been able to diversify into off-farm activities because they had more nonland resources such as skills, savings, and labor at their disposal when land was allocated. The poor in the north have few alternatives other than farming, given the relative isolation of much of that region.

In the south land differentials enable those with larger holdings to prosper on their farms, while there are opportunities for the poor off-farm. Thus, while the inverse relationship frequently observed in other countries between off-farm labor and farm size is likely to obtain in the south, the positive relationship between share of nonfarm income and total household income may hold less strongly than it does in the north.

Viet Nam seems to be distinctive in that while the average household income of the 27 percent of all households that are headed by women is lower than that of male-headed households, female-headed households are better off in per capita terms. Moreover, although female-headed households earn less from nonfarm self-employment than male-headed households, the share of income such earnings constitutes is slightly higher. (See Box 7.1).

VLSS contains data on the size distribution of enterprises. Ninety-two percent have up to three workers (defined as micro), 7 percent between four and ten, and less than 1 percent more than ten workers. The average number of workers is 1.8 for all enterprises, and 1.5 for

Box 7.1
Female-Headed Households in Viet Nam and Their Participation in Nonfarm Enterprises

VLSS contains extensive gender disaggregated data on female-headed households and their participation in nonfarm enterprises. A relatively large proportion of households in Viet Nam are headed by women, about 23 percent in the rural areas and 27 percent in the country as a whole. The definition of a female-headed household used by VLSS is quite broad, and includes some households in which a woman is simply given as the reference person, perhaps because she is the oldest person in a multigenerational household, with the husband or son-in-law continuing to live in the household. Excluding such households (about one third), the most common reason (72 percent) for a household being headed by a woman is widowhood. Ten percent of all Vietnamese women are widows. Because many women became widows during the war, female heads of households tend to be older than male heads of households. Fifty-eight percent of them were older than 44 when VLSS was conducted in 1992/93, as against 41 percent of male heads of households.

While some of the evidence from VLSS is contradictory on this point, female-headed households appear to be better off on a per capita basis than male-headed households because they are smaller, despite having lower total income than male-headed households. Most female-headed households consist only of an adult woman and children. A smaller proportion of their members fall below the poverty line as compared with persons living in male-headed households (World Bank 1995b). Indicators such as per capita income, per capita expenditure, per capita expenditure on food, and proportion of consumption expenditure incurred on food are all more favorable for female-headed households. Female-headed households are particularly well represented in the top expenditure quintile where they are twice as numerous as in the lowest quintile (UNDP 1994, Table 1.1.3). This pulls up the averages for the group as a whole. However, even when female- and male-headed households are compared on various indicators in the five expenditure quintiles separately, they seem to do better than men, except in the lowest quintiles for some of the indicators. There is certainly a much higher representation of female-headed households in the lowest of seven expenditures (but not per capita expenditure) levels, more than twice as high as males in relation to their numbers (General Statistical Office (GSO) 1994, Table 6.2.3). Casual empiricism and case studies by international NGOs certainly suggest extreme vulnerability of the poorest female-headed households.

Female-headed households derive a slightly higher share of income from nonfarm self-employment (30 percent as against 28 percent in the case of male-headed households). However, the biggest difference lies in the share of income that comes from wage and salaried employment (22 percent as compared to 15 percent for male-headed households). For women in the higher expenditure deciles the income share from nonfarm employment in the form of retail and wholesale trading and restaurant work is particularly important.

Wholesale and retail trade and restaurant work employ 7.5 percent of all female workers as against 2.6 percent of male workers in the rural areas (GSO 1994, Table 4.2.9). Moreover, the importance of trade and restaurant work increases as primary occupations when one goes up the expenditure quintiles, from 2.7 in the bottom quintile (for men and women taken together) to 21 percent for the top quintile (GSO 1994, Table 4.2.8).

Female-headed households tend to run smaller enterprises than male-headed households, with 96 percent of their enterprises engaging three or less workers as against 91 percent in the case of men. On the average, they engage 1.63 persons, including the owner-operator, compared to 1.85 persons employed by male-headed households. Moreover, they operate single, rather than multiple enterprises more often than their male counterparts and their enterprises tend to be slightly older: an average of eight years as against seven years for enterprises run by male-headed households.

Regarding credit, the average size of loans to male-headed households is about 44 percent larger than to female-headed households. However, the difference is accounted for primarily by "large" enterprises with more than ten workers which are operated almost exclusively by male-headed households. Female-headed households pay slightly higher interest rates

(continued next page)

Box 7.1 *(continued)*

on average (4.3 percent a month as against 3.9 percent a month for male-headed households) and considerably higher interest rates for borrowing for commercial activities (7.1 as against 4.8 percent paid by male-headed households) for reasons not entirely clear. One explanation put forward is that although the proportion of formal credit in their total borrowings is similar for male- and female-headed households (about 40 as compared to 43 percent), the mix of informal borrowing is different. Female-headed households depend more on moneylenders (the most expensive informal source) and less on trade credit. This is surprising, because trade credit (from suppliers) is usually more important for commerce as compared to other activities. The main handicap faced by individual women (as opposed to female-headed households) in accessing formal sector credit is that VBA usually extends credit to the head of the household on the basis of collateral such as land use right certificates and house property. Women wanting to access credit directly without collateral must rely on joining joint-liability groups (usually organized by the Women's Union). VBA is authorized to make loans of VND500,000 without collateral to group members. Notwithstanding this mechanism, the proportion of direct women borrowers is only 11 percent of all VBA borrowers.

micro. Ninety-four percent of workers are family members (97 percent for micro). The average longevity of enterprises, of 7.0 years, is surprisingly high, and runs contrary to the experience of the churning and turbulence among microenterprises as documented by Liedholm and Mead in Africa. Longevity is not much lower for microenterprises (as defined by VLSS: 6.7 years) or for urban (6.8 years as opposed to 7.1 for rural). Thus, most enterprises predate the *doi moi* ("renovation") policies which have not yet stimulated a sharp increase in the population of microenterprises. ❖

CHAPTER EIGHT

SUMMARY AND RECOMMENDATIONS

The primary objective of most projects examined under this study was to reduce poverty. Nonetheless, in many of the projects examined, significant portions of the borrowers were above or slightly under the poverty line. This suggests that for a microcredit project to focus on the poor, greater attention is needed to ensure that the borrowers are from the intended target groups.

The study also highlights the importance of nonfinancial services in efforts to help develop microenterprises, and notes that many of the projects supported by ADB may have been more effective if they had given greater attention to the need for nonfinancial services.

There are different types of microenterprises, and each makes different contributions. The major distinction is between livelihood microenterprises which enhance the income of borrowers (the vast majority), and growth-oriented microenterprises which, in addition to increasing the income of the borrower, offer the potential to generate employment for others. The major problem in designing projects for the different types of microenterprises, apart from average loan size, is that growth-oriented microenterprises tend to require larger amounts of nonfinancial services.

Even "minimalist," mainly credit, projects that are targeted to help the poorest may require components which help potential clients effectively use microcredit services to improve their livelihood. An increasing number of programs are showing that it is possible to recover social intermediation costs through a cost-recovering interest rate that the poor are willing and able to pay. Loans to poverty-focused MFIs, therefore, will have to consider the needs of the MFIs to provide these services and to finance the cost of providing these services. In light of this, consideration may be given to providing support to MFIs for social intermediation activities in the medium term.

MFIs should aim to become financially sustainable with the goal of recovering the full commercial cost of funds apart from operating costs. MFIs that focus extensively on those who are very poor will need more time to become financially sustainable than MFIs which do not have this focus. Donors like ADB should recognize the time periods required and include them when designing their programs of support.

The study results indicate that funding agencies like ADB should be cautious in regard to projects that provide a limited number of loans to borrowers in the expectation that this will enable them to "graduate" above the poverty line or to bank financing. The study results encourage donors like ADB to give greater emphasis to projects that take a long-term systems approach to the development of the microfinance sector as a whole. That will help MFIs to emerge as permanent parts of the microfinance sector. This entails recognizing the following aspects:

- Credit has to be a continuing relationship for the sustainability of both borrower and lender and not a series of unrelated episodes.

- Not all credit requirements are for productive purposes, and meeting consumption credit requirements may often have a greater contribution to make to welfare; indeed, for the poorest of the poor, a system of production credit is not viable without consumption credit or a safety net provided by essential social services.

- The provision of loans for purposes that are not directly related to an income-generating activity need not affect repayment discipline, provided the loan is structured appropriately and there is the assurance of repeat loans in the future.

- The demand for savings services is often higher than that for credit, and there is a need to provide a flexible range of financial services even to those who do not wish to borrow. There is a need also to develop the prudential regulatory framework to enable NGOs to mobilize savings not just from borrowers but also nonborrowers.

- Formal financial institutions have comparative advantages over less-formal MFIs in mobilizing savings and MFIs have a comparative advantage in retailing credit to the poor. Recognizing this, it would be advantageous to move toward the long-run goal of linking the formal and informal segments of the financial services industry, with the MFIs securing funds increasingly from the banks and other formal sector financial institutions.

Until such time as MFIs are able to acquire funds from commercial sources, there will continue to be a need for specialized apex finance institutions for the MFIs through which "global" lines of credit can be channeled from multilateral donors. Several DMCs have such institutions. Apex finance institutions offer the following prospects:

- acquiring a critical minimum level of expertise in appraising, monitoring, and evaluating MFIs;

- providing training and other capacity-building services to MFIs;

- establishing guidelines, performance standards (relating to the recovery rate, and so on), goals, and time frames for their borrowing MFIs to attain operational and full financial sustainability; and

- perhaps also undertaking the task of supervising the observance of prudential regulatory standards, enabling NGOs to mobilize savings from members and nonmembers.

For growth-oriented enterprises, donors like ADB may wish to focus their project support on balanced programs that consider both nonfinancial and financial services. Different sectors (such as noncrop agriculture, agro and food processing, manufacturing, trading, transportation, and services), subsectors within sectors, and activities within subsectors, face different constraints, and require one or more of various nonfinancial services such as market information and development, marketing assistance, product development, technology upgrading and dissemination, technical and business training, and assistance in securing access to raw materials. The "subsector approach" is one means of acquiring this information on a continuing basis even during implementation. The subsector approach involves both analysis of, and the coordinated provision of a set of services to, a particular subsector of activities. While the concept is not new, it has been receiving renewed attention.

The provision of nonfinancial services is likely to require subsidization for a longer initial period than for credit services. Donors like ADB may consider evolving mechanisms to provide assistance to NGOs and other organizations that provide nonfinancial assistance. There may also be a case for assisting NGOs to develop capacities to conduct subsector analyses and to formulate and initially implement operational strategies that may be developed through these analyses. The noncredit needs of microenterprises may be as important as their need for credit. The subsector approach provides a convenient method for identifying both credit and noncredit requirements.

While stand-alone microenterprise projects which have poverty reduction as a principal objective should be developed within the context of the poverty reduction policies and programs in the respective DMCs, it should also be recognized that microenterprise development is only one dimension of antipoverty strategies and these programs should not be burdened with unreasonable expectations of being able to redress poverty on their own. ❖

APPENDIX
List of Country Studies and Authors

Bangladesh

"Microenterprise Development in Bangladesh"
by Rushidan Islam Rahman

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E-17, Agargaon, GPO Box 3854, Dhaka 1207
Bangladesh
Fax 880-2-813023

India

"India: Microenterprise Country Paper"
by Sanjay Sinha, Hema Swaminathan, and Ajit Kanitkar

EDA Rural Systems, 107 Qutub Plaza
DLF Qutub Enclave
Gurgaon, 122 002, India
Fax 91-124-352489

Indonesia

"Country Study: Indonesia"
by Chris O'Connell and Uben Parhusip

Asia Pacific Management and Resource Network Pty Ltd
PO Box 308, Kippax ACT 2615
Canberra, Australia
Fax 61-6- 255-2353

Mongolia

"Microenterprise Development in Mongolia"
by Debra Boyer, B. Batbuyan, A. Baktishig, and Rosamund Ebdon

Centre for Social Development
Consultancy Centre, IAMD
Ulaanbaatar, Mongolia
Fax 63-2-636-2205

Nepal

"Microenterprises in Nepal: Dynamics, Prospects and Constraints"
by Shalik Ram Sharma, Indira Koirala, and Vishnu Nepal

C/O Institute for Integrated Development Studies
P.O. Box 2254, Kathmandu, Nepal
Fax 977-1-225915

Philippines

"Microenterprise Development in the Philippines: A Country Review" (2 Volumes)
by Ronald T. Chua

Asian Institute of Management, Manila

Viet Nam

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by J. Gregory Booth and Dao Van Hung

IPO Box 198
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