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Banking On The Informal Sector: Suggestions On Using Financial Institutions To Reach Microenterprises In Developing Countries

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BANKING ON THE INFORMAL SECTOR:

Suggestions on Using Financial Institutions to Reach Microenterprises in Developing Countries

by

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Abstract

The following paper argues that programs and projects that provide financial services to microenterprises can be "Specialized Intermediaries" functioning as a bridge to formal sector Financial Institutions of developing countries. The paper argues that it is preferable to use these Financial Institutions instead of the constant creation of banks or quasi-banks for every program that assists microenterprises. The paper proposes that banks can be used to leverage guarantee funds by as much as ten to one on a graduated risk basis.

For the purpose of illustration Brazil and Bangladesh are used to illustrate several points. The choice of these two countries is to demonstrate cross cutting informal sector issues that affect the "richest" as well as the poorest developing countries in regard to the access to credit.

The author is a former commercial banker from Brazil. The proposed strategy is based on his research, negotiations and discussions with bankers in developing countries of Asia, Africa and Latin America. For the past three years the author has been an independent consultant designing and evaluating credit projects and programs for the United Nations Development Program, the World Bank, USAID and the Inter-American Development Bank.

I. The Importance of Access to Capital

It might be said that there is a point on which Karl Marx and Adam Smith are in agreement: the need to "democratize" access to (or power over) capital. Smith in the "level playing field" of perfect market economics envisioned a society where entrepreneurs with ability, creativity and drive would have equitable access to factors that would create new and dynamic enterprises. Marx's critique focussed on the monopoly power of capital in the 19th century as the means by which the accumulation of wealth (and power) was segregated to a small, self perpetuating class.

The evolution of the economies in the developed world during this century has largely been the story of pragmatic reform and the greater respect for competition and market forces. These conditions have allowed for the explosion of technological growth and innovation. Within this evolution, the mechanisms that govern the access to capital in these societies have undergone the most fundamental change imaginable: financial institutions of the developed world have brought services to market segments previously considered unbankable and high risk. Venture capital type mechanisms have evolved which allow ideas to be transformed into multi-billion dollar industries.

Though access to capital in the developed world may still be far from perfect in terms of "the level playing field" of Adam Smith it certainly bears no resemblance to the absolute monopoly that was the hallmark of Marx's era.

While capital is not the only factor that allows for the growth or creation of enterprises, it is the most vital as without it creativity, drive and innovation cannot be transformed into material actions.

In the developing world in general, formal sector financial institutions do not show signs of evolving in the same fashion as occurred in the developed world. To the contrary, these institutions appear to be evolving into entities which bear little resemblance to a bank.

II. Banking in the Developing World

The formal sector mechanisms which control the access to capital in developing countries are on the whole far worse than anything that existed at the time of Marx or probably even Smith. In general the financial institutions in developing countries are dominated by the public sector which, all too often, results in a costly and inefficient system better described as "bureaucratic" banking. This system does not maximize returns or efficiently intermediate between the owners and users of capital but instead allocates resources based on bureaucratic, often political and usually uneconomic considerations. In many developing societies, the operation of these institutions have the pernicious effect of taking rural based savings from the many and diverting them to urban based economies for the few at subsidized rates of interest.

Where developing country financial institutions differ most from their developed country counterparts is that the fundamental concept of banking has been distorted by subsidies on the one hand and low recovery rates on the other. Thus anomalies such as the banking system of Bangladesh exist where banks are profitable on paper but have recovery rates which more like those of grant giving institutions than those of lending establishments.

At the other end of the developing country spectrum, the banking system in Brazil is an illustration of how the mechanisms of access to capital can be manipulated by the few not withstanding the systems mandate to lend to the many. Until recently, Brazil's multi-billion dollar lending facility, which was created with the intention of subsidizing millions of small farmers, was used by a few thousand large farmers who could profitably borrow and use the proceeds to invest in the financial markets at a comfortable spread (+10%). Brazil has also mandated that its banks lend a fixed percentage of deposits to small and microenterprises, but this effort seems to be proving as ineffectual as the loans to small farmers.

Banking systems such as those in Bangladesh and Brazil are kept afloat by massive government interventions funded through scarce resources usually from value added taxes (of which the poor bear an unfair proportion) or the considerable funds provided through the over $ 40 billion a year development industry. Paradoxically these banking systems are characterized by continual growth and fairly high liquidity due to the constant inflow of funds.

Notable exceptions to this state of affairs are multi-national and some privately owned banks, which are forced to survive based on their own acumen.

Finally, in noting the deficiencies of formal sector financial institutions in developing countries it should be noted that small and medium scale enterprises ($500,000 in assets) which are far more "bankable" than microenterprises and have good prospects suffer, in general, from an equal lack of access to capital.

In this context credit programs to assist microenterprises tend to ignore the existing formal sector institutions with good reason. However, this by-passing normally leads to the creation of quasi or even full fledged banking institutions which in turn adds several layers of complexity and risk to a project. In addition, these programs usually become solely dependent on external sources of heavily subsidised development capital which is ultimately uncertain over the long term.

III. The "Unbankability" of Microenterprises

The reasons for the incompatibility between microenterprises and formal sector financial institutions are well known. Even in the case of the most efficient and dynamic banking system several factors would account for banks' unwillingness to finance microenterprises.

First, microenterprises do not normally have sufficient collateral to satisfy banking requirements nor do they maintain financial records that allow for reasoned financial analysis.

In addition two other equally important, but generally less understood, reasons for incompatibility are the transaction costs and "client treatment" associated with microenterprises. Formal sector institutions are established to handle much larger individual transactions or loans than those required by microenterprises. The overhead, even of the most efficient bank, makes this type of lending prohibitively expensive and cannot be compensated by adequate spreads over the cost of funds. Finally the "client treatment" given to those microenterprises which venture into a formal sector institution is inevitably one of abuse mixed with hostility. As clients, microenttrepreneurs are especially vulnerable to paying bribes and numerous, costly journeys to transact their business.

Given the general state of formal sector financial institutions in the developing world, it is unrealistic to expect the massive reforms that would enable them to lend to microenterprises. Nor would it be advisable as these institutions have much to do to carry out their functions properly in the formal sector.

IV. Putting Microenterprises in Perspective

In recent years a certain aura and mystique has grown up regarding informal sector entrepreneurs. Great expectations are made as to their possibilities for growth and graduation to the formal sector. Projects devised with these optimistic assumptions can justify costly programs that seek to bring a series of services to microenterprises. But realistically speaking what are the prospects for growth of these economic units which populate the burgeoning informal sector.

Brazil is perhaps one of the most extreme examples of the accelerated growth of the informal sector. While it claims the distinction of being the eighth largest economy in the world a substantial majority of its work force survives from income in informal sector activities. The population statistics for Brazil show that from a predominantly (60%) rural population in the 1950s it has become urbanized to the point that a vast majority (+70%) live in cities. In the same period the population has more than doubled. The net result of this evolution is that urban based populations have grown by close to 300% while the rural based population has remained static in absolute terms. This mass of urban humanity, which is far beyond the formal sectors ability to absorb as a labor force, survives, for the most part, through self employment.

At the other end of the spectrum the burgeoning growth of the informal sector in Bangladesh has less to do with urbanization than with growing landlessness. The densely populated country continues to be predominantly rural (80%). However, instead of small subsistence farmers a majority of the rural population is now landless poor surviving on selling their labor and self employment.

Self employment in both countries can be better defined as economic survival strategies involving a multiplicity of marginal activities carried out by most if not all non-infant members of poor families.

Whether urban or rural based, in two countries representing dramatically different levels of development, the poor subsist based on their ingenuity and ability to pursue marginal economic activities. In some cases this ingenuity may be translated into a level of entrepreneurship that can be nurtured into larger enterprises but in their vast majority these entrepreneurs have limited prospects for growth.

However, despite their limited prospects for growth, microenterprises are not inherently unbankable and can even be commercially viable clients.

V. Microenterprises as Bankable Clients: Successes and Failures

The 400,000 borrowers who meet weekly to pay loans and deposit savings at the Grameen Bank in Bangladesh are posing a threat and a challenge to the conventional wisdom on poverty and the informal sector. These borrowers, arguably the poorest of the poor in one of the poorest countries in the world, are proving to be commercially viable clients for a banking institution. They are also proving that there is an ability to save among this unlikely group, as is witnessed by an accumulated savings of over $ 7,000,000 (which averages out to more than one month of wages in rural areas per borrower). Grameen demonstrates the powerful impact on the economic lives of the poor that guaranteed, equitable and dependable access to capital can mean. Economists may find fault in possible displacement effects and the marginal nature of the economic activities pursued by Grameen borrowers but these are myopic criticisms that ignore or underestimate the importance of establishing a self sustaining mechanism which provides access to capital for the most unbankable segment of the population. In terms of Adam Smith such mechanisms as the Grameen Bank make the "level playing field" possible where the ingenuity of the individual (supported by the guarantee of peers) can be rewarded with financial gain. It also breaks or dilutes the monopoly control of capital by such age old institutions as moneylenders.

The inevitable question that always arises concerning Grameen is: is it the exception that proves the rule or is it a new rule that should be adhered to. Beyond the question of replication is the question of whether Grameen represents a sound strategy in a development industry heavily prone to integrated, unwieldy and costly efforts which attempt to bring a myriad of services to the intended beneficiaries.

That Grameen should be increasingly considered the rule rather than the exception is evidenced by a number of other experiences in the

developing world. Besides the less known and studied Badan Kredit Kecamatan (BKK) of Indonesia which may have as many borrowers as Grameen and a number of examples in India there are a number of initiatives, particularly in Latin America, which merit notice. Four years prior to the experiment in Jobra, Bangladesh which gave rise to the Grameen Bank, Accion International (AITEC) was starting its first program to assist informal sector entrepreneurs in Recife, Brazil where the term "microempresa" was first used. While AITECs programs in 11 countries in Latin America have not led to a single program developing the sustained, exponential growth of a Grameen there are over 30,000 borrowers in these programs presently proving their viability as bankable clients. More importantly, these AITEC programs use the basic element of the Grameen "model": non collateralized lending based on 5 person group guarantees (Grupo Solidario). As stated by AITEC itself the adoption of the group guarantee method was a change directly influenced by Grameen and the Working Women's Forum of Madras. As such AITEC's programs represent an important first step in proving the replicability of the Grameen approach in the vastly different social and economic context of Latin America.

In addition there are many other efforts occurring in Latin America some of which claim as many as 40,000 borrowers. In Asia and Africa, some 14 countries are replicating the Grameen model.

Still other than Grameen, a few cases in India and possibly BKK, none of these efforts have resulted in the scale of impact that, once and for all, could end all skepticism about the credit worthiness and commercial viability of lending to the microenterprises.

One reason why more programs achieving very large levels of impact do not exist is that these programs add the complex task of establishing a bank to the task of selecting, supervising and (often) training microenterprises. Throughout the developing world between bi-lateral, multi-lateral and NGO efforts there at least hundreds if not thousands of attempts to reach "grassroots" borrowers or microenterprises which fail or have to be evaluated on non recovery grounds. Many, if not most, of these projects can be grouped in a category that have the following characteristics:

o They do not have adequate accounting infrastructure to provide the type of management information system (MIS) needed for even the most rudimentary banking effort. Without reports that provide early warning of non-payment or at least provide a tool for collection by accurately reporting when payments are due, meaningful supervision is almost impossible. This deficiency becomes acute as programs grow into the thousands of borrowers.

o Any attempt to reach microenterprises is, almost by definition, a labor intensive proposition. A tremendous amount of legwork is required to identify, properly select, approve, appraise and above all supervise

borrowers. Projects which fail to achieve high recovery rates often have not properly dimensioned the field staff requirements. If there is an inadequate MIS the ability of the program to detect these problems is considerably hindered.

o The lack of proper supervision via an adequate MIS rapidly translates to a perception on the part of field staff and borrowers that repayment is flexible and ultimately not important.

o Finally, and perhaps most important, when programs set up there own banks it is extremely easy to accept and justify inadequate recovery rates. The "soft" funding provided for credit provides an unrealistic subsidy (independent of interest rates charged) as it does not sustain the rigorous discipline that existing informal sector credit mechanisms such as moneylenders depend on.

A number of the programs that failed in terms of recovery or that were successful but were unable to expand significantly might have had dramatically different outcomes if they could have concentrated solely on developing a methodology for efficiently reaching microenterprises. Instead these programs are somewhat "schizophrenic" as they have to build a bank as well as an outreach program.

The complex task of building the outreach capacity (or delivery mechanism) to reach microenterprises is quite seperate to the complex task of setting up a bank. In fact the two tasks can often be in conflict as the outreach function requires a sympathetic approach whereas successful banks are unrelenting in collecting what is due to them.

VI Building a Bridge Between the Formal and Informal Sectors: The Role of Specialized Intermediaries

Any program, organization or even bank which specializes in one particular type of market or client can be described as a Specialized Intermediary (SI). SIs develop a very particular know how (or methodology) regarding how to bring services to market segments not attractive to the general providers of these services. Thus in the developed world there are numerous examples of SIs that arrange mortgages, insurance, consumer financing and business loans for clients who otherwise could not obtain these services otherwise. These SIs can be extremely profitable endeavors and earn their "spread" based on a fee over the normal cost of these services. Often these SIs are able to build a relationship with established providers of financial services as middlmen. These SIs can even grow to a size where they become

attractive investment propospects to the large service providers.

Key to the long term success, growth and profitability of a Specialized Intermediary in the developed world is its ability to aggregate exponentially growing numbers of a particular market segment which pay for services. In risk related services such as credit or venture capital these SIs will often start relatively small and build portfolios of clients in a methodic step by step fashion based on performance. In this fashion SIs can carefully verify and fine tune methods of analysis, promotion and approval to ensure the risk (losses) are adequately covered by the level of fee income. Once a successful formula is found these SIs often grow exponentially.

One of the better examples of this type of evolution are some of the large insurance companies in America which originated in the 1940s by developing the life insurance market among low income immigrant populations in urban areas. A network of salesmen would visit on a monthly basis collecting as little as twenty five cents ($.25) per policy. Life insurance was essentially burial insurance and the service was designed and implemented based on the need and traditional practices of the targeted market segment. These practices bear remarkable resemblance to a common informal sector savings practice throughout the developing world: burial societies. These insurance companies built a bridge between the informal practices of a selected group and formal sector savings institutions.

There are also examples of Specialized Intermediaries that abuse their intended markets. In Brazil with the rapid proliferation of television an enterprising European immigrant created a multi-million dollar empire using a simple strategy focused on a very specific market segment, domestic servants. During an all day sunday television program, the day off for millions of domestic servants most of whom are unable to travel to their distant homes, this entrepreneur would raffle off houses, cars and a wide range of consumer items. To enter the raffle the participant would have to open a "savings" account with monthly deposits. The catch was that the "savings" did not earn interest and could only be used to purchase items in the stores owned by the entrepreneur. The Government did eventually require, several years after the enterprise began, that interest be paid on these savings which, in an inflationary society, generated immense profits for this showman/entrepreneur. The few houses and cars raffled each week fueled the fantasies of the poor millions of whom sent in their monthly deposits religiously.

VII. Microenterprise Programs as Specialized Intermediaries

Most microenterprise programs are attempting to bring financial services to a market segment or "niche" which are not covered by the established service providers. It is conceivable that they can become commercially viable (self sustaining) Specialized Intermediaries. Aside from the lack of access to domestic capital what usually prevents these SIs from evolving to commercially viable entities is that they are often established as social programs with extremely high overheads depending on the range of services intended. However, those programs which specialize in providing one service, credit, extremely well have all the ingredients to become self sustaining programs if they can grow using domestic capital. SIs that achieve large market penetration with high recovery rates should have the ability to attract loan funds from formal sector institutions.

Instead of the much hoped for but rarely acheived goal of "graduating" microenterprises into the formal sector financial institutions it should be more practical to graduate programs or projects that achieve high levels of market penetration and recovery. The portfolio of clients developed by a microenterprise program is an asset the quality of which can be objectively measured by recovery performance. Based on this asset a long term pragmatic relationship can be negotiated with a bank.

For example an SI which is able to generate $15,000,000 in loans to 40,000 borrowers in a year at high recovery rates can be considered an "excellent" client to a bank as long as the risk considerations and administrative costs are reasonable. It is also possible to build a long term contractually binding, commercial relationship between a SI and a bank based on mutually agreed to performance criteria and safeguards.

An advantage to the bank is that this arrangement would bring an important new group of clients to the bank with potential for growth. These clients are businesses which are not presently bankable in the commercial system due to risk considerations and, of more importance, the high transaction costs required to properly carry out this type of lending. The Specialized Intermediary would do all the selection, appraisal, approval, monitoring and supervision work of these clients at no cost to the bank. the Specialized Intermediary would charge a service fee to the clients as a fixed percentage of loans granted.

VIII. Problems with using Banks for Microenterprise Lending

There have been previous attempts to use formal sector financial institutions which have not succeeded and merit mention as they have influenced the proposed strategy.

Grameen is at the same time the largest example of success and failure in using formal sector financial institutions. From its early project days in 1976 to the establishment of a formal bank in late 1983 Grameen functioned as a Specialized Intermediary between the banking system in Bangladesh and its intended target group. The first close to 60,000 borrowers in the program were actually borrowing from some six Nationalized Commercial Banks. An evaluation conducted by Bangladesh Institute of Development Studies (BIDS) concluded that the overheads of the program at that time was 15.6% per annum on funds lent. Most importantly, the evaluation showed that the high overheads were because the cost to the banks was equal to Grameen's even though Grameen was responsible for the bulk of the work. The high cost of the banks was due to the total redundancy in accounting systems, the high volume of transactions (weekly payments, deposits and disbursements) and most importantly, the extremely low productivity of bank staff. This situation along with ongoing operational difficulties where major factors in the decision to create a new full fledged bank.

In Recife, Brazil the UNO program was dependent on the local state bank which often took 100 days or more to process loans. This presented a major bottleneck to the program threatening its viability. After some 6 years the bank in question streamlined its procedures and was processing loans in 10 days. One of the key problems was that the bank insisted on approving each loan and under revised procedures accepted to approve all loans submitted by UNO vetoing only those loans where borrowers had bad records.

In both the cases of Brazil and Bangladesh the state controlled banking system was used through a Specialized Intermediary with mixed to negative results. While the Brazilian bank did finally improve it's performance it is questionable as to whether the overheads of the bank made this type of lending viable. These cases are examples of "bureaucratic" banking which can be mandated or ordered to lend but raise questions in terms of costs and efficiency.

There are also many cases throughout Latin America which involve private commercial banks. Typically what occurs in these cases is that the senior management or ownership of these banks for altruistic or political reasons will accept to lend to microenterprises selected by a

Specialized Intermediary. Usually a substantial liquid guarantee is required from the SIs. A problem which often occurs in these cases is that branch managers, often evaluated by the profitability and loan losses of their operations, are unsympathetic to microenterprise lending and create obstacles.

Finally a seperate category of attempts to involve formal sector financial institutions in lending to small and microenterprises are the various guarantee programs established by governments throughout the world. These attempts are not considered in this paper as they do not rely on a Specialized Intermediary nor have they proven to be very successful.

IX. Microenterprise Programs as a Bridge Between Banks and Borrowers

Whether private or public, efficient or technically bankrupt Banks can be one of the best suppliers of loan capital to microenterprises if a pragmatic, realistic and carefully negotiated long term agreement can be reached with Specialized Intermediaries that cover cost and risk considerations and provide enforceable safeguards to the bank. The advantage to the SI is that it may have constant and growing access to loan capital without becoming a bank and with the discipline that recovery performance will require. The disadvantage is that the cost to the borrower will increase as funds would have to be on lent based on the cost of funds to the bank plus a spread to cover its administrative costs. In addition the SI would have to charge a service fee which on the long term would allow it to be self sufficient once a "critical mass" of clients and lending was acheived.

The cost implications of this strategy to the borrowers should be that they pay between 5-10% more for loans than the "best risk" clients with access to formal sector financial institutions. This premium should be considered realistic and justified as in fact it costs substantially more to lend to microenterprises than to large clients. This premium must also be analyzed in relation to what access and at what cost microenterprises borrow in the informal sector. While in a moral sense it seems extremely unfair to charge less to the rich and more to the poor in a commercial sense it is logical and ultimately fair if it dramatically expands the access to capital in a society.

In the simplest sense the proposed strategy is that the formal sector banks be used solely as administrative entities which will

automatically provide access to loan funds for programs that perform to an agreed level and cut off programs that do not. In no way should these banks have any role in the selection or approval of microenterprises. For this reason the strategy is based on a "graduated risk" . The concept of graduated risk is that initially a time deposit (or similar liquid guarantee) may be used to establish an ironclad 100% guarantee of the participating bank(s) principal and interest due from borrowers selected and approved by the Specialized Intermediary. However this guarantee will only be provided if the bank accepts to, on the long term, decrease the guarantee requirement based on mutually agreed levels of performance. In this fashion guarantee funds should be leveraged 10 times by bank lending in a period of 5-6 years if the Specialized Intermediary is able to maintain the high standards of performance agreed to formally.

One of the important conditions of the funds used to guarantee the participating bank is that in order to ensure maximum leveraging of bank funds the guarantee is always at "first risk" i.e. bank losses would only occur if all guarantee funds had been expended. In this manner the banks are in no position to argue that they have to bear any substantial risk.

The main risk of the participating bank in this situation is that it is allowing an intermediary to, in effect, act in its name as it has all powers of selection and approval. Even though fully or adequately guaranteed to compensate any losses the risk remains that if questionable borrowers or poor risks were selected that the image of the bank could be adversely affected in the communities where these loans were made. To minimize this risk any arrangement made with a bank would have an escape clause whereby if the recovery rate for the portfolio was below an agreed level (for example 80%) the bank would have the right to suspend all lending activities for the program regardless of the level of guarantee. In other words even if the guarantee were 100% of principal and interest and the volume of lending was far less than the guarantee coverage the bank would still have the right to refuse to process any additional loans <u>until</u> an acceptable performance level was acheived for the portfolio (for example 90%). This provision is critical to the overall success of the proposed strategy because it establishes a rigid, uncompromising discipline on the part of all levels of Specialized Intermediary staff. This provision will also identify problems early enough to allow for modifications to a program which could then lead to its long term success.

Resolving the risk considerations of a participating bank(s) is far simpler than the administrative considerations. The achilles heel of the proposed strategy is the ability of banks in developing countries to track the performance of a loan portfolio. What has made the proposed strategy far more viable for the 1990s than the 1970s is the rapid

proliferation of mini computer hardware and software which, when properly implemented, can significantly improve reporting systems. While computers are not a panacea increased capacity and lower prices have made them realistic alternatives for developing country banks.

In Latin America there is little problem for banks to provide needed reports as the level of computerization is high in practically all countries. Even in many urban areas of Africa banks can be found with sufficient levels of computerization to handle what is a relatively simple reporting requirement. In cases of appropriate levels of computerization the banks are still required to make minor modifications in their reporting systems. These modifications would only make sense to the bank if the long term objective of the microenterprise program is to reach significant numbers of borrowers, a pre-condition which could have a positive affect on how programs are designed.

The administrative problems occur more in areas like South Asia where the banking system operates with centuries old bookeeping practices which are not compatible with the reporting required by the proposed strategy. In these cases it may be advisable for donors to subsidize the modernization of the banks to be able to handle the level of reporting required. A significant benefit may accrue to these banks as they would be able to gain experience, using a small part of their lending operations, in modernizing reporting systems which could bring about improvements in the overall management information system of banks.

To summarize, the proposed strategy requires the participating bank have the means to accurately monitor the performance of the overall portfolio to ensure compliance by the Specialized Intermediary to the minimum performance standards agreed to. This in turn will lead to certain administrative cost considerations which would have to be carefully detailed (in particular the capabilities of the computerized systems). The interest rate structure agreed to should, over time, compensate for any additional administrative costs of the bank.

The end result of such an arrangement would be that the bank would track and service (only in terms of administration) a portfolio of loans generated by the Specialized Intermediary. The performance of this portfolio would determine the "bankability" of the Specialized Intermediary as a viable intermediary between the formal banking system and microenterprises.

ANNEX
SUMMARY OF NEGOTIATION POINTS WITH BANKS

Four principal conditions requiring agreement for successful negotiation:

1. The interest and spread to be agreed to should not be subsidized and should reflect the costs and risks borne by the bank.

2. The graduated risk, or leveraging to ten times the amount of guarantees provided over time (5-6 years) based on mutually agreed to performance standards should be considered reasonable by the bank.

3. The bank must be agreeable to allowing the Specialized Intermediary the authority for selection and approval of borrowers under carefully negotiated guidelines which would result in loans granted by the Bank directly to individual borrowers.

4. Guarantees provided under the agreement would allow, once proper documentation had been sent to the Specialized Intermediary and the borrower, for immediate and automatic debiting for any loan (principal and interest) past due for 90 days or more.

Other key points for negotiation

If a bank is agreeable to further negotiation in view toward the signing of an agreement the following points would require in depth discussion.

1. What will be the means of accurately tracking the performance of a portfolio of loans as envisioned.

2. What would be the minimum loan size acceptable from an administrative point of view.

3. The terms and conditions of loans as they might affect administrative considerations (length, payment periods, collateral etc.)

4. Overall policies and procedures for the program.

5. Defining the method of calculating recovery rates (on time, for the period, overall etc.) and when they would be calculated.

6. What time period would be required and at what level of disbursement to prove performance of the portfolio to the satisfaction of the bank for it to leverage additional funds into the scheme with the same amount of guarantees.