



## Women Entrepreneurs in Transitional Economies: Developing a Model for Eastern and Central Europe

*Women's Opportunity Fund*

**R**ecent, growing trends towards economic restructuring and privatization have expanded opportunities for many residents of Eastern and Central Europe. Some of the consequences of this historical shift have, however, been negative, particularly with regard to the living standards of women and their families. As unemployment has risen and state-funded services in health care, childcare, and housing have been severely cut, the number of poor, female-headed households has increased dramatically (Blau et al. 1998).

In response to declining incomes and a lack of formal employment opportunities, many women have—in an effort to survive—abandoned the official labor market in order to pursue self-employment strategies. At the same time, however, women's access to credit and related information and resources has been severely curtailed as official lending mechanisms and institutions fail and the overall economic environment remains unstable.

In response to these conditions, the Women's Opportunity Fund (WOF) has sought to introduce to Russia and Eastern Europe the concept of Trust Banks™, or micro-lending and savings mechanisms to promote and expand women's economic opportunities. WOF, a U.S.-based division of Opportunity International, was founded in 1991 to advance women's economic and social empowerment through microloans, training, and services. The organization emphasizes lasting social change over "quick fix" development approaches.

The Trust Bank program aims to enhance women's entrepreneurial roles and economic status both within the home and in the community. This innovative lending and savings model is committed to serving the smallest and neediest entrepreneurs, in particular those with no access to formal lending institutions and with little or no collateral or credit history.<sup>1</sup> This brief describes a WOF project to refine and expand a Trust Bank model in Russia, an effort that was launched in 1995 at the Doveriye Cooperative, located in the Nizhny Novgorod region.<sup>2</sup>

### Objectives

The expansion project, conducted between March 1997 and October 1998, aimed to refine the Doveriye Cooperative model and compile, analyze, and disseminate information on it among WOF partners in

Central and Eastern Europe. Specific objectives of the project were to:

- ▶ Strengthen the Trust Bank model through expansion of the Doveriye Cooperative;
- ▶ Document and assess the Doveriye model with regard to its implications for the nongovernmental organization (NGO), banking, and government sectors;

<sup>1</sup> The Trust Bank model is based on mutual responsibilities among members of a self-selecting group, rather than collateral. Very small (average of \$350), short-term (1-6 month) loans are extended in the form of a continuous, gradually increasing line of credit to Trust Bank members, who are required to save. If one member is unwilling or unable to make a payment, the other members are required to "cover" for her, immediately contributing the missing portion to their group's weekly repayment. Field results show that group guarantees produce high repayment rates.

<sup>2</sup> Although based on WOF's experience with other microlending projects in Africa, Asia, and Latin America, the Russian Trust Bank model was tailored to the country's particular economic, social, and political realities.

- ▶ Test the Trust Bank model in Voronezh, Russia and lay the

groundwork for further replication of the model in Bulgaria,

Poland, Romania, and Macedonia.

## The Intervention

WOF conducted activities in two main categories, as summarized below.

### Expansion

WOF began the project by expanding its Doveriye Cooperative Trust Bank model to Nizhny Novgorod, where a branch office was established and loan officers were hired and trained. In addition, a separate institution, Novy Soyuz, was formed in Voronezh, Russia, effectively becoming a second Trust Bank site in the region.

The officer training program included a visit to the Self-employed

Women's Association (SEWA) in India to learn about the project's organizational structure, its leadership formation, and decision-making processes. The visit solidified WOF's basic strategy for Eastern Europe and enabled staff members to identify those aspects that would have to be adapted to a Russian and Eastern European context.

### Documentation and Dissemination of Information

WOF staff collaborated with partners to document and assess the organization's micro-lending experiences in the

region. The resulting documents served as useful guidelines for the future expansion of the Trust Bank model throughout Russia and Eastern Europe. In addition, new information, relevant findings and lessons learned during the project were formally and informally shared among Opportunity International partners. A regional Trust Bank workshop was conducted for partners in Eastern Europe and Russia to further refine the regional model and to discuss Trust Bank applications in other contexts.

## Results

### Increased Opportunities for Women

During the grant period, partners implementing Trust Banks in Russia issued more than 2,000 loans totaling more than US\$1.5 million, thereby creating and supporting about 2,000 jobs. Women entrepreneurs received 80 percent of these loans. In combination with training, consultations, and savings, this assistance has contributed to women's financial well-being and helped develop their independence, dignity, and sense of ownership over their employment activities. The loans were used in a variety of sectors such as the buying and selling of used clothes, the development of small sewing businesses, and street vending of office and home supplies. Businesses that have received loans are now able to carry higher stock levels and the quality of life of involved families has improved.

In addition, women at the Doveriye Cooperative reported gaining greater influence over community decisionmaking following implementation of the Trust Bank model. During group support meetings, conversations that had previously focused exclusively on family and business issues now include discussions of public policy reform strategies and the impact of local and national elections. As a result, several women involved in the Trust Bank project have begun to spearhead efforts to create trade unions for women entrepreneurs. These community leaders have also begun to network with women throughout



*Recipient of a microloan from the Doveriye Cooperative Trust Bank in her new tailor shop.*

Russian and to become more active publicly, for example by participating at meetings of women entrepreneurs and discussions on the Russian economy.<sup>3</sup>

<sup>3</sup> These activities included discussions with such influential figures as visiting United States First Lady Hillary Rodham Clinton and Irina Khakamada, Chief of the Russian Small Business Committee.

### **Institutional Capacity Building and Sustainability**

Trust Bank loan officers, WOF, and Opportunity International staff from Russia, Bulgaria, Albania, and Romania convened a workshop to formalize best practices in microcredit and lending for Eastern Europe. The resulting document, *Trust Bank Standards*, includes recommendations for target populations, Trust Bank size and structure, start-up periods and processes, leadership formation, institutional policies, loan disbursement and collection, savings mobilization, financial management, and potential client or customer issues. Current Trust Banks now use these *Standards* as a tool to ensure continued quality in existing programs; the *Standards* will also provide a sound framework for future efforts to expand the model throughout the region.

Thanks to the project, Doveriye has become more efficient and stronger as an institution, in large part due to a merger with Soyuz-Vozmozhnost, a partner organization. The cooperative now has a branch office in Vyksa and plans to open two more in the region. Similarly, the Trust Bank at the second site, Novy Soyuz, has now been officially registered as a foundation and has hired staff and appointed a board of directors and executive director. It plans to expand its operations to four major cities in the Central Black Soil region, where it will be located by the year 2000.

While WOF originally proposed replication of the Trust Bank model in these two areas, during the course of the project it was in fact implemented in five regions in Russia and one in Romania. A Trust

Bank is also being piloted in Macedonia, and plans are underway for similar programs in Albania and Montenegro. The refined model is now poised for replication throughout the Eastern European region.

The expansion project created and documented credible programs, which in turn attracted new donors. Since 1998, WOF has received additional funding from several new sources, including international NGOs, government foreign assistance agencies, and private foundations. This holds promise for the future replication of the Trust Bank model in a variety of locations. Ultimately, the involvement of local actors is likely to become greater, ensuring the independent sustainability of projects.

### **Documentation and Dissemination**

The manual, *Trust Banks: Experience in Two Russian Cities*, was produced to document best practice case studies, start-up experiences,

potential obstacles, and responses to difficult situations. This practical document describes each project, their services, policies, loan formats, and solidarity agreements. Together with other relevant project findings, *Trust Banks* was disseminated among Opportunity International partners.

### **Conclusions**

With help from its partners in Russia and Eastern Europe, WOF has been extremely successful in providing women with microloans and quality micro-lending services. By replicating its innovative Trust Bank model throughout the region, WOF has not only contributed to the enhancement of women's economic status, but also to women's confidence and capacity to negotiate complex social, political, and economic environments. Both now and in the future, WOF's documentation and information-sharing efforts will benefit those actors who are committed to providing training and lending services to hopeful women entrepreneurs.

### **From Refugee to Entrepreneur**

Ella Chikuraeva and her three children were refugees from Azerbaijan. Her youngest son is an epileptic with special needs. When they arrived in Arzamas in 1995, they knew no one and had nothing. They could barely earn enough to buy bread. When Ella first heard about the Doveriye Cooperative, she thought they were kidding.

Now Ella is a very successful vendor at the Central Market. With her initial Doveriye loan, she began her small food business, and with a second loan she diversified her products. Through Doveriye's training she learned to regulate her cash flow and to select products that would sell. Now, after receiving increasing loans over the period of a year, Ella has rented a small kiosk in the City Administration building, hired three saleswomen, and expanded her business.

Access to credit has been an important component of Ella's success. Yet she is one of many women who also value membership in Doveriye for the access to all its auxiliary services and support structures. Being among other beginning entrepreneurs, Ella received a great deal of encouragement from a support network that functioned as her family.

## Recommendations and Lessons Learned

WOF recommends that agencies seeking to adapt and expand Trust Bank models to Russian, East European, and other contexts keep the following in mind:

► **Build institutional and staff capacities.** During its time in Russia, WOF found that staff and organizational development training in strategic planning, financial management, team-building, and group facilitation skills were unplanned but crucial steps. To create sustainable micro-lending processes and institutions, organizations should improve overall structures and delivery mechanisms by fully addressing internal management and human resource issues.

► **Monitor and evaluate.** Micro-lending agencies, their partners, and project beneficiaries should collaborate on the design and implementation of management and information systems from a program's outset. Accurate and useful data, along with documentation and sharing of experiences, are necessary to constantly improve the quality of systems and portfolio management,

as well as to ensure sustainability of a project.

► **Encourage savings.** WOF had only limited success with the development of an institutionalized mechanism for encouraging entrepreneurs to maintain savings, which are needed to complement loans. Russia's complicated legal and financial systems and the lack of a uniform banking system make the savings process difficult. Loan officers at Trust Banks should therefore require that clients save and closely facilitate and monitor this effort. New mechanisms to ensure member savings should be developed and tested.

Two lessons learned by WOF underscore the relevance of its mission:

► **Participatory, gender-sensitive methodologies are critical.** Components of the Trust Bank model, such as solidarity lending groups, short-term loans at market interest rates for working capital, and weekly loan repayment meetings, attract women to the programs and sustain their active involvement. However, to

enhance the status of women in society, it is essential for programs to go beyond simple loans and repayment schedules. Equally important, a client-centered, demand driven approach to small-scale business development (i.e., one that consults all levels of stakeholders on project design and implementation) is crucial. Advance planning of any effort serves to ensure that the "right" clients (i.e., women with business and leadership skills) are involved.

► **Flexibility pays.** The complex and ever-shifting legal, political, and economic environments in Russia (as elsewhere in the world) made WOF's work particularly challenging. External factors, such as emerging tax laws, vendor-client strikes, and an unstable national currency all demanded that changes be made to the original project objectives and activities. Project staff, implementing organizations, and donors must therefore be prepared to constantly adapt project design and work plans to changing circumstances and emerging realities.

## References

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