MICROENTERPRISE FINANCE IN SUB-SAHARA AFRICA
A Concept Paper

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MICROENTERPRISE FINANCE IN SUB-SAHARA AFRICA

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MICROENTERPRISE FINANCE IN SUB-SAHARA AFRICA

I. INTRODUCTION

The less developed countries share common characteristics in terms of economic, social, and political goals that identify them either as poor or nations in transition. Countries in sub-Saharan Africa, which in the past two decades have lagged behind other developing regions in economic performance are typical examples. Experiences from these countries demonstrated that to achieve gains in real per capita gross domestic product (GDP) an expansion in private savings and investment is vital. To move towards this direction, public policies would need to be directed at creating an environment conducive to private sector development.

The emerging nations that have embarked on industrial development have, in most cases, focused on large and medium scale enterprises that were dominated by public sector investments. The failure of such economies has opened up new challenges into privatization programs in these economies. This new initiative has accorded the private sector development programs a major priority with attention on the viable contribution of the various segments of the economy.

In the developing world, as pointed out by Chu (1995), easily one third of labor force earn their living in what is known as the “informal sector”, the portion of the self-employed population whose very small, or “micro-enterprises”, are often not registered, taxed, or counted in national statistics. Many of the self-employed workers are, in most cases, unable to find jobs in the formal sector of the economy. Some find that self-employment is a means to simultaneously earn an income and care for their families, and still others feel they can best use their skills by operating their own enterprise (Chu, 1995).

Micro-enterprises cut across gender, and experiences have shown that they play a major role in income and employment generation in the less developed countries. Realizing the significance of micro and small scale enterprises (MSE) in the less developed countries (LDCs), the present Administration and the U.S. Congress have earmarked micro-enterprise development as a foreign assistance policy directive, thereby de-emphasizing large and medium size enterprise development. The significance of the new directive is demonstrated through the White House Summit in February 1997 on “Micro-enterprise Development” that headlined the impact and
richness of individual entrepreneurs providing goods and services. The summit emphasized that MSE sector forms the backbone of GDP in developed and developing economies. It is against this backdrop that this study is proposed by U.S. Agency for International Development to conduct literature search on micro-enterprise development studies, identify and analyze case studies, identify sound micro-financing models replicable in sub-Saharan Africa, and draw from examples of countries having similar experiences. Section II of this study presents a review of literature with a focus on micro and small scale enterprise (MSE) development; micro-financing and economic development; micro-lending programs and institutions; gender and sectoral differences; and constraints to MSE development. In Section III, country case studies in MSE development are analyzed. Section IV presents micro-financing models with a general framework and specific institutional studies. The final Section of the paper deals with lessons from the study and recommendations.

II. MICROENTERPRISE DEVELOPMENT - A REVIEW OF LITERATURE

Microenterprise and the Informal Sector

With worsening employment crises in sub-Sahara Africa, as in many other developing countries, development practitioners and policy makers are paying increasing attention to the micro and small enterprises sector as provider of employment and as a viable means of ensuring stability and growth in these economies (Parker and Torres, 1994 - ABS I-1, p.5). Micro-enterprise which is defined as businesses with one to 10 workers take advantage of the labor supply characteristics to LDCs to better maximize the capital/labor function (Puglielli, 1997). By their nature, micro-enterprises are exceptional forms of business with unique financial needs that are usually classified as micro-loans. Though, they represent a significant and growing part of economic activity in developing countries, they are nevertheless excluded from the formal economic system and, in particular, do not have access to bank credit.

Unlike large-scale industry which concentrate in urban areas where financial and non-financial services are more readily available, micro-enterprises can be found throughout a country. Thus, micro-enterprise can be a dynamic vehicle for indigenous participation in manufacturing (Puglielli, 1997). According to Livingstone (1991), the promotion of micro-enterprises in
developing countries is justified in their ability to (1) foster economic growth, (2) alleviate poverty and (3) generate employment. More significantly, small businesses tend to be in sectors that use labor-intensive production techniques, which reduces entry costs into the market and tolerates a less-skilled labor force. They are particularly important in underdeveloped economies where high information costs and fragmented markets favor firms with an intimate knowledge of local conditions and clientele that can use this information to produce and market for local needs (USAID-NPI, 1995). Besides, the flow of entrepreneurs emerging from a vigorous small business sector can greatly add to economy’s overall flexibility and growth potential.

A look at business structure by number of employees in ten less developed countries in table 1 below presents a relative importance of micro and small scale businesses in these countries. Though the table represents basically the economy of Latin America countries, it presents a broad picture of the nature of business structure in the LDCs. According to the classification from the table, we can see, by number of small-scale enterprises alone, that MSEs

<table>
<thead>
<tr>
<th>Size of Business by Number of Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Micro</strong></td>
</tr>
<tr>
<td>Argentina</td>
</tr>
<tr>
<td>Bolivia</td>
</tr>
<tr>
<td>Brazil</td>
</tr>
<tr>
<td>Chile</td>
</tr>
<tr>
<td>Colombia</td>
</tr>
<tr>
<td>Ecuador</td>
</tr>
<tr>
<td>Guatemala</td>
</tr>
<tr>
<td>Mexico</td>
</tr>
<tr>
<td>Peru</td>
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<tr>
<td>Uruguay</td>
</tr>
</tbody>
</table>

are strategic to economic development. In Columbia, out of 94 thousand industrial enterprises, 89 percent are micro, 6 percent are small, 4 percent are medium and 1 percent are large businesses. Of the 465 thousand enterprises in Chile, 83 percent are micro, 14 percent are small, 1.2 percent are medium and 1.5 percent are large. Brazil has 186 thousand industrial enterprises, of which, 182 percent are micro, 13 percent are small, 4 percent medium and 1 percent large; in Peru out of 159 thousand private institutions, 87.5 are micro, 10.8 percent are small, 0.5 are medium and 0.1 percent are large. In Bolivia, 87.5 percent of its total industrial enterprises are micro, 8.3 percent are small, 2.3 percent are medium and 2.3 percent are large. Similarly, in Mexico, of the 266,033 enterprises in the country, 92 percent are micro, 6 percent are small, 1 percent are medium and 1 percent are large (Puglielli, 1997). The above evidences from the surveyed countries show how important the micro and small scale industries are in emerging economy.

**Microfinancing and Economic Development**

Micro-finance, also called “micro-credit” and “micro-lending”, is the type of credit rationing that provide small loans of working capital in the range of $50 to $300 to the self-employed in the informal sector of the economy. To the poorest micro-entrepreneurs in the developing world, $50 is a fortune. According to FINCA International findings, the micro-entrepreneurs can invest the money to make their labors far more productive through innovative investment that gives them opportunity to make more money on every item.

The small business sector is significantly being affected, among other factors, by a competitive and efficient banking system, labor regulations, sectoral policies, land use and zoning regulations, transaction costs in dealing with government, and licensing and permit arrangements that inhibit entry and competition in a sector (USAID-NPI, 1995). Because small businesses take on markedly more risk than larger enterprises and generally with little or no collateral, standard credit sources in the form of commercial or development banks are customarily inaccessible to these firms in a manner conducive to efficient productive investment. These micro-enterprises, with no choice, have to resort to informal mechanisms, which confiscates their profits and condemns them to an endless spiral of credit and repayments.

Though micro-enterprise plays a major role in the macroeconomics of LDCs, they have specific needs for credit. According to Chu (1995), micro-enterprise, whether a stall at an open air
market, a woodworking bench in the front room of a two-room ramshackle house, or a metalworking lathe in a backyard shed, requires working capital and fixed asset financing, just as other businesses do. However, the formal financial sector has long considered this market segment unbankable. Historically created to serve large corporation accounts, with a heavy infrastructure of multiple layers of professionals and extensive plant, property, and equipment, and organized internally to deal with a relatively low number of large loans, conventional banks are designed to handle precisely the opposite of the micro-enterprise. As pointed out by Puglielli (1997), the formal financial sector’s lending are not conducive to micro and small-scale dynamic and heterogeneous activities of the informal sector. More detrimental to small-scale enterprise and the entire private sector is the custom of credit rationing practiced by LDCs which starves the private sector much needed capital. The bulk of the financing is provided by the informal credit markets (ICMs) that are perfectly attuned to the small loan needs of the small-scale and micro-enterprises and other new businesses that often presents high credit risk with very little or zero collateral. The monetary cost, however, is exorbitantly high. Table 2 below presents real interest rates in some selected less developing countries with significant high interest rate in the informal sector than in the formal sector where in some cases the real interest rate is negative.

Table 2: Real Interest Rates Per Annum in Selected Countries, 1975

<table>
<thead>
<tr>
<th>Country</th>
<th>Informal Sector</th>
<th>Formal Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nigeria</td>
<td>192</td>
<td>-2</td>
</tr>
<tr>
<td>Ivory Coast</td>
<td>145</td>
<td>6</td>
</tr>
<tr>
<td>Sudan</td>
<td>120</td>
<td>7</td>
</tr>
<tr>
<td>Bolivia</td>
<td>96</td>
<td>5</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>66</td>
<td>8</td>
</tr>
<tr>
<td>Ghana</td>
<td>64</td>
<td>0</td>
</tr>
<tr>
<td>Sierra Leone</td>
<td>60</td>
<td>-3</td>
</tr>
<tr>
<td>Malawi</td>
<td>58</td>
<td>16</td>
</tr>
<tr>
<td>Mexico</td>
<td>57</td>
<td>7</td>
</tr>
<tr>
<td>Country</td>
<td>Value</td>
<td>Change</td>
</tr>
<tr>
<td>-------------------</td>
<td>-------</td>
<td>--------</td>
</tr>
<tr>
<td>Chile</td>
<td>52</td>
<td>-16</td>
</tr>
<tr>
<td>Republic of Korea</td>
<td>49</td>
<td>5</td>
</tr>
<tr>
<td>Columbia</td>
<td>40</td>
<td>16</td>
</tr>
<tr>
<td>Brazil</td>
<td>38</td>
<td>-7</td>
</tr>
<tr>
<td>Honduras</td>
<td>37</td>
<td>6</td>
</tr>
<tr>
<td>Indonesia</td>
<td>29</td>
<td>3</td>
</tr>
<tr>
<td>Pakistan</td>
<td>27</td>
<td>4</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>20</td>
<td>4</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>20</td>
<td>-1</td>
</tr>
<tr>
<td>India</td>
<td>15</td>
<td>-1</td>
</tr>
</tbody>
</table>


Micro-lending Programs/Institutions

Micro-entrepreneurs’ needs for financing are growing in developing countries. The current informal lending market, made up of hundreds of million of small entrepreneurs that borrow money at very high interest rates, is an indication of the size of the demand. The concomitance of this demand and of the availability of international funds, looking for attractive remuneration, seem to suggest the possibility of market. Nevertheless, the micro-entrepreneurial population and the relating market are totally unknown to international investors, and the lending institutions’ experience is ignored out of experts circles.

Only a few lending institutions have reached the stage of mobilizing private funds on an efficient and competitive commercial basis. Most of them still obtain a major part of their funds from public sources and at subsidized rates. Their operating costs are often high and the loans they grant must be accompanied with elevated rates to cover them. To offer a normal rate to funds suppliers would oblige them to raise their interest rates up to levels incompatible with their development purpose.
In Africa, credit unions play a vital role in stimulating economic growth by providing loans and other financial services to micro-enterprises (Morton, 1997). Through the Africa Revitalization Program (ARP), Sustainable Development (SD) is helping to improve the availability, quality, and performance of credit unions in several African countries. According to the report by Morton (1997), ARP is a regional project financed by the SD’s Productive Sector Growth and Environment (PSGE) division, and implemented through the World Council of Credit Unions (WOCCU) in partnership with the African Confederation of Cooperative Savings and Credit Associations (ACCOSCA). Since 1994, ARP has worked in eight countries, strengthening national credit union associations and helping selected credit unions use market-oriented business approaches to improve performance and increase efficiency.

The eight African countries that agreed to participate in the ARP’s program include Ethiopia, Uganda, Kenya, Swaziland, Zambia, Zimbabwe, Ghana, and Senegal. Preliminary data from loan portfolios of credit unions in five of these countries indicate that approximately 40 percent of funds go to micro-enterprises. The distribution of loan funds by gender varies greatly from one country to another. In Swaziland, Zimbabwe, and Ghana, female-owned micro-enterprises received 34 to 45 percent of micro-enterprises loan funds. However, in Kenya and Uganda, women borrowed only three percent of micro-enterprise loan funds.

**Gender and Micro-enterprise**

Many case studies have been conducted both in developed and developing countries on the impact of gender on businesses and, more particularly, micro-enterprises. Generally, gender perspectives are reflected in the programs, most of which reach large numbers of women. It is also reflected, according to Cohen (1996), in the approach of many of the studies, which recognize (implicitly or explicitly) the existence of separate ‘gender’ economies within households and within the micro-enterprise sector.

In Cohen (1996) study, it is noted that gender differences exist in the profile of clients. At the household level, several studies refer to differences between men and women in the ownership of land or housing, access to alternative sources of credit, labor allocation, expenditure patterns, and decision making roles. Gender differences are also found in marital status (with more single, divorced or widowed women than men) and education levels. These studies also found that
women headed households are over-represented in many MSE programs, and that these households are often characterized by their poverty and high dependency ratios (Buvinic, et al., 1989; Goetz and Gupta, 1996; Sebstad and Walsh, 1991; Vengroff and Creevy, 1994).

Other studies indicate gender divisions within MSE sector, with women concentrated in particular types of enterprises and activities. For example in Egypt, one study covered 96 types of micro-enterprises, 28 of which involved women (See: Widemann and Merabet, 1992). Another study covered 43 types of enterprise, 14 of which involved women (Sebstad and Loza, 1993). There is evidence in some of the studies that suggests that women’s enterprises may be more likely than men’s to have lower capitalization, different asset structures, and fewer employees. In some cases, this may represent an historically defined gender division of labor; in others, it may reflect women’s different enterprise goals, especially those related to risk (Lapar, et al, 1995; Sebstad and Walsh, 1991). The study on Poland gender differences found that male and female entrepreneurs face similar obstacles, i.e. a lack of access to credit and ineffective non-financial assistance in MSEs operations. In the area of specialization, the study found that men operated larger businesses in capital-intensive industries such as manufacturing, whereas women were inclined to own smaller businesses in commerce or the service sector (Weidemann and Finnegan, 1994).

What is notable in most of the literature on gender and MSE development is that they all reveal common findings even in countries with vastly different cultural and economic settings, such as Egypt, Kenya, Indonesia, South Africa, and Poland. A summary of basic findings is presented below:

- At the individual level, survey research in Bangladesh shows that although women make up a large majority of borrowers in most programs, women don’t always control loans. The impact of a loan depends on who controls (Goetz and Gupta, 1996).

- At the enterprise level, a study in the Philippines found that women experienced higher increases in sales compared to men. This was because women are concentrated in non-manufacturing enterprises, and output is generally higher in these enterprises (Lapar, et al, 1995).
• Findings also show that women are more likely to increase their entrepreneurial activities laterally (that is, they will engage in multiple income-earning activities and spread their risks over a wider base) to stabilize their income stream. They are less likely than men to invest in a single activity.

• At sectoral level, studies show that sectors dominated by women entrepreneurs tend to grow less rapidly than sectors where male entrepreneurs are more prominent. Female business owners are concentrated in marginalized sectors with low returns, such as trade and services, although the relative proportion differs by country. When the financial returns in a given sector, such as banking in the New independent States, increase, men are likely to displace women in that sector.

The overwhelming conclusion from the above review of gender and MSE development is that gender makes a significant difference in the establishment and development of micro and small scale enterprises.

Micro-enterprise and Sectoral Differences

The sectoral analysis looks into micro-enterprise activities across sub-sectors. Findings from studies show that MSE sector is dominated by commerce and trade, most of which are related to the agricultural sector, followed by the manufacturing sector, and services (Parker and Torres, 1994). Studies also show that credit has a positive effect on enterprises across sub-sectors, but the types and degree of impacts vary, for example, by the composition of the asset-base or the market conditions for that sub-sector (market size, stability, or location; level of competition; barriers to entry). Impacts are often more visible, immediate, and dramatic in enterprises that operate with high levels of working capital, primarily non-manufacturing activities (trade and services). These changes often level off after an initial growth spurt, however, and there is limited evidence showing whether or not they maintain the higher levels of operation over time (Chen, 1996).
The study by Cohen (1996), also indicate that many manufacturing enterprises require bulk investments and a longer time period to grow. And that while they usually have higher levels of employment to start with, several studies suggest that employment growth rates associated with MSE credit are higher for non-manufacturing enterprises.

**MSE Development and Major Constraints**

**Introduction:** The MSE literature contains extensive documentation on the array of constraints and problems facing MSEs in different countries. Efforts to identify MSE growth constraints have typically been carried out as a first step in identifying technical assistance interventions that could be executed by donor organizations or government agencies to support the development of MSEs (Barton, 1997).

Barton (1997) further pointed out that as long as technical assistance interventions included services to small enterprises free of charge, little effort was made to gauge the level of demand for such assistance. Instead, program designers and evaluators focused on the impacts of the technical assistance activities using cost-benefits calculations, the costs of the technical assistance measured against as many benefits as the project could take credit for, including economic and social benefits. In recent years, donor organizations have become concerned that continued infusions of external technical assistance may not be the best means of dealing with problems such as micro-enterprise development or other economic growth issues. Rather than supporting technical assistance activities that end when project funds are exhausted, donors have increasingly looked for ways of stimulating the supply of sustainable services, delivered through local, primarily non-governmental channels.

**The Constraints:** MSE surveys carried out in various countries shed light on the constraints MSEs face and the relative importance of these constraints, but offer few insights into relationships between such growth constraints and the demand for business development services by micro and small businesses (Barton, 1997). Findings from studies generally identify a long list of problems faced by owners and operators of small enterprises (McVay, 1996; Goldmark, 1996; Goldmark, Berte, and Campos, 1997). On the financial side, studies emphasize that the primary need is for better access to working capital. According to Tybout (1983), the lack of capital is the largest constraint to micro-enterprise development. The high cost of capital deters expansion if
micro-enterprise economic activity. The capital needs of micro-enterprises are not large, but the inability of micro-enterprises to carry adequate stock of raw materials and inventory cause discontinuities in production and sales which, in turn, brings about low productivity. In the non-financial areas micro-enterprises must deal with numerous problems, including the following (Barton, 1997):

- Marketing problems (identifying new sources of demand, finding customers, developing business linkages, and adapting products and services to meet buyer requirements);
- Input supply problems, including access to raw materials, supplies, and equipment;
- Technical/production problems;
- Enterprise management problems;
- Legal and regulatory compliance and harassment;
- Transportation problems;
- Limited access to business facilities and infrastructure; and
- Human resource development and management problems.

According to Barton (1997), MSE literature dealing with enterprises in a variety of country or regional settings and business areas, shows that the relative importance of different constraints varies from one region or country to the next as well as within industries or trades in the same country or region. The importance of different constraints also varies for firms at different stages in their life-cycle, from start-up through growth cycles to mature operations. The problems most frequently mentioned by small producers are:

- Access to credit, particularly for working capital;
- Access to growing markets; and
- Access to inputs (e.g., financial and non-financial resources like available technology).
The major discussions regarding MSE market access problems, for products and services as well as inputs, has been documented for a number of countries and industries. For example, W. Grant (1990) found that access to markets, inputs, and working capital was the major constraint faced by small businesses in Lesotho in the garment sub-sector as well as for the weaving and leather goods industries. A GEMINI survey of small enterprises in the forest-products sector in Southern and Eastern Africa found that working capital finance, marketing, and input supply problems were the principal difficulties cited by firm owners (Arnold, Townson et al., 1994). Silcox, et al., (1994), in their study of MSEs in Malawi, found that access to inputs or raw materials and saturated markets were the most commonly cited problems facing micro-entrepreneurs.

III. MICROENTERPRISE DEVELOPMENT - CASE STUDIES

Case 1: Kenya Microenterprise Sector

The case of Kenya micro-enterprise analysis serves a very useful purpose as a case study for Africa and other developing economies because it typifies all the characteristics features of developing economies and demonstrates the significance of micro and small enterprise (MSE) development and the contribution of the informal sector to a growing economy. The purpose of the Kenya example is to demonstrate how small and micro-enterprises can be organized in other similar economies, using and learning from the experiences.

Magnitude and Importance of MSE Sector: In the context of a worsening employment crisis in Kenya, development practitioners and policy makers are paying increasing attention to the micro and small enterprise sector as a provider of employment and as a means of ensuring stability and growth in the Kenya economy (Parker and Torres, 1994). Employing nearly 2 million people, the MSE sector comprises 910,000 enterprises, three-fourths of which are located in rural areas. Although rural businesses are more likely to be seasonal, most enterprises nationwide operate year-round.

The MSE sector in Kenya provides employment for 16 percent of the labor force, the bulk of which, again, is in rural areas. Nationwide, one quarter of all households engage in some form of business activity, while the comparable figures are higher for urban areas (35 percent in large
urban areas other than Nairobi and Mombassa, and 59 percent in small towns). Roughly one-fourth of entrepreneurial households depend on their businesses for all of household income, while 69 percent depend on their businesses for half or more of their income. Women-owned businesses provide a substantially lower share of household income than businesses owned by men. Micro-enterprises as defined for the case study here refer to businesses with one to 10 workers. This type of businesses make up most (98.6 percent) of the MSE sector, as compared with enterprise with 11 to 50 workers (1.4 percent) and those with more than 50 workers (less than 1 percent). Of the micro-enterprises surveyed in Kenya, less than one-fourth have just one worker, one-third are based in the home, and half are run by female entrepreneurs.

**Sectoral Distribution:** Kenya's MSE sector is dominated by commerce and trade activities, most of which are related to the agricultural sector (61 percent of enterprises and 53 percent of all MSE employment), followed by the manufacturing sector (27 percent of enterprises; 30 percent of employment) and services (13 percent of enterprises; 18 percent of employment). Kenya differs from the countries of Southern Africa in that Kenya has a large proportion of enterprises in commerce and a smaller proportion in manufacturing.

**Labor Force Characteristics:** The composition of the MSE work force varies by gender of the proprietor and the size of the enterprise. Women rely primarily on their own labor (66 percent) or on unpaid family workers (24 percent), hiring few paid workers. In contrast, 37 percent of workers hired by male proprietors are paid employees. Women-run businesses provide a greater share of jobs for women in the sector, with 82 percent of all positions held by women compared with 14 percent in enterprises run by men.

**Linkages to the Kenya Economy:** According to the survey conducted in Kenya there were only a few forward linkages (84 percent of enterprises reported selling directly to individuals), some 13 percent of enterprises do provide goods or services to other businesses. Strong backward linkages were found: fully 84 percent of micro-enterprises rely on Kenyan-made inputs or stocks.

**Access to Business Assistance:** In Kenya, about 83 percent of entrepreneurs reported that they had never received assistance of any kind (formal or informal), 9 percent have used credit at some time, and 5 percent have received some form of non-financial assistance. Like other developing economies, some of the entrepreneurs indicate that they belong to some kind of
support groups. The start-up capital was relatively small. Eighty-nine percent of enterprises start with Ksh 10,000 or less. However, as expected, the larger the enterprise is at the start, the more is the capital required to open the business.

**Constraints:** Eighty percent of surveyed entrepreneurs cited one, two or more major problems, while the rest were unable to point to any specific constraint. By far the most commonly cited major problem was related to market size (93 percent of responses), followed by difficulty accessing non-financial inputs (25 percent) and capital shortages (14 percent). Other problems mentioned include transport (7 percent), location (7 percent), economic conditions (7 percent), risky environment (5 percent), and government involvement or harassment (5 percent).

**Implications and Lessons:** The Kenya example demonstrates the nature of MSE in developing countries and, in particular, in Sub-Sahara Africa. In the case study in Kenya, it is found that agriculture-related enterprises are by far the most numerous of any group of activities in the MSE sector, making up the bulk of commercial enterprises and one-third of manufacturing businesses. The contribution to the economy through employment income generation makes MSE a major factor in designing self-reliant development programs for the present emerging nations. Some of the recommendations proposed for improve condition in Kenya were as follow:

- That assistance should focus on enterprises with 1 to 10 workers, the portion of the MSE sector that provides 93 percent of the sector’s jobs and is more likely to evolve into tomorrow’s small enterprise sector.

- Strategies should be developed specifically to reach rural and home-based enterprises because of their numbers, general invisibility, and involvement of women.

- Policy makers should take into account the particular constraints faced by female entrepreneurs when devising assistance strategies.

- At least in the short run, micro-enterprise development will be strongly tied to the development of the agricultural sector.
The observations and recommendations presented above will serve a useful purpose for initiating micro and small scale enterprises for economic development in the Sub-Sahara Africa.

Case 2: Women Entrepreneurs in Southern Africa

The selection of women entrepreneurs in Southern Africa as a case study is intended to provide the missing gap in understanding the nature and structure of micro and small enterprise development as a factor in igniting economic growth in the less developed economies, particularly, the Sub-Sahara region of Africa. The dismal performance of African economies in the 1980s called for several interventions in the domestic economy of many African countries. During this period, donor strategies sought both policy and micro-level prescriptions capable of igniting an engine of recovery and growth (Downing and Daniels, 1992). To achieve this objective, growth-oriented donors promoted and targeted available resources to the so called dynamic sub-sectors that have the greatest potential for contributing to economic growth. Unfortunately, these strategies excluded women.

The study by Downing and Daniels (1992) is used for the analysis of gender in Southern Africa. This study focuses on gender differentiated firm and sub-sector growth and uses comparable date that allow for cross-country comparison and regional generalization. Also, this case study provides opportunity to compare the growth characteristics of women’s and men’s enterprises. The survey concentrated on four countries in the Southern African region: Lesotho, Swaziland, South Africa, and Zimbabwe.

The economic scenario in Southern Africa is unique. The region was under repressive regime until 1994 when South Africa finally gained independence. The system of economic controls established before independence gave white minority entrepreneurs monopolies and other privileges that allowed them to control the markets for the most lucrative products. Many of these controls and privileges exist today in a slightly modified form. In both Zimbabwe and South Africa, laws prohibited blacks from operating businesses until relatively recently. As a result, the informal sector in these countries is underdeveloped (Weatherspoon and Alade, 1997).

As pointed out by Downing and Daniels (1992), the repression of the small enterprise sector throughout Southern Africa has meant that financial and other input services for micro and small enterprises (MSE) are sorely lacking or are underdeveloped. Though small enterprise credit
programs have been initiated in Lesotho and Swaziland and, more recently, in South Africa and Zimbabwe, significant impact has not yet been achieved. Also, according to a World Bank survey of female micro-entrepreneurs in Zimbabwe (Saito, 1991), only 5 percent of sample respondents in Zimbabwe had obtained formal credit; 75 percent of female respondents received financing from personal savings or family grants.

The female-to-male ratio of the informal sector labor force in Southern Africa is relatively high (see Table 3 below).

Table 3

<table>
<thead>
<tr>
<th>Percentage of Enterprises Owned By Women in Southern Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lesotho</td>
</tr>
<tr>
<td>---------</td>
</tr>
<tr>
<td>73</td>
</tr>
</tbody>
</table>


The gender ratio in the above table for Southern Africa reveal that 73 percent of MSEs in Lesotho are female-owned. In Swaziland, the share is even higher, at 84 percent. In the two South Africa townships, the share of female to male entrepreneurs was only 62 percent; in Zimbabwe, it was 67 percent. In all countries, there is a significant number of de facto female-headed households in the rural areas, where men have out-migrated or are absent much of the year.

Gender-Differentiated Patterns of Enterprise Growth: The GEMINI data used by Downing and Daniels (1992) to study MSEs in Southern Africa provide information on employment growth rate and changes in the average number of firm employees across rural-urban strata. Considering the age of enterprises by gender of proprietor, survey in Southern Africa show that female-owned enterprises are virtually identical in age structure to male-owned ones, except in Zimbabwe where the pattern deviates to some extent. Overall, the data indicate that women’s enterprises are as stable and long lasting as men’s.

Data on gender differentiation in growth rate by sub-sector, according to Table 4 below, demonstrate further the low growth characteristics of women’s activities. The greatest numbers of
Women's firms in Swaziland, South Africa, and Zimbabwe are concentrated in retail, textiles and wood-based production. In Swaziland, women's firms in these sub-sectors are growing at annual rates of 7 percent, 3 percent, and 4 percent respectively. The growth rate of men's firms in the same sub-sectors consistently outstrip women's with respective annual changes of 11 percent, 4 percent, and 26 percent. In South Africa, women's retail, textile, and wood-based production firms are growing at rates of 22 percent, 12 percent, and 22 percent respectively. Growth rates for men's firms in these sub-sectors are 34 percent, 15 percent, and 50 percent. Similar pattern is observed in Zimbabwe.

Table 4

<table>
<thead>
<tr>
<th></th>
<th>Lesotho</th>
<th>Swaziland</th>
<th>South Africa</th>
<th>Zimbabwe</th>
</tr>
</thead>
<tbody>
<tr>
<td>SECTOR</td>
<td>F</td>
<td>M</td>
<td>F</td>
<td>M</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>na</td>
<td>na</td>
<td>0.05</td>
<td>0.14</td>
</tr>
<tr>
<td>Trade</td>
<td>na</td>
<td>na</td>
<td>0.07</td>
<td>0.11</td>
</tr>
<tr>
<td>Services</td>
<td>na</td>
<td>na</td>
<td>0.13</td>
<td>0.05</td>
</tr>
<tr>
<td>Source: Downing and Daniels (1992).</td>
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</tr>
</tbody>
</table>

Similarly, gender-differentiated data ranking the top three fastest-growing sub-sectors in Zimbabwe show rates for women's firms that range from 11 to 17 percent; comparable figures for men's firms range from 24 to 120 percent. In South Africa, women's firms show rates between 24 to 27 percent, and for men, the growth rate is between 50 and 160 percent. In Swaziland, the range is between 12 and 20 percent for women and 35 and 47 percent for men. In sum, the data show that women's firms grow at slow rates than men's even within the same sub-sector, suggesting qualitative differences between women's and men's enterprises.

Gender-Differentiated Constraints to Growth: The Southern Africa Survey on current problems of micro-entrepreneurs suggests that insufficient working capital is a more important problem for male than male entrepreneurs. The study went further to indicate that though women may cite insufficient working capital less than men, this may not necessarily mean that they have
more access to working capital. (Downing and Daniels, 1992). What could be inferred is that women's market problems are more paramount. Without market, they may have little viable use for financing. Other problems identified in the survey include bad debt, tools/technology, government policy, location/space, transport, labor, and inputs.

According to a World Bank survey in Zimbabwe (Saito, 1991), 75 percent of female entrepreneurs obtained start-up capital from personal savings or family grants. Women entrepreneurs also received credit from input suppliers. Research in Lesotho (Grant et., 1990), for example, revealed that dressmakers establish long-standing relationships with wholesalers in Durban and Johannesburg. Observation show that overall, small enterprises are much more likely to be home-based than being at a traditional market or central business district. Women's enterprises are identified as more often home-based than men's. Also, most evidence indicates that home-based enterprises have lower growth rates and profits than market-based firms (Downing and Daniels, 1992). Although home locations have the advantage of allowing women to combine their domestic responsibilities with their enterprise activities, they have the disadvantage of relative lack of access to customers compared with a market location.

**Sectoral Distribution By Gender:** The survey on Southern Africa regarding the number of female and male owned firms in each sub-sector confirms past research attesting that women enterprises are concentrated more than men's in a narrow range of sub-sectors (Downing 1990; Watts, 1984). Survey show significant crowding by female micro-entrepreneurs into four sub-sectors: food, beverage, and tobacco; textiles and garments; wood-based production; and retail. Men's enterprises, on the other hand, are more evenly distributed among the same sub-sectors that women dominate as well as in fabricated metal production, other manufacturing, construction, transport, and services.

A world bank survey in Zimbabwe showed that almost two-third of the female entrepreneurs surveyed in Harare and one-third of those interviewed in two secondary towns were concentrated in textiles and garment-making (Saito, 1991). Crowding of women into a narrow band of sub-sectors is often used to explain the low profit margins and depressed growth of women's enterprises compared with men's (Watts, 1984; Downing, 1990). A more detailed desegregation of sub-sector data into product market show that firms owned by women appear to be concentrated in far more traditional and less dynamic product markets than men's. Women's
manufacturing activities, for example, include beer brewing, dressmaking, knitting, crocheting, grass and cane work. Men's manufacturing activities, on the other hand, suggest more modern product markets such as construction, welding, auto repair, radio and television repair, and brick or block making.

**Implications for Policy and Intervention Design:** From policy viewpoint, the findings which confirm the relative lack of growth of women's enterprises shed doubt on how best to invest in micro-enterprise development. Given that most MSEs are owned by women and that women's enterprises seem inelastic for growth, the question remains on how should programs intervene in the sector and measure the impact of the intervention?

In order to improve ability to measure intervention impacts, research is needed to document gender-differentiated business and investment strategies. Such research should provide the basis for selecting investment strategies and impact indicators. To the extent that women do have different objectives from men, programs and projects may need to use gender-differentiated indicators to measure impact. Women's investment in education is certainly one possible indicator; others may have to be tailored to the traditional gender-differentiated responsibilities in a particular region (See: Downing and Daniels, 1992).

**Case 3: Egyptian Women and Micro-enterprise**

**Introduction:** The case study presented here is based on the study conducted by Weidemann and Merabet (1992) with the purpose of determining the nature and extent of female economic participation in the informal sector and to identify constraints to the development of the informal sector. According to this study, female entrepreneurs in Egypt make up a dynamic class of business owners that has gone unnoticed in the official circles. General observation of the informal sector show that female-owned businesses are typically small, self-financing, sole proprietorships (usually unregistered), do not maintain bank accounts, do not apply for credit from mainstream credit sources, and do not keep records.

**The Egyptian Economy:** The main living areas in Egypt constitute some of the most densely populated area in the world. The country's economy, which was severely strained during the 1991 war in the Persian Gulf, is now undertaking major reforms. The resulting structural adjustment program threatens to exacerbate already high levels of unemployment and poverty.
With the change taking place in Egypt, the MSE sector can serve as an important buffer, particularly since the location of many of the MSEs and the nature of settlements allow them to provide inexpensive goods and services to the poor.

To assist the MSE sector of the economy, USAID/Cairo and other development agencies have instituted numerous programs. These programs, which deliver credit, training, and/or technical assistance, have been generally successful but with limited participation of women. As observed by Weidemann and Merabet (1992), barriers to the exchange of new information affect female entrepreneurs to a greater extent than male entrepreneurs because of the relatively greater isolation and lower literacy levels of the female entrepreneurs.

Women in the Egyptian Economy: As in many developing countries, women in Egypt tend to be less literate than men, and are more affected by poverty, and do not enjoy the same social status as men. Exemption to this characteristics is the case in Poland where women are identified as well educated and make up almost half of the labor force (Weidemann, 1994). According to Weidemann and Merabet (1994), little was known about the participation of women in the MSE sector prior to their study. However, the general understanding from existing studies was that women lack access to financial services because they lack collateral, they are less comfortable with bookkeeping because of their low level of education, and that they face pervasive socio-cultural attitude from the society.

Basic Findings: The major findings from the USAID/Cairo projects on micro and small scale enterprises are listed below.

• That women are more likely than men to go into business to seek increased income. Male entrepreneurs, in contrast, are likely to acquire their businesses through inheritance. A larger number of entrepreneurs of both gender learned their trade through apprenticeship.

• Informal savings and lending groups such as ‘gamaye’ (rotating credit and loan associations) play a particularly important role in financing new start-ups.

• Female entrepreneurs indicate that the lack of access to working capital was a major constraint for business development (46 percent of female respondents mentioned it as a
start-up problem, and 59 percent said it was a current problem). They are also less likely to have access to supplier credit (70 percent paid cash in advance or cash on delivery for supplies, materials, and products), yet more likely to extend credit to their clients (87 percent). Men similarly have found the lack of working capital to be a major obstacle at start-up (73 percent). Eighty-seven percent of women in Egypt listed lack of working capital as the first or second major obstacle, compared with 69 percent of men. Despite these problems, both men (77 percent) and women (87 percent) indicated their intention to expand their businesses.

Fifty six percent of the female entrepreneurs surveyed were in service businesses, compared with 35 percent of males. Service businesses require less capital in investment and are easier to run out of the home than other types of businesses. Just over half of the female-owned businesses were home based, and 70 percent were fully started from home. In contrast, only 41 percent of women run their businesses from a shop as compared with 84 percent of male entrepreneurs surveyed.

**Implications for Policy and Planning:** The results of the USAID/Cairo projects suggest that female participation rates could increase if certain directed measures are taken. Some of the suggested measures are presented below:

1. That agencies need to be more proactive in identifying prospective female clients, while project management should be sensitive to the fact that women are more likely to experience discouragement from neighbors, relatives, and spouses when applying for loans.

2. The provision of working capital is the key to supporting micro-enterprise development, especially for women.

3. Loan officers should be sensitized to working with female clients. That loan officers should be given additional training on the dynamics and differences
between male and female businesses, perhaps using the survey results as a basis for the curriculum. It also very important for loan officers to understand that home-base businesses are viable and should be given as much consideration as those in the other locations.

IV. MICRO-FINANCING MODELS FOR SUB-SAHARA AFRICA

A. General Framework

The emergence of MSE programs as cornerstones of economic development efforts worldwide has been given an impetus by some early successes in discovering successful models for promoting these enterprises through the provision of financial services (Barton, 1997). Over the past decades, the experiences of Grameen Bank in Bangladesh, BancoSol in Bolivia, and BRI in Indonesia, along with scores of similar successes in other countries, have produced a wave of optimism in development circles about the prospects for micro-finance programs to provide practical, sustainable assistance to large numbers of MSEs.

According to Barton (1997) survey, most programs providing business development services to MSEs have not been in place long enough and do not have a sufficient track record to classify them as best practices. He, however, pointed out that it is possible to identify sets of design and performance characteristics that can be categorized as most-promising practices (see also: Rosenfeld, et al., 1992). Studies suggest that programs that focus on the provision of business development services need to meet basic tests to be placed in the category of most-promising programs. Among the tests identified, were:

- that services need to be responsive to MSE demands;
- business development service programs or service packages need to be market oriented;
- superior providers of business development service should have realistic plans for dealing with the business aspects of service delivery;
- superior business development service programs will have realistic strategies for developing the scale and coverage of their operations; and
Table 5

Design Characteristics of High-Performing Business Development Service Programs

<table>
<thead>
<tr>
<th>Design Characteristics</th>
<th>Indicator</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Services are market oriented. They focus on specific market opportunities.</td>
<td>Description of market opportunities, mechanisms for obtaining market information.</td>
</tr>
<tr>
<td>2. Services are responsive to specific needs/demands of clients.</td>
<td>Results of clients surveys, constraints analyses, analysis of current demands for services, results of pilot tests indicating clients willingness to pay for services, and measures of actual fees collected.</td>
</tr>
<tr>
<td>3. Program has realistic strategy for developing sustainable services.</td>
<td>Business plan outlining revenue generation strategy, including fee-for-service arrangements, use of front-end development funds, and strategy for diversifying sources of development support. (Are fee arrangements realistic? What share of program costs can be covered by client fees, commissions, or profits from commercial services? What share of program costs will require support from public sources or donors? How long will development funds be required?)</td>
</tr>
<tr>
<td>4. Program offers potential to achieve large-scale impacts (through working with groups of firms in the same industry, demonstration effects, diffusion of learning, replicability of services through franchising or other means, and ability to attract additional sources of funding).</td>
<td>Analysis of constraints and nature of demand for particular types of services - are there large numbers of firms who might need the proposed service? Business plans or pilot tests demonstrating feasibility of expanding service supply scaling up operations of particular suppliers or replicating services through franchising, licensing, or encouraging copying or dissemination of successful business models for service delivery.</td>
</tr>
<tr>
<td>5. Program adequately addresses development objective by:</td>
<td></td>
</tr>
<tr>
<td>• Helping stimulate demands for business services;</td>
<td></td>
</tr>
<tr>
<td>• Complementing and expanding, not duplicating, private services;</td>
<td></td>
</tr>
<tr>
<td>• Promoting important types of business linkages;</td>
<td></td>
</tr>
<tr>
<td>• Providing services that are catalytic in nature and stimulate growth in other services, or give rise to other business innovations; and</td>
<td></td>
</tr>
<tr>
<td>• Helping accelerate the rate of learning within communities of micro-entrepreneurs.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Increased willingness of MSEs to use and pay for business development services;</td>
</tr>
<tr>
<td></td>
<td>New services that address &quot;missing links&quot;;</td>
</tr>
<tr>
<td></td>
<td>Groups of micro-enterprises linked to larger firms through distribution arrangements, subcontracting links, franchise arrangements, etc.;</td>
</tr>
<tr>
<td></td>
<td>Benefits accrue to firms not directly assisted as clients; and</td>
</tr>
<tr>
<td></td>
<td>More rapid diffusion of product and service innovations, adoption of successful practices by MSEs not directly assisted by program.</td>
</tr>
</tbody>
</table>

• that effective business development service programs should produce positive externalities in addition to serving particular sets of clients (Barton, 1997).

Table 5 above presents a checklist of some of the more important design criteria for programs that aspire to qualify as promising or best practices.

The second framework considered in this paper is the performance measure for business support services that are offered by non-commercial suppliers. As pointed out by Barton (1997), indicators of success for commercial firms are clear-cut, but non-commercial suppliers, including private voluntary organizations (PVO), other non-profit agencies, for-profit consulting firms implementing government-funded programs, and government service organizations face a more difficult challenge in deciding what constitutes superior performance. Because of this fundamental problem, we present in Table 6 below the performance indicators that distinguish between business development service programs that exhibit superior performance characteristics and those that are less effective with respect to the delivery of specific services (see: Barton, 1997).

B. Specific Models of Micro-Finance Services:

Three models of financial services on micro-enterprise development with specific reference to country experiences are presented in this section. The three financial services models presented here are: The World Council of Credit Unions (WOCCU); Foundation for International Assistance (FINCA); and Volunteers In Technical Assistance (VITA). All the three programs have made some significant impact on micro-enterprise development in the less developed countries and in particular, the Sub-Sahara Africa.

1. World Council of Credit Unions (WOCCU)

Introduction: The World Council of Credit Union (WOCCU) is the international organization of credit unions and similar cooperative financial institutions. WOCCU was created in 1971. By 1995, the World Council represented 87 national movements with nearly 90 million credit union members. WOCCU supports the development and advancement of credit unions throughout the world by facilitating information exchanges and ideas, assisting members to organize, expand and improve credit unions, and to extend cooperative financial services to people who want and need these services.
Table 6: Indicators to Measure the Delivery of Specific Services in Business Development Programs

<table>
<thead>
<tr>
<th>Type of Service</th>
<th>Superior Service Delivery</th>
<th>Inferior Service Delivery</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marketing</td>
<td>Profitable operations - cover costs of operations through normal marketing margins or commissions and make profits; Able to identify and respond to service gaps and market opportunities</td>
<td>Require subsidies, fail to cover costs even after reasonable start-up period</td>
</tr>
<tr>
<td></td>
<td>Able to take advantage of marketing networks to open up opportunities to MSE clients, achieve larger-scale operations; Able to help create more efficient marketing systems through better access to information, improved organization (of producer groups or buyers), establishing more direct links between small producers and buyers, etc.</td>
<td>Use subsidies to replicate existing commercial services</td>
</tr>
<tr>
<td>Technology development and dissemination</td>
<td>Operations pay close attention to market demand</td>
<td>Lack of attention to market factors, economic feasibility</td>
</tr>
<tr>
<td></td>
<td>Costs of developing and disseminating new technologies can be covered through royalty payments, sales revenues, with minimal subsidies for research and development efforts</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Dissemination efforts take advantage of distribution system to achieve broad market coverage</td>
<td></td>
</tr>
<tr>
<td>Training, business counseling</td>
<td>Fee-for-service provisions and profitability measures that make it possible to gauge client demand for particular services Ability to develop training packages that respond to MSE needs and for which MSE clients will pay Ability to identify and implement methods for reducing the cost of delivering services Ability to cover costs of service delivery (at least after some reasonable start-up period) from client fees and non-donor contributions.</td>
<td>Service are supply driven rather than demand driven Provision of services depend upon donor support</td>
</tr>
</tbody>
</table>

Source: Barton, Clifton (1997), p. 44.
The model discussed in this section is premised on John Magill (1993) study on “Attitude and Practices of Credit Union Members and Non-Members in Malawi and Grenada”, and GEMINI Technical Report on “Credit Unions and Micro-enterprises”. The studies examine a rural and an urban credit union in Grenada and a company-based credit union in Malawi (see Table 7 below). The analysis here looks at the strengths of credit unions, weakness of credit unions, WOCCU’s efforts to strengthen credit unions, and credit unions and micro-enterprise.

The **Strengths of Credit Unions**: Country survey of credit unions activities show that the principal strength of credit unions is that they operate on self-generated capital, independent of government or donor subsidies. Credit unions are well established and target the group that commercial banks typically avoid, i.e., the small savers and borrowers. There are 17,000 credit unions in the developing world serving 8.7 million members.

The study in Malawi and Grenada identifies some of the strengths that CU members and non-members perceive in credit unions. According to Magill (1993) majority of credit union members felt that credit unions were more friendly and courteous than banks. Members interviewed also agreed that credit unions have more convenient hours and locations than traditional financial intermediaries. More than half of the members polled thought that it was easier to get a loan from a credit union than a bank and that CUs required lower service charges.

**Weakness of Credit Unions - Failure to Mobilize Savings**: Both studies cited here argue that the inability of credit unions to mobilize sufficient savings is the most serious hindrance to the growth of credit unions. Many credit unions in developing countries offer only one primary instrument for mobilizing member savings: an illiquid Share Account for which a results-based dividend is paid annually and upon which eventual loan requests are based. Surveys in Malawi and Grenada found that most CU members prefer to keep some of their savings in other financial intermediaries. The survey found that few CU members save exclusively at their credit union if they have an alternative; the illiquidity and uncertain returns of the Share Account make it an unappealing savings option (Magill, 1993). These results suggest that credit unions should adjust the savings products offered to reflect the needs and preferences of their clientele.

**WOCCU’s Efforts to Strengthen Credit Unions**: According to Magill (1993) study WOCCU is working to improve the financial management of credit unions by focusing on savings
mobilization, financial stabilization, and financial soundness. The Council hopes to provide greater safety for deposits in credit unions by developing a strong regulatory and supervisory environment. Such an environment is imperative before credit unions expand their savings services to protect savers from risk caused by unsound practices or failure to accumulate adequate institutional capital.

To increase the financial stabilization of credit unions, WOCCU plans to develop systems, procedures, and controls that promote financial discipline. By improving regulatory and supervision and putting stabilization mechanisms into place, credit unions will be adequately strengthened to target the third WOCCU component, savings mobilization, without imposing undue risk on clients (Magill, 1993).

Credit Unions and Micro-enterprise: Surveys of credit union members indicate that a high percentage of members possess independent income-generating activities. Of the credit union members interviewed, 20-36 percent indicate that they own their own businesses. The Magill (1993) survey found an array of borrowing patterns among credit union members who own businesses. Among the credit union studied, it was only the Railway credit union that members do

<table>
<thead>
<tr>
<th>Table 7: Credit Union Activities in Grenada and Malawi</th>
</tr>
</thead>
<tbody>
<tr>
<td>(From Technical Report No. 55)</td>
</tr>
<tr>
<td>St. George's (urban)</td>
</tr>
<tr>
<td>River Sallee (rural)</td>
</tr>
<tr>
<td>Railway (company)</td>
</tr>
<tr>
<td>Nalipuri (community)</td>
</tr>
<tr>
<td>% CU members owning MSE</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>% CU members whose Spouse owns MSE</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>% CU members owning MSE who borrowed from CU for their MSE</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>% CU members who have savings accounts in other financial institutions</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>
not borrow from the credit union to finance their businesses. Except from the St. George’s credit union, very few respondents reported having loans from any institution other than the credit union.

This study also found that the type of businesses owned by the members (small-scale trade and commerce activities) are typical of MSEs in these countries. Most members who borrowed to support their businesses, invested in inventory supplies, and materials; some used their loans to buy equipment. Among the major conclusions reached in the study is that MSE lending can strengthen credit unions by improving liquidity management and reducing interest rate risk. The WOCCU efforts have helped to revitalize credit unions in the less developed countries by instituting projects to strengthen the management and administration and improve quality and variety of financial services that they can offer small businesses in their respective countries.

2. Foundation for International Assistance (FINCA)

Introduction: FINCA International is a nonprofit agency launched in 1985 for the purpose of providing small working capital loans to low-income families. In 1992, FINCA opened its first African program in Uganda in an effort to give village banking a foothold in a depressed economy as demonstrated by many of the countries in Africa and many other developing countries. The economic circumstances in Africa has been described as unique. According to FINCA report, Africa women worked the same or more hours than men, but remained the poorest sector of society, with virtually no access to banking services.

FINCA Approach to Micro-Credit: The basic approach adopted by FINCA for their international micro-credit to micro-entrepreneurs in developing countries and, in particular, in Africa is the establishment and promotion of “Village Banking” system. FINCA International is known for pioneering village banking and for leadership in the burgeoning field of micro-financing.

A village bank as organized by FINCA is a support group of 20-35 members, usually mothers who meet weekly to provide themselves with three essential services. These services include:

a). small self-employment loans to start or expand their own businesses,
b). an incentive to save, and a safe place to store savings, and
c). a community-based system that provides mutual support and encourages personal empowerment.

According to the design of the program, a village bank is not a bank building, but a group of people who guarantee each other’s loans and run a democratic organization. To the organization, the group guarantee is important since borrowers typically own nothing to use as collateral. Village banks are structured to highly participatory: members elect their own leaders, design their own bylaws, keep the books, manage the funds, and are fully responsible for loan supervision, including enforcing penalties for non-compliance.

FINCA’s village banking methodology has been replicated by more than 80 other programs in 32 countries. Some of the other organizations using FINCA methods include: CARE, Catholic Relief Services (CRS), Freedom from Hunger, and Save the Children.

**FINCA Program in Uganda:** The program in Uganda was opened in 1992. With the emphasis of the program on alleviating poverty through micro-credit program, the program concentrated efforts more on assisting women entrepreneurs in Uganda. Despite the difficult social and economic circumstances in Uganda, the program initiated there became a FINCA success story: it has channeled nearly $1.3 million into the hands of low-income women over its five-year history, while posting a 99 percent recovery rate on those loans.

According to the program, Ugandan women have been especially diligent savers; their $217,000 in savings represents 97 percent of the program’s portfolio, demonstrating the rapid multiplier effect that small loans can have upon income. FINCA Uganda’s single greatest achievement in 1996 involved growth; the program reached an additional 2,035 low-income Ugandians with affordable credit. The number of village banks more than double, and member-second highest in the FINCA network.

**FINCA Program in Malawi:** Building upon the success of FINCA Uganda, FINCA International began its second African program in Malawi in 1994. The program has surpassed Uganda in growth despite similar challenges. The Malawi program is characterized by the same high repayment and savings rates that are found in Uganda, suggesting that Africa is truly fertile ground for micro-enterprise and micro-credit programs alike.
With inflation running as high as 55 percent for the year 1996, and people buying less, Malawian village bakers have been working in a difficult environment. Nonetheless, FINCA Malawi has continued strong, offering, as it does, solid networks of support for small businesses. As shown in Table 8 below, FINCA program in Malawi has made tremendous progress particularly among women which by 1996 constitute 100 percent of the participants. To help its members cope with inflation, FINCA Malawi has increased the initial loan size to $65, and it has begun monthly, rather than end-of-cycle, assessment of village banks.

Table 8

<table>
<thead>
<tr>
<th>FINCA Performance in Malawi</th>
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<tbody>
<tr>
<td>Members</td>
</tr>
<tr>
<td>Village Banks</td>
</tr>
<tr>
<td>Percentage of Women</td>
</tr>
<tr>
<td>Total Loans Disbursed in 1996</td>
</tr>
<tr>
<td>Average Loan</td>
</tr>
<tr>
<td>Member Savings</td>
</tr>
</tbody>
</table>

Source: FINCA International (Internet), http://www.villagebanking.org/malawi.html

By 1996, FINCA Malawi has not only expanded its outreach by over 96 percent. It also opened a regional office in Zambia, about 35 miles northeast of Blantyre. The Malawi program is considered very efficient. Since the program began, its self-sufficiency has improved steadily, reaching 91 percent by August of 1996, meaning that income from loans is covering 91 percent of its operating costs. Given the impressive performance, they expects to achieve full self-sufficiency by the end of fiscal year 1997.
3. Volunteers In Technical Assistance (VITA): Field Programs for Development in Africa

Introduction: Volunteers In Technical Assistance (FINCA) is a 37-year old private, nonprofit organization engaged in international development. The mission of the organization is to help people in developing countries improve the quality of their lives. VITA collects, refines, and disseminates information such as that necessary to improve food production, minister health needs, increase productivity of businesses, generate higher incomes, and preserve natural resources.

Currently, the organization is implementing six long-term programs in Benin, Guinea, Honduras, Madagascar, Morocco, and South Africa. Other countries in which VITA has implemented long-term programs include Belize, China, Djibouti, Kenya, Liberia, Thailand, and Zambia. As a non-profit organization, VITA operates on grants, contracts and donations. Mostly, VITA gets support from USAID and the World Bank. With this support and a volunteer roster of over 5,000 experts in a wide variety of fields, VITA implements both long-term and short term projects.

More specifically, Vita's Project to Assist in the Development of Micro-enterprises (PADME) project in Benin seeks to revitalize the country and improve the average quality of life by assisting in the development of enterprises, and thus in the creation of new jobs. Likewise, in Guinea, the Guinea Rural Enterprise Development Project (GREDP) encourages the development of small scale enterprises by providing hands-on training workshops geared towards teaching Guineans how to start and manage an enterprise. VITA's project in Central Africa is designed to increase the efficiency and effectiveness of urban and peri-urban enterprises through a highly structured credit system, which allows each individual to find the loan he needs. The use of information and communications technologies has enabled VITA field projects to operate with improved techniques, improved efficiency, and most importantly, improved assistance to those served.
VITA’s Field Programs for Development:

a). Chad Private Enterprise Promotion Project: VITA’s Private Enterprise Project (VITA/PEP) in Chad is the oldest of the micro-enterprise promotion programs VITA is implementing. The project was initiated as one of several USAID-funded refugee settlement efforts in Chad. Its goal was to service the needs of entrepreneurs returning to N’Djamena following 20 years of civil strife and economic disaster. Since then the program has successfully provided credit and technical assistance services to small businesses and micro-enterprises that service the needs of the Chadian Government and a large segment of the country’s population.

VITA Micro-enterprise Finance: Since the program began in 1984, the project has made almost 12,000 loans totaling approximately US $8 million. About 70% of the loans have gone to women, and it is estimated that 10,000 new jobs have been created as a trust of project activities. VITA/PEP is the only project in Chad that will continue to receive support from USAID which closed its office in N’djamena this year (1998). The success of the program has assisted VITA/PEP in attracting funding from the World Bank and the United Nations Development Program. These additional resources have permitted the expansion of the program to include the extension of agricultural loans to farmers.

b). Guinea Rural Development Project: The Guinea Rural Development Project (GREDP) has made more than 18,000 loans totaling US $4.2 million and has the remarkable record of 100% repayment. GREDP is a micro-enterprise development project with the goal of promoting sustained economic growth in rural Guinea. Its purpose is to encourage the development of micro and small-scale enterprise by providing credit, entrepreneurship training, and assistance with market development.

Credit Methodology: The credit methodology that the program uses is based on a solidarity group approach similar to Grameen Bank of Bangladesh. To be eligible for a loan, clients must be organized in a group of five, and each member of the group must pledge to guarantee the other member’s loan and to repay his/her loan on time.

GREDP Micro-Enterprise Finance Innovation: A more particular innovation of GREDP is its on-going training program. As part of its credit component, the project holds monthly training/discussion sessions to permit all credit clients to improve their ability in management areas such as looking for new markets and products and respecting business
agreements. In addition, GREDP offers hands-on entrepreneurship workshops to teach participants how to start and manage micro-businesses. Participants pay a fee to attend the workshops, but the sessions are usually full. The VITA project is especially unique in the enterprise development field because it is the only program in Guinea to combine training with credit, and one of the few in the world to provide training on a cost recovery basis.

In implementing the Guinea project, VITA works hand-in-hand with PRIDE/GUINEE, a local NGO that was created by the project’s local and expatriate staff. This NGO has already received funds from the Government of Guinea to carry out activities in Information, Education, and Communication, and has been promised money by the French foreign assistance program to open additional branch offices.

c). Morocco Micro Finance Activity: VITA is implementing the first phase of the Micro Finance Activity (MFA) in Morocco. Approximately, $20 million has been allocated for the MFA over an eight year period. This first phase of the MFA calls for establishing an independent, legally-established, and replicable institution capable of providing financial services to Morocco’s micro-enterprise sector on a self-sustaining basis. Follow-on phases will focus on service delivery and institutionalization.

The MFA will initially operate out of two locations, one urban (Rabat), and one rural (Ouezzane), and is projected to have fourteen branch offices by project end. MFA services will be based on a Grameen Bank-like model coupled with VITA innovations and will be targeted to the very poor and for women. Further, the project has been designed to educate and involve project stakeholders from client to policy maker.

V. LESSONS AND APPLICATION/RECOMMENDATIONS

Three broad areas of recommendations which emerge from this paper include: improvement of financial services, transformation of non-financial services, and development of an enabling environment. These are detailed below:

- Improvement of Financial Services: Given the enormous problems faced by micro-entreprises in accessing financial services in the LDCs, coordinated actions by governments and international agencies would need to support (see: Summit of the Americas, 1996):
1. the transformation of the more advanced micro-financial organizations into financial intermediaries, by assisting efforts to strengthen them institutionally and develop an appropriate legal and regulatory framework;

2. the efforts of regulated financial intermediaries such as commercial banks, finance companies, credit unions, and municipal savings associations to enlarge the scope of their services to micro-enterprises through the transfer of new financial technologies and reforms to the legal and regulatory framework that will make such operations possible;

3. the banking authorities of financial institutions in the countries, so as to grant them legal power to regulate and prudently supervise micro-financial organizations and adopt appropriate methods for rating and supervising these organizations;

4. the efforts of micro-financial organizations to develop financial relationships with banks and sources of medium-term funds, on market terms and conditions, so that they can develop an adequate capital structure, including efforts to attract private venture-capital investors whose participation will consolidate adequate internal controls;

5. professional training of upper-level and middle management of the micro-financial organizations, and the development of adequate information and supervision systems to protect the quality of the organizational portfolio; and

6. the efforts of micro-financial organizations that, though less advanced, have nevertheless developed financial technologies that enable them to serve the micro-enterprise sector at reasonable cost and are seeking to become viable to that, in a reasonable period of time, they will be capable of unsubsidized and self-sufficient operations according to preset indicators.
Transformation of Non-financial Services: In assessing the less developed state of non-financial services for micro-enterprises both in scope and in sustainability, the coordinated actions of governments and international agencies should support:

1. efforts to transform governmental and non-governmental organizations that render non-financial support services to the micro-enterprise sector so that they can gradually reach the same levels of clientele, cost coverage, and institutional self-sufficiency as the micro-financial programs;

2. experimentation and the design and development of training and technical assistance models that will reduce the costs of providing these services to micro-enterprises without the need for any linkage with the credit programs. These models should minimize the need for subsidies while meeting the demands of clients and establishing transparent mechanisms for monitoring the use of funds.

3. The findings also suggest that donor efforts improvement of income-generating potential through credit and training may be necessary, it is, however, not sufficient. Additional attention needs to be paid to women’s access to lucrative product markets and to the inputs needed to help them enter these markets. To improve measurement of intervention impacts, researchers need to investigate gender-differentiated business and investment strategies.

Development of an Enabling Environment: The micro-enterprise sector will make no progress in the absence of an environment conducive to the conduct of its activities. The governments should continue their efforts to develop a regulatory framework that offers incentives for greater productivity and environmental responsibility. For his purpose, the coordinated action of governments and international agencies should:
1. remove obstacles in the way of access to inputs and consumer markets, facilitate commercial mechanisms that will support greater micro-entrepreneurial participation in the market, and reform legal structures to encourage vertical integration and subcontracting and promote competitiveness among micro-enterprises;

2. establish efficient and effective mechanisms for the development and dissemination of useful information and transfers of appropriate environmentally sound technologies; and

3. support associations of micro-entrepreneurs and other representative groups so as to place at their disposal better technical and conceptual tools to guide their efforts in response to the demand of macroeconomics and regulatory framework that allow micro-enterprises to operate on equal-conditions.
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