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1. Credit as an human right

One of the more significant new ideas which has emerged from the diversified environment of development agents, being them governmental or non governmental operators, is that credit, a part from being an economic concept, is also a human right. Poor have the right to get access to credit, as they have to be given a chance to become self-sufficient.

2. General, not individual, enabling effects

Traditionally credit programs were evaluated on the basis of the over simplistic assumption that there is a direct casual link between credit provision to an individual and an immediate improvement of her/his life through changed income. However, it is now argued that financial services should be valued more for their general enabling effects across the whole economic sector they want to serve rather than for the direct changes resulting from individual loans.

3. Diversification in credit provision

There is certainly a high degree of diversification among the existing projects that provide loans to small enterprises. Loan size, financial and general requirements, provisions to cover inflation, default risk and operational costs, borrowers patterns of organization to apply for loans vary consistently among the different countries, institutions and organizations. These differences regard the methodologies employed to reach beneficiaries as well as the financial criteria adopted to ensure sustainability to the implemented schemes. Although the partnerships between banks and Non Governmental Organisations (NGOs) are more common now than few years ago, also the patterns of this partnership are different among the projects. These differences are typically related to the “learning process” phase in which the different programs fall. In other words, different ways to deliver credit to SMEs are currently going to be performed, tested and evaluated by the implementing agencies. Some programs are also in a process of reviewing their policies and financial as well as non-financial criteria. In addition, this diversification reflects also the differences existing within the target enterprises assisted by the programs: they vary from very micro businesses to small and medium enterprises.

4. Learning from experiences in credit provision

While this variety of methodologies is indicative of the necessary flexibility to be used in designing and implementing such kind of programs, it is believed that experiences exist that can suggest some common criteria to be profitably utilized by every program.

5. The minimalist and interventionist approaches

An open debate is between the “interventionist” approach vis a vis the “minimalist” one. The two approaches have only in common the idea that credit should be made available to those who cannot guarantee loans through collateral. In general terms, a minimalist approach aims at running a sustainable credit scheme with administrative costs as low as possible – like a bank. The main objective is financial viability in the long term. Recipients are likely to be seen as clients on the basis that through the commercial rates they are paying for the service they are using. Additional non-financial service provision is seen to be counter productive and potentially leading to increased dependency by the poor on top down planning and subsidies. Minimalist ideas are summed up in the motto “banking the unbankable”. The poor are trusted to be already experts when it comes to coping with strategies and small investments, since they experience coping with hardship in their every day life.

On the other hand, an interventionist approach is more concerned with running a credit project providing financial and non financial services such as vocational training, business management courses, enterprises evaluation and follow up services. It is much more difficult for such projects to be

sustainable and interest rates cannot usually cover the cost of services delivered. For this reason the people taking credit are more likely to be seen as beneficiaries than clients. The interventionist philosophy assumes that poor are deprived in many ways and that the beneficiaries have to be selected and supported. These programs are often highly subsidized. Sometimes, micro financing institutions that were set up according to a minimalist approach have evolved to an interventionist one, as the people in charge for the institutions realized that credit alone cannot serve the scope of promoting the growth of small business among the poorest strata of the entrepreneurship. Many micro credit operators consider as not realistic the assumption that poor could identify coping strategies by themselves, without external support. On the other side a typical minimalist oriented credit provider would reply that if other services are to be associated to credit, the scheme couldn't, in any way, be sustainable.

In general the experience in many countries shows that the challenge is to get the balance right. This implies, on one side, to ensure sustainability by tacking a minimalist approach in credit delivery and providing financial services to the largest number of clients possible. On the other side, it is necessary to take the necessary measures to incorporate marginal groups and to promote an enterpreuneral culture among small and micro business owners.

A possible way to get the balance right could be that of developing partnerships between rigorous and technically sound financial institutions and NGOs or other developmental organizations that could provide non-financial support services to small and micro entrepreneurs.

6. Policies and criteria in credit provision

Working closely with existing formal lending institutions should also mean to persuade them to adapt their policies and procedures in such a way that credit can be provided from existing funds to target potential clients without access to loans at the start widening at the same time the banks' clientele. This process might hopefully lead the banks to open a special window for micro and small business.

Development oriented lending policies should also take into account other important issues, such as:

- Savings should be encouraged to the extent that they become the major source of capital. Imposing compulsory savings as part of the guarantee mechanisms and encouraging voluntary ones can do this.
- Credit delivery mechanisms based on group security have proved to be extremely popular following the experience of the Grameen Bank in Bangladesh and other village's banks designed on the same model. However, in the case of programs inspired to this pattern of organizing borrowers, the group should be of a manageable size and members should preferably receive loans in turns in order to respect group security principles. Basic groups should also converge in larger groups, often called centers, in a sort of pyramidal structure, to strengthen the group guarantee process.
- Gender perspective in credit provision should be promoted and encouraged. The emphasis on gender lies basically in three combined considerations. First, women are generally particularly deprived of the access to formal credit since they hardly own family property to be used as collateral. Consequently, credit programs can become significant tools to balance gender inequality within societies. Secondly, often the income gathered by women has a major impact on household welfare "vis a vis" that gathered by men. Thirdly, experiences of other countries have shown that women commitment toward repayment tends to be higher than that of men.
- Adequate information about the credit opportunity as well as the terms and conditions of the loans should be widespread in the areas of potential borrowers. Information and public awareness should also be developed on the meaning and the potentials/risks of credit.
- Adequate information about clear procedures to deal with defaulters should be given.
- In many cases, technical assistance to review or integrate business plans elaborated together with the loan applications should be provided.

7. Follow-up support and advice

Most of the above issues are not typically tasks of a bank. They can be considered priority areas of engagement of NGOs, parastatal or, more generally, development agencies. These agencies should have also the responsibility of following-up the enterprises in order to support their marketing and coping strategies and that of providing the entrepreneurs with relevant business information and advises. This is particularly relevant for start-up ventures. In the absence of any business orientation, potential small investors are often led in their choice by the imitation of others. This, in the long term, may lead to excessive competition among small businesses operating in the same sectors in the same areas. NGOs and parastatal should also focus – when it is found necessary -on supportive activities such as adult

education, building market infrastructures and facilities, managerial training. The presentation of relevant “success stories” of people who started their activities from very fragile economic conditions has proven to be a useful tool to encourage and inspire micro and small entrepreneurs. The role of developmental organizations should also be that of liaison agents between banks and local communities.

8. Minimising dependency on timed grants through co-operation and collaboration with public and private sectors

The problem here is that very often developmental agencies depend, for their supportive activities, from external timed grants, being their sources the local government, other governments or international institutions. The risk is that once these funds are terminated, the activities themselves will be stopped. Minimizing this risk is probably the main responsibility of both the government and the developmental organizations. Two possible ways to minimize the above risk are here discussed.

A possibility lies in the close co-operation between public bodies and developmental organizations, where the first are asked to take over the projects once the programs supported by external funds are terminated. Programs have to be conceived and implemented from the very beginning in such a way that they will be manageable by existing and already operational public institutions. For instance, developmental agencies incorporate often a specific know how on small business development that not necessarily is found in public institutions. Consequently, training of trainers and capacity building in support of these institutions are to be considered two high priorities of any micro credit program.

Another possibility could be that developmental organizations support the existing facilities that represent the private sector in such a way that they could also play a positive role in favor of the small enterprises. This could be the case of the Chambers of Commerce, that in other countries are implementing specific programs targeting SMEs, such as the ILO “Improve Your Business”.

The comparative potential strengths and weaknesses of the two options – relying on public or private institutions to deliver extra financial services to small businesses – can be summarized as follows.

| Strengths | Weaknesses |
|---|---|
| <p><u>Public Sector</u></p> <ul style="list-style-type: none"> • Consistency of the actions in support of Small Business with the General Poverty Alleviation Strategies. • Attention to incorporate the micro businesses. • Attention toward rural areas and more disadvantaged businesses. | <p><u>Public Sector</u></p> <ul style="list-style-type: none"> • Services delivered less market driven. This could be particularly the case of training. • Insufficient capacity to deliver business advises and to perform market analysis. • Excessive bureaucratic constraints that could result in scarce efficiency. |
| <p><u>Private Sector</u></p> <ul style="list-style-type: none"> • Services delivered more market driven. • Development of backward and foreword linkages among enterprises. • Incorporation of small businesses in the private sector “environment” of the country, which could result in grater lobbying capacity of small entrepreneurs. | <p><u>Private Sector</u></p> <ul style="list-style-type: none"> • Scarce attention to the micro and the informal businesses. • Scarce attention to businesses located in isolated areas and not easily reachable. • Insufficient Start-up policy. • Scarce attention to integrate some social criteria, such as the gender issue. |

The two options could be simultaneously applied, with some programs relying on the involvement of the Chambers of Commerce (or similar agencies) and others done in partnership with public institutions. Having the above indicated weaknesses emerged in other places, its is very important that programs employing one of the two options take the necessary measures to minimize the related risks.

9. Establishment of specialised micro-finance institutions

Although it has been recommended that programs in support of small business foresee a collaboration with existing specialized financial institutions or banks, it exists also another potential option, which is the establishment in the country of a specialized micro financial institution. The rationale for this option could be that, despite any effort from NGOs, parastatal, public or private bodies, the banks’ commitment to the small and micro business will never be satisfactory, due to the mandate and the “philosophy” of these institutions.

The discussion on this subject goes back to the already indicated dualism between the minimalist and the interventionist approach. It is in fact believed that a specialized micro financial institution should preferably follow a clear minimalist approach, for two reasons, the first being the already underlined issue of the sustainability. The second reason relies on the concept itself of specialization, which is

hardly consistent with the idea of delivering several different services at the same time. The design of an institution of this kind should take into account some considerations, including the following:

- The need to define and make available the initial capital. Consequently the potential sources have to be identified. Some internal & external donors could be attracted by a well structured and reliable project.
- The need to clearly define its target and, accordingly, its lending policy and its running costs.
- The need to be preceded by a structured feasibility study, which could incorporate expertise from similar institutions that have proven to be successful in other countries. Among other aspects, the feasibility should also assess the potential market of this institution, "vis a vis" the existing banking system and the legal framework under which the institution could be established.
- The need to foresee a pilot phase, where a well structured and clearly indicating the "rules of the game" manual could be utilized and tested.
- The need to be consistent with the cultural and social widespread savings and credit habits existing in the country.

In addition, a specialized micro financial institution should incorporate the know-how and the attitudes of a good poverty alleviation oriented NGO and a rigorous, financially and market driven bank. Its staff policy should also be planned accordingly.

10. Data-collection systems

Three other recommendations regard the need to improve the Information System, the participation of borrowers to the design, the implementation and the evaluation of the programs and, finally, the opportunity to implement a deep research and analysis on the subject of informal savings and credit habits in the country.

With regard to the Information System, it has been observed worldwide that not always programs were able to provide up-dated data on aspects associated with their sustainability and outreach. It is useless to remind here that monitoring and evaluation are possible only if information is always reliable and up-dated. In addition, in order to have a clear picture of the country's situation, it is preferable that programs employ similar data collection criteria.

11. Borrower participation

The credit schemes have to recognize small and micro entrepreneurs as equal partners to work with rather than to work for. The issue of the participation of borrowers to the credit schemes could be addressed by strengthening the role of micro and small entrepreneurs in the decision making process related to loans disbursement. This could be done by incorporating within the loan committee, together with representatives from the bank and the promoting institutions and organizations, also representatives from the small business environment. In any target area small entrepreneurs could be encouraged to elect - on a rotation basis - somebody that could represent themselves in the loans committees. Alternatively, the committees could consult these representatives in order to get their evaluation on the viability of the business plan presented by the applicant before disbursing the loans. This methodology might have a number of positive effects, such as:

- To strengthen the transparency of the entire decision making process related to loan disbursement.
- To encourage liaisons and partnerships within the small business environment.
- To sensitize the clients on the sustainability of the scheme. In other words they should be encouraged to perceive the loan capital as their own resource which has to be saved against defaulting.
- To develop the capacity of the small entrepreneurs to formulate and assess viable business plans.

In some cases credit providers could also associate themselves in joint ventures with micro and small enterprises, sharing the risks and the profits on a defined basis. It is very important that credit providers and borrowers develop a sense of mutual understanding and partnership, as they are confronted with the very same challenge.