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Foreword

Linda Facchinetti, Manager Director
Fundación Nantik Lum

Dear readers,

Experience and research tell us that the sustainability of a small and micro enterprise is best served by a combination of funding and business development (or support) services (BDS). In order for non-financial services to be effective however, they must be accessible, tailor-made and cost-effective. These are formidable challenges, especially in the current environment where risk aversion is severely restraining access to credit and financial resources in general. The good news is that the public sector is increasingly focusing on demand-driven solutions and more and more private investors are taking a double bottom line approach.

With this eRB, Fundación Nantik Lum hands over the leadership of the EMN's Research Working Group (RWG), a position we held since its inception in 2007. Over this past four years the Group has made great progress on a number of initiatives: under the EMN's umbrella we have created a website dedicated to European microfinance research, we have led and produced the "Overview of the Microcredit Sector in the European Union" in 2006-2007 and 2008-2009, we launched the eRB in 2009 and since 2008, Fundación Nantik Lum has been sponsoring the European Microfinance Research Award and will continue to do so in the future. We would like to take this opportunity to thank the EMN and the members of the RWG for their contributions and support. Fundación Nantik Lum will continue to be an active member of the RWG. We are pleased to introduce and welcome Fondazione Risorsa Donna as the new leader of the Group.

Lessons learnt from the EMN workshop: 'What do we really know about BDS in relation to microfinance?'

Margot Lobbezoo

Inholland University. The Hague, The Netherlands

During the EMN annual conference of 2011 'Complementing Microfinance with sustainable non-financial services: But, who will pay the ferryman?' researchers and practitioners gathered at a workshop to discuss one central question: *'What do we know and what do we not know about BDS?'* The workshop was initiated by the EMN research working group in close collaboration with Inholland University of Applied Sciences.

In a participatory way, the attendees were challenged to discuss about what they know of BDS with three experts: a researcher, a BDS practitioner and an entrepreneur. At the end of the workshop all participants returned to a plenary discussion to come up with new research questions: What would we still like to know about BDS and why?

What did the participants and the experts know about BDS?

- It is necessary to have an appropriate "structure" or business model based on separate organizations
- BDS should come out of clients' needs and demands
- They need to be re-designed and transformed with time according to context
- There exist three BDS models:
 1. Self sustainable
 2. Subsidized
 3. Model of Foundation/NBFI
- BDS can be given to potential clients but also MFIs themselves need BDS services
- Higher rate of success for start-ups who used BDS
- The type of BDS depends on the target group
- Entrepreneurs do not know who BDS providers are or what they can deliver
- The high costs associated to BDS for start-up entrepreneurs are not appropriate

What would the participants like to know?

- What is the best business model: subsidized or commercial BDS?
- What happens with start-ups which cannot afford to pay?
- Do BDS services reduce credit risk?
- How to measure the impact?
- Should BDS be provided by the same organization or by different organizations?
- How can BDS agencies become less dependent on government subsidies, i.e., more self sufficient?
- Why do very few entrepreneurs use BDS?
- Which BDS contributes most to clients' success?

- Based on experience, is it better voluntary or compulsory BDS?

The discussion with the experts was very interesting as it showed different insights. For instance, the entrepreneur would not like their coach to be connected to the same organization they would receive finance from. They would like to be able to share their (personal and business) concerns with their coach but not with the organization supplying the credit. On the contrary, a microfinance organization would like to know from the coach if their loan is at risk. For the research agenda of the future the participants and experts came up with three main questions:

1. How to assure that BDS becomes less dependent on subsidies (models)?
2. What services enjoy the most success with the clients, e.g. coaching, training, mentoring?
3. What do the entrepreneurs actually have to say in all this? Why are they not using BDS?

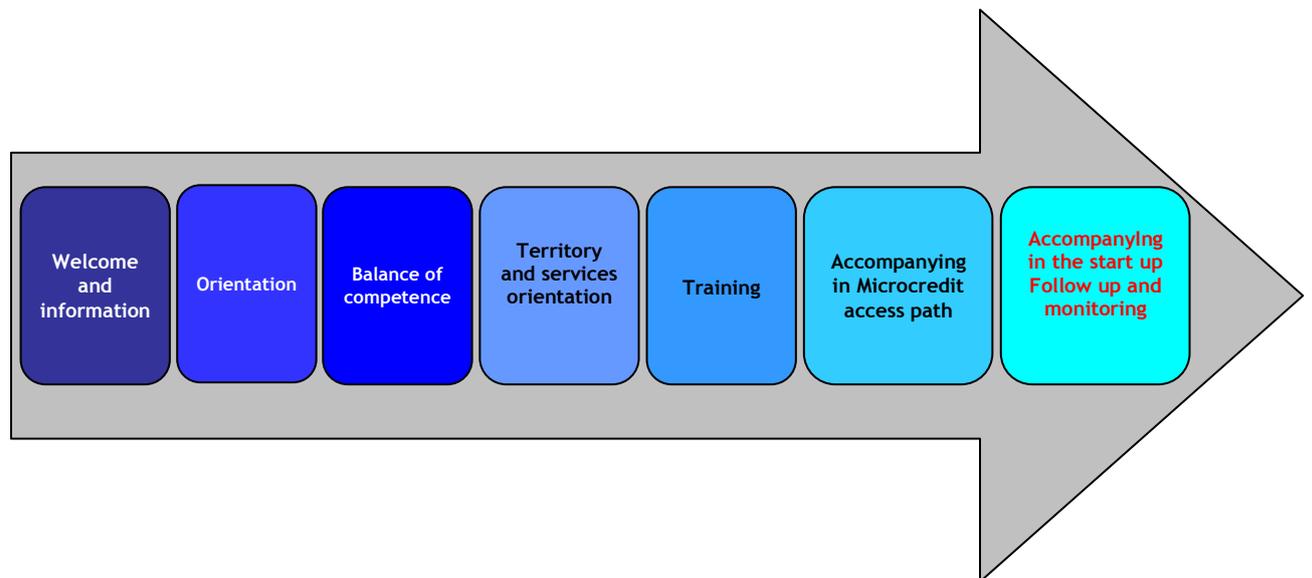
BDS for inclusion: the case of Fondazione Risorsa Donna (FRD)

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The Fondazione Risorsa Donna microcredit project started in 2003. Since the beginning, FRD has developed a model of integrated microcredit that provides for the supply of BDS in addition to microloans.

This approach – gender sensitive – is based on the awareness that microcredit may be an active inclusion tool, only if beneficiaries are supported not only financially but also in terms of increasing knowledge, competence and professional skills.

It is important to note that all services are provided totally free of charge and that in the provision are involved both salaried FRD staff and volunteers, whose role is particularly important in some of the phases of the model, particularly in the phase of application for microcredit (e.g. in risk analysis) and in the follow-up and/or monitoring post-delivery. In this short note we report on the working of the FRD model and describe the integrated services offered.



Welcome service and information desk

Point of reference for all clients, where having a first qualified contact with the “opportunities” that are available in the territorial area for entry into the labour market. First contact for the microcredit programme. Plays a role of “interface” between clients (women in the case of FRD) and sources of information.

Orientation

First analysis of needs, skills, capabilities of the client. Orientation to the services offered by FRD or to the services in the territorial area. It allows to explain the problematic, the resources available to the client (material and immaterial). It allows to verify the feasibility of the client’s goals in terms of business or company development.

Balance of competences (skill assessment)

It is a tool that “rebuilds” valid issues and skills - even implicit ones - so that they are expendable in the labour market.

It is a path centred on the person: clients are called upon to field their own projects and in this way to make changes in their roadmap of life to come. It consists of individual meetings in which are analyzed clients’ interests, motivations, skills, capabilities, in order to identify a professional development plan.

Territory and services orientation (accompanying the submission of the application)

In this first phase, individual meetings are intended to accompany the client in preparing the necessary documentation to apply for microcredit: the loan officer guides the applicant in the business idea analysis and verification of own skills, in the preparation of a business plan, in seeking public and private funding that can assist or replace the microcredit.

TRAINING

FRD has provided different types of course, throughout its 10 years of activity: a compulsory course of 20 hours, a long course of 300 hours, a training laboratory of 20 hours.

Training course of 20 hours - The course is carried out every year and devoted to the beneficiaries that have passed the first stage of the analysis by FRD officers and await the final decision by the bank.

The course objective is to provide knowledge and skills to support women clients in the difficult process of “do it alone”. The course is made, on a voluntary basis, in collaboration with academics, consultants and professionals in microfinance and enterprise creation from Italian banking Association and the association of LUISS G. Carli Graduates. The topics of the course are broad and cover commercial matters, tax, marketing and finance. The course lasts a total of 20 hours.

The course is considered mandatory by FRD which, in fact, considers it as the only guarantee that the beneficiary must required.

Training course of 300 hours - This course – not mandatory – aims to provide more training support and operational support for those who wish to start a business. Course objectives are to develop the individual business skills, raise awareness of the dynamics of business and tax laws and administration; quantify the business capital experience that leads to the start of a company.

In the training course, the beneficiaries address issues such as:

- Business idea identification
- Business plan
- Products and services
- Segmentation of the production process
- Imputed income
- Statement of cash flow

Laboratory training of 20 hours - It is basically a business simulation, based on the role game methodology. From the business idea definition to the start up of a business, there are very important steps that are all too often underestimated, with negative consequences. In addition to the daily management of enterprise, opportunities and problems arise that can lead to failure if not addressed. The main purpose of this simulation is to increase the awareness of economic and financial issues and, secondly, to provide skills and tools to start and manage a micro-enterprise. In the 20 hours required, through a role-playing game, the beneficiaries are enabled to face and solve 10 “real” situation that many arise in the course of their work. The first part concerns the management of business: start up, customer relations, advertising strategies, how to adapt their activities to a changing environment. A second part concerns the financial aspects of the activity: use of cash flow, cost-benefit analysis, education savings and indebtedness. The third part is more proper financial education.

Computer literacy workshops and Laboratories of Italian language

In addition to entrepreneurship training, to FRD beneficiaries is given the opportunity to participate in computer literacy workshops and linguistic laboratories for the Italian language.

The computer literacy workshop offers the opportunity to learn individually, through the “learning by doing” methodology, the Windows operating system, Internet and web search, communication tools (skype, messenger, electronic mail, etc.), the main software for writing, graphics and calculation.

In the laboratories of Italian language, attention is paid to the study and learning of phonetics and phonology, practical exercise designed to handle listening, speaking, reading and written composition, use of vocabulary to review of key tools and online educational courses for foreigners.

Specialized services

FRD over the years has extended to beneficiaries, considered as “real associates”, a series of specialized services offered as part of projects, often for purposes other than those of microcredit. These services include legal assistance, fiscal law assistance, marketing, work legislation consulting.

Monitoring and accompanying services

Following the delivery of micro-loan, and for the duration of the loan, the FRD volunteers perform accompanying activities (tutoring) through on farm-visits, telephone contacts and periodic meetings at the Foundation headquarters with the loan officers.

The tutor is a point of reference to discuss and debate in relation to beneficiaries’ projects. Plays a role of facilitator and provides a first advice in relation to the detected opportunities, problems encountered arising from the micro-enterprise.

Networking

During its 10 years of activity, FRD has set up a network of key actors and stakeholders, which includes the coordination of trade associations, the local structures of technical assistance for the start up of enterprise (Regional authorities, Chamber of Commerce, etc..) and the non profit sector. This network plays a very important support role for the

beneficiaries, both during the start up phase and in the consolidation phase of the micro-entrepises.

In conclusion, the strengths of the integrated model can be summarized as follows:

- Continuity in access to services
- Existence of a network of local actors to support women entrepreneurs
- Use of participatory learning methodologies: simulations, use of the Internet and information technology
- Individual and group approach
- Accompanying measures for all the duration of loan in order to assist and support beneficiaries (mostly women migrant entrepreneurs)

Fondazione Risorsa Donna, FRD, is a no-profit organization founded in Rome in 2001 from the multiannual experience of the Italian Women's Word Banking Association.

The Foundation is the result of efforts aimed at boosting and supporting women's role as social and family upright engine. The aim of the Foundation is particularly focused on those women who, due to economic or social reasons, are excluded from the market development by living them the instruments and opportunities to access, in their particular living conditions, money, information, technologies and markets. The Foundation proposes itself as a subject for the development of a saving culture, women's entrepreneurship and finance particularly through specific actions in the sectors of micro credit and the ethical finance.

See <http://www.fondazionerisorsadonna.it/>

Volunteer versus paid coaches within Microfinance Initiatives: What do we actually know about effectiveness?

Research abstract

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Introduction

The research group on Microfinance and Small Enterprise Development of the Inholland University of Applied Sciences focuses on transferring microfinance knowledge from the South to the North. In Europe, when discussing microfinance, Business Development Services (BDS) are considered part of the services of Microfinance Institutions (MFIs), alongside financial products. This is not a trend seen in the development organisations focusing on the South where BDS is primarily seen as a separate field of intervention. Different models can be used in the provision of BDS ranging from a total commercial to fully subsidized provision.

In European countries a variety of delivery and payment models exist for coaching of starting entrepreneurs as part of microfinance programs (see table below).

	Delivery and payment model	Executer	Examples	Combination with Microcredit
Fully subsidized	Government pays for the services to clients	Professional coaches	Social security agency Netherlands (BBZ system)	Yes but not necessary
Partly subsidized	Voucher scheme with up to 90% discount	Professional coaches	Gründer coaching Germany	MFIs refer clients to Gründer coaching
	Small token contribution by entrepreneur per activity or for the whole programme, cost paid by local government and partners	Professional coaches	Enterprise development programmes in the Netherlands (Wijk in Bedrijf, IkStartSmart)	Sometimes but different trajectory
Fully commercial	Full contribution by entrepreneur sometimes based on outcome of the process	Professional coaches	Romanian private sector provider (ROMCOM) Professional coaches (all countries)	Not necessarily
Volunteer services	Organisational cost paid by government, EU, other sponsors or	Volunteer coaches	Foundations of (former) entrepreneurs (Ondernemersklank	Independent from microcredit

	MFI. Small contribution by entrepreneur Or fully free	bord, The Netherlands, Micromentor in the US)	MFI's like Qredits in the Netherlands with Qoachpool , ADIE in France and the Princes Trust in the UK	Obligatory as part of the loan agreement
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An important difference between the initiatives is whether a coach is paid; either by the entrepreneur and/or the program, or unpaid (volunteer). The theme of the European Microfinance Network annual conference in 2011 shows that choices for providing services alongside microfinance are not easily made. “Complementing microfinance with sustainable non-financial services: But, who will pay the ferryman?”ⁱ highlights the discussion taking place in many countries as to how to provide services to microfinance clients on a sustainable basis. One choice for sustainability (without outside funding) is looking for service providers willing to provide services for free. In several countries volunteers are used as coach or mentor for this by MFIs, for example ADIE in France (Lämmerman, Zamorano, & Guichandut, 2007), Qredits (Qredits, 2011) in the Netherlands and the Prince Trustⁱⁱ in the United Kingdom. In the Netherlands a shift towards the promotion of models using volunteer coaches can be seen.

However questions are raised whether volunteers are as effective in helping entrepreneurs reaching their goals as professional (paid) coaches. There seems to be two sides, one claiming that paid coaches are more effective and the other claiming that volunteer coaches are more effective.

It is not always clear what information has been selected to enable the choice of a specific model. Effectiveness is measured by the level in which the goals for coaching are reached. As Microfinance in the Netherlands is defined as both microcredit and business support no separate goals had been formulated for coaching. A preliminary research found that, in the Netherlands, the goals for coaching during and post-start of enterprises focus on improvements in business performance and entrepreneurial skills (Lobbezoo, 2011).

Next to the question of effectiveness there are also questions regarding the development of sustainable markets for these complementary services (Lusby, 2006). In countries where a large body of professional (paid) coaches exists, the principles of market development would ensure that the market failures that exist (e.g. entrepreneurs not using professional coaches, starting entrepreneurs unable to pay for services) need to be addressed innovatively rather than using replacement mechanisms (volunteers) in their place. Hitchins (2002) mentions as a key principle for government’s role in private sector development: “Don't crowd out markets: seek to develop rather than supplant private sector activity”. This supplanting of professionals, could lead to creating entrepreneurs on the one hand and lead to income loss for existing private sector providers (paid coaches) on the other hand.

Coaching is identified as an intervention in the ‘during start’ and ‘post-start’ phases of starting entrepreneurs by the policymakers in the Netherlands. The same parties providing this coaching also supply “pre-start” support. Policy decisions on coaching therefore influence the whole system of start-up support.

An in-depth literature review on coaching during and post-start of an enterprise was conducted to answer the question: *Is there a difference in the achieved improvements between starting entrepreneurs coached by a volunteer coach and those coached by a paid (professional) coach?*

Literature, evaluation studies, reports and information provided by organisations involved in microfinance and coaching from The Netherlands, France, United Kingdom and Germany have been analysed in order to answer the research question.

Research definitions:

The distinction between paid coaches and volunteer coaches is not based on who is actually doing the paying but whether the coach is pursuing coaching as a source of income or whether it is done as a volunteer activity next to an income generating activity (job) or a pension. It was found that no clear differentiation can be made between coaching and mentoring as different organisations and researchers use different definitions. The common denominator is that the activity is carried out on a one-on-one basis with an entrepreneur, this activity is called coaching within the research.

In order to measure the achieved improvements five key indicators have been used. The research group on Microfinance and Small Enterprise Development focuses on transferring microfinance knowledge from the South to the North and these five indicators have been chosen based on a review of both national and international experiences:

- Growth of sales
- Survival rate
- Improved entrepreneurial skills
- Capacity to build a network
- Self confidence

Research results:

Available literature comprises mostly of evaluation studies of coaching programmes. Of all information reviewed twenty sources contained information regarding one or more of these indicators and could be used for comparison (twelve from the Netherlands, six from the United Kingdom, two from France and none from Germany).

The programmes that are evaluated all differ greatly in approach; some have target groups with a deprived background while others only allow those with a viable idea to enter a programme. Other initiatives include coaching of enterprises at the brink of bankruptcy. The approach to coaching varies with different durations of the coaching processes and some using additional support activities such as training and workshops. In most reviewed programmes coaching and provision of credit are not separated in impact analysis, and some results are only measured in a small number of enterprises. This means that there are

limitations to using the results of the different research that has been carried for comparison purposes.

In the Netherlands those results that are comparable are contradictory. In one coaching initiative (Qredits, 2011) those with a volunteer coach perform better on survival rates; an overall research on coaching in the Netherlands (Tillaart, Diemen, Warmerdam, Heijnk, & Poutsma, 2009) shows that it is the ones with a paid coach that show a bigger growth of sales. Lubberdink (2011) shows that those without coaching have a lower survival rate, while Ende, van der et al (2011) claim the opposite (those starting entrepreneurs without support have a higher survival rate). Contradictory outcomes can be found even within one piece of research (Heuvel & Rozema, 2011).

In the United Kingdom, specifically Scotland, achieved improvements are measured more at regional level with a strong focus on economic impact. This makes initiatives comparable. The non-economic indicators that entrepreneurs themselves find also important improvements are often not measured.

In the Netherlands comparatively more measurement of achieved improvements seems to take place particularly compared to the United Kingdom. The lack of results for France and Germany could have two reasons, the research is simply not available or the researcher did not find the right entry points to access the available research.

Research conclusions:

At present, any claim that a particular coaching model is more effective, be it with volunteers or with paid coaches, cannot be supported by the currently available research documents. At the moment it cannot even be said that coaching as such has an added value for a starting entrepreneur. In general the use and choice of control groups has been insufficient and can easily be disputed.

Regardless of the question of effectiveness, there may be other reasons to decide to focus attention on only one delivery model for coaching in combination with Microfinance. As effectiveness cannot be claimed as reason it is important that more clarity exists concerning choices made. If political or financial reasons are important factors in this choice then these should be made transparent.

It needs to be researched for the Netherlands whether using volunteer models, which supplant an existing coaching industry, lead to a desirable model in the future with a sustainable BDS market. How does a decision to use volunteers for coaching during and after the start influences the service provision during for the pre-start phase? It is often the case that the same parties are involved in both activities.

In the four countries reviewed many programmes range from pre-start to post-start of a new entrepreneur. Several services are provided including microfinance, training and workshops or other group activities. A separate evaluation of the coaching activity has often not taken place. It is seen as integral part of a package of services. If separate analysis of the impact does not take place one cannot measure which service has the most impact but also not how these services support each other to reach a higher overall effectiveness.

Using indicators for comparison only will work after agreeing which indicators are needed most and decide on what method to use to gather the information. It would be a step forward if, in the Netherlands but also the other countries, agreement could be reached concerning 2 or 3 indicators that should be used for measuring achieved improvements, at entrepreneurial level, in each project with guidelines on how and what to measure.

The full report can be received by sending an e-mail to m.lobbezoo@360responsibility.com

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Programa IMPULSA - Business Development Services for Migrants

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At the beginning of the *Programa "Impulsa"* ("to encourage, to motivate" in Spanish), **Income-generating Remittances and Microcredit**, Mrs. Elena Dotel from the Dominican Republic told us *"Back home, almost all my family members depend on my income: my mother is sick, my sister and her daughters take care of her, some of my sons are unemployed. In Spain I make a lot of money, so I send home about €700 a month of the €1,000 I earn. Now I want to study for my high school diploma"*.

When a person is born in a country with few opportunities and decides to travel to a far away destination looking for a better life, the value of the luggage they carry with them is extraordinary and the expectations of family they left behind are huge. What migrants do not expect to find on arrival is a hostile environment: heavy requirements to obtain residence and work permits, a society that diverts them towards the informal economy, and some kind of discrimination due to their place of origin. From the start it is an uphill struggle for the newcomer to try and gain access to work opportunities via professional training and self-employment.

Programa "Impulsa" – Income-generating Remittances and Microcredit

Fundación Nantik Lum has been running the Programa *Impulsa* with the Dominican community in Madrid and Barcelona since 2009. The Programme is aimed at improving the living conditions of the most vulnerable communities in the southern region of the Dominican Republic, the poorest in the country, through microenterprise technical support and financing. To date we have helped set up over 40 microbusinesses mostly run by women in agriculture and livestock farming, fishing, beauty parlours, grocery stores, restaurants and food deliveries. The actions focus on providing a €600-1,200 microcredit to beneficiaries who invest it in either a new or an existing business activity. The most unique feature of this initiative is that the family member living in Barcelona or Madrid commits to the partial repayment of the microcredit with their remittances. Thus *Impulsa* turns idle money usually spent purely in consumption into income-generating investments. In addition to funding, the microentrepreneurs in the Dominican Republic also receive training and advice on basic accounting, business planning and market intelligence, marketing, product innovation and quality control.

Aside from assisting the family members left behind, Programa *Impulsa* could not ignore the high unemployment rates affecting the Dominican community in Spain. For this reason, under the Programme we also provide advice on job orientation and entrepreneurship, labour law (recruitment, guidance on the specific legal provisions for domestic service), guidance on available professional training and recognition of foreign academic titles and other qualifications, amongst others. The objective of these activities is the promotion of social and labour inclusion of the members of this community who, while financially supporting their family by sending remittances back home, are also able to actively improve

their working conditions with the ultimate goal of building a new life in Spain or return home with realistic job prospects in the family business.

The entrepreneurial spirit of women

Among those attending our workshops and talks, the women are the most engaged and often demand additional guidance especially on self-employment. They view the chance of self-employment brought about by the microcredit as a fantastic opportunity to improve their living conditions and that of their families in the long term. Their entrepreneurial spirit, enthusiasm and drive to improve their lives are part of their idiosyncrasy. The support work that we develop with them focuses on training and advisory on the business idea, feasibility plan, entrepreneur's personal skills, market analysis, cost estimates and preparation of the business plan. The women who participate to the programme are also given additional personal and family support in that they are offered the opportunity to attend literacy classes and leave their children attend extracurricular activities run in parallel and in nearby premises by trained teachers.

One group of women says: *we are our own business*

Esperanza Pérez has lived in Barcelona for over 15 years. Head of the family, three of her four children –all adults– depend on her income because they do not have steady job. She has acquired experience and training in a number of areas: cooking, cleaning, children and elderly care, geriatrics, assistance to dependant people and housekeeper. However, since her arrival in Spain from the Dominican Republic, she has found it difficult to obtain a full-time contract which would allow her and her family to achieve professional and financial stability. She leads one of the groups of women that we support via our *Impulsa* micro business training. So far, the process that they have followed has been very rewarding, some of them have given up along the way though. Currently five women on the programme are sharing the same objectives: they have joined up with the idea to create a business which would offer services like office cleaning and elderly care. During the process, they have studied the market and the possibility of an ethnic-oriented economic activity. They have also analyzed the alternative of setting up as a workers' cooperative versus a conventional enterprise, they have calculated the financial cost, the structure and profit distribution options for each type of organisation –being the former a more participative configuration than the latter. Finally, the priorities are very clear to them: gather the funding to cover the initial capital needed, and get organised and ready for the personal efforts required to combine their current job with starting up their own business. These women have a lot of work ahead of them, but we are confident that their drive and energy will lead them to much improvement in their work and personal situation and will serve as an example for many others who seek to better themselves through their own business initiative in a new country.

'Programa Impulsa' is designed and managed by Fundación Nantik Lum (Madrid & Barcelona) jointly with our local partner Sur Futuro (Dominican Republic), with the support of the Autonomous Community of Madrid (Madrid) and Obra Social "la Caixa" (Barcelona). We are planning to replicate this experience with other communities of migrants.

For more information see: <http://www.nantiklum.org/index.php?lang=en>

Barcelona Activa and MicroBank are working together to consolidate Barcelona as an entrepreneurial capital.

Barcelona Activa

MicroBank's collaborating entity. Barcelona, Spain

Within the current economic context, entrepreneurial activity has a special relevance as an asset for progress, both for those people who find that business creation responds to their labour needs, as well as for those who, in a context of change, apply large amounts of innovation and detect and take advantage of new business opportunities.

Given the fact that entrepreneurship is the motor of professional and personal development as well as employment, growth and innovation, it is essential that people with business ideas and an entrepreneurial spirit have at their disposal the necessary support to turn their projects into businesses with future. In this sense, the City Council of Barcelona has become a pioneer throughout the State and also Europe in the support of business creation as a motor of development and progress. As such, through the local development agency, Barcelona Activa, it has been giving support to entrepreneurs of the city for more than 24 years.

The Glòries Entrepreneurship Centre of Barcelona Activa, the gateway of the city of Barcelona to business creation, has 45 points of personalised attention, an Entrepreneurs' Resource Centre, four training classrooms, and a pre-incubation space, all distributed over more than 1,000 square metres. Within this facility, the entrepreneurs are offered a series of innovative support tools and mechanisms for support in business creation by means of a blended model that combines personalised expert advice and assessment and specific executive training with virtual tools and contents. This model, introduced in 2004, is a system that has been recognised by European organisations as a best practice on numerous occasions. Furthermore, this year the European Commission has awarded the Grand Jury's Prize of the European Enterprise Awards 2011 to the Entrepreneurship Centre, beating 399 candidatures from 29 countries throughout Europe. The jury considered the candidature of Barcelona Activa as the most innovative business support project, and for its role in fostering entrepreneurship, business growth and employment creation.

Microcredit, a key piece for boosting business creation

Due to the fact that the financial resources are one of the decisive factors when starting up, the programmes of Barcelona Activa offer support and coaching in the search for funding for business creation, both public and private. Entrepreneurship is a way of achieving labour insertion that is taking greater significance on a daily basis, while at the same time allowing for personal and professional development. In this context, different groups, that for various reasons, among others cultural, social and economic factors, face specific obstacles when starting up a business project or need certain coaching in this process adapted to their specific needs, have been identified.

For these groups, microcredit plays a fundamental role as an instrument for promoting economic activity, by facilitating access to funding to those entrepreneurs with viable business projects that, due to their situation, may have difficulties to access traditional lending systems. Overall, microcredit and innovative mechanisms of support for entrepreneurs boost economic growth and the creation of jobs.

With this aim in mind, Barcelona Activa and MicroBank are working closely together to facilitate the processes of access to funding with the technical endorsement of the municipal agency. In this sense, Barcelona Activa offers different tools and the necessary mechanisms so that a viable business idea can be turned into a business with future.

As a result of this collaboration, in 2010, MicroBank granted more than 600 000 Euros to business projects focused on coaching and assessment for the technical staff specialised in business creation from Barcelona Activa, a figure that represents an increase of 31% compared to the previous year. This year the average amount received by the entrepreneurs is 18,902 Euros.

The technical team from Barcelona Activa analysed 101 applications requesting microcredit from the Resource Centre and from the different tailor-made programmes developed during 2010, of which more than half (56%) were presented to MicroBank.

In total, the companies created during 2010 with the financial support of microloans and the coaching from the municipal agency generated 46 jobs. The entrepreneurial profile of those that obtained a microcredit for starting up a business is characterised by being a man (53%), between 26 and 39 years old (62%), with university studies (38%), and of Spanish nationality (44%). With regard to the sectors of the companies, commerce (41%) and services to people (22%) are the most represented economic activities.

Furthermore, in collaboration with entities linked to the municipal administration, MicroBank and Barcelona promote the programme *Settle down in the neighbourhood* for fostering the opening of new shops in premises that are currently closed and in disuse in the neighbourhoods of Barcelona old town. The aim is therefore to help the owners of these premises to get in contact with people who want to start up a business in those neighbourhoods and that are able to opt, on the one hand, for the programme of microcredits with preferential conditions offered by MicroBank and, on the other hand, for an offer of rentals of commercial premises.

Barcelona Activa and MicroBank are working together with the aim of promoting entrepreneurship, fostering equal opportunities and facilitating access to funding, contributing this way to starting up businesses and boosting the creation and consolidation of employment.

OTHER ARTICLES OF INTEREST

Microcredit and Cooperation. A reflection on the methodology

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Microcredit, which in many cases are directly linked to cooperation for development projects, seem to have their own life and use several methodologies, born purely for their implementation, regardless of the methodologies that cooperation for development itself has been using for decades in a more or less academic way.

Throughout my experience in the sector, I have seen dozens of cases and programmes where a variety of methodologies were applied. Some of them were very imaginative. Others were too simple to become really effective. For this reason, the absence of a basic methodology, common and standard, makes similar programmes, in similar places, work with different results. And, finally, the only thing that should matter to us is what really works and, therefore, we should abandon, without regret, what doesn't work. It seems we all do agree on this but, how many programmes are nowadays under way without achieving any known impact? In my opinion, there are too many. And this is especially due to the lack of methodology or the implementation of a wrong methodology.

Also, in forums, workshops, meetings and summits, it seems we are all waiting for someone having a great and brilliant idea; a magic wand that will suddenly enlighten us so that we can say: I have the infallible formula! Finally I found the most useful and efficient method...

But this method already exists.

Microcredit is about human development problems. From this statement, we can sophisticate the definitions and add that, for example, it enhances the self-esteem of holders and beneficiaries; or that it is a powerful gender tool; or that it ends up with the unfair exploitation of some usurers; or that it is the motor to impulse people's imagination and entrepreneurial spirit in order to create a great number of beautiful and positive things. All this, and more, are true. But the basis of everything is the statement made at the beginning of this paragraph: Microcredit is about human development problems.

And human development, through cooperation, uses the Logical Framework Approach as the usual and standard methodology. No cooperation project can be designed separately from the LFA if it wants to have the slightest possibilities of finding funding (on the one hand) and to be effective and efficient in terms of its results (on the other one).

The first mistake is made when we confuse the mission and the vision of a microfinance programme. Why do we insist in placing microcredit at the centre of the universe? Let's make an entertainment exercise of imagination and dream: we have a circle of a folio size.

In the centre we draw a person (not a microcredit) because this person is the real subject of our action (again, it is not the microcredit); and around this person, clockwise, we divide the circle in four quarters, always like clockwork. Each quarter has a name as follows:

- Identification
- Design
- Implementation
- Evaluation

Now in each quarter we add some minutes and our “clock” looks like this:

- **IDENTIFICATION**
 - Analysis of Participation
 - Analysis of Problems
 - Analysis of Objectives
 - Analysis of Alternatives

- **DESING**
 - Planning Matrix
 - Programme of Activities
 - Programme of Resources
 - Factors of Viability

As a result of developing this two “first quarters”, the “Project Document” is generated. In this document everything is clear and detailed; and it is the basis to get funding. Meanwhile, in our first two quarters, microcredit has already appeared twice: in the Identification, within the Alternatives; and in the Design, within the Activities.

The human figure remains impassive, in the centre of the universe we're creating for it and its development. This person is our subject. Microcredit is our object.

Let's see the next two quarters:

- **IMPLEMENTATION**
 - Implementation Plan
 - Execution of Operations
 - Systems of Information
 - Monitoring report

- **EVALUATION**
 - Appropriateness
 - Efficacy
 - Efficiency
 - Impact
 - Viability

It is odd, because many of the methodologies used in microcredit programmes develop the “third quarter”, the so called Implementation. Surely, the reader will be able to recognise

more than one known programme, based solely on these steps. But this third quarter is nothing by itself; it needs the logical chain of the first two quarters (previously) and the project can only end well if the fourth quarter is properly completed (afterwards). This dependence within the quarters is what justifies the so called “logic of action” that in the field of microfinance is unfortunately so rarely used.

It was Yunus who said that only human arrogance makes us give complicated solutions to simple problems. And, as usual, he was right. Why do we insist in taking scraps and pieces of other methodologies when designing ours? Why do we believe that microcredit, because it is new, needs a “new” methodology? Why do we place our beloved microcredit in the central place of our vision? With good doses of humility, always so healthy and necessary, we will recognise that microcredit is “only” a tool that can be used for a greater action. And this action, which is the development of people, already has its own methodology that turns around the person, as a clock, with an unstoppable tick-tock, where tock cannot be heard if tick is not in motion. This is the Logical Framework Approach.

There is plenty of literature about the LFA. And manuals. Textbooks. Different schools. And as usual, nothing is infallible; that’s why there are also critical views that would touch it up in one or other sense. But the truth is that everyone, while we don’t think of another system, agrees on that this is the only one known, international and effective to deal with the management of cooperation and development projects, within which microcredit is framed.

Microcredit is a very powerful tool, one of the best in cooperation. But if implemented under the LFA methodology, microcredit multiplies its efficacy dramatically; and, moreover, if it needs some retouching, the LFA itself shows it quickly and therefore the reaction and correction capacity are very high. And this, again, does nothing more than improving the result.

The good news is that we no longer need to wait for the arrival of “enlightenment”. It already existed before microcredit and it is called Logical Framework Approach. And it rarely fails!

Lending to women?

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Abstract

While, microfinance in the South is frequently associated to “the banking for women” statement, in Europe is associated moreover to entrepreneurship and employment matters, and less to gender issue, despite the many obstacles entrepreneur women still face in Europe. Considering the extensive literature on women targeting and the vast field experience in lending to women in the South, this article aims to reflect on the lessons that Europe can learn from the South in lending to women. The article draws the main social and economic advantages and the drawbacks of women targeting in the South, which could help European MFIs willing to concretely address entrepreneur women.

Microfinance in the South is frequently associated to “the banking for women” statement. Pitt and Khandket (1998) revealed the main reasons for intensive women targeting: receiving the same size loan, women allocate almost double for the household expenditures, compared to men. Moreover, women are among the most poor, most vulnerable and discriminated and thus, many microfinance actors target women in order to have positive social impacts and to improve living conditions of poor families.

In the last decade, microfinance has become an important issue on the European agenda, being associated moreover to entrepreneurship and employment matters, and less to gender issue. Even though in Europe women have the basic right of not discrimination in the workforce and in the workplace, they are still confronted to gender inequalities. According to the European Commission’ survey on Discrimination in Europe (2006 – 2007) about 40 percent of the European Union population notice discrimination on gender basis. Also, in the United Kingdom, the Equal Opportunities Commission shows that 30,000 women each year lose their jobs because of their pregnancy, while in Eastern Europe, for example in Romania, more than 15 percent of women lose their job due to pregnancy or when returning back to work after the pregnancy leave. Meanwhile, in terms of European entrepreneurship, in 2009, women set-up only 25 percent of the start-ups¹. Women still face barriers in setting-up their businesses in Europe, like access to finance and to information, educational choices, lack of business training, traditional views and stereotypes about women.

Literature evidences reveal that targeting still remains a spread practice in the South, while many European MFIs advocate for not differentiated programs among their clients. Considering this European reality and the experience gained in the South in reducing some of these obstacles and successfully addressing women, microfinance in Europe should also reconsider the gender issue concretely.

Therefore, considering the extensive literature on women targeting and the vast field experience in lending to women in the South, this article aims to reflect on the lessons that Europe can learn from the South in lending to women. Following a brief presentation of the targeting practices, the article highlights the main characteristics of women microfinance

clients, and several lessons in form of advantages and drawbacks of women targeting in the South, including links to sustainability.

Microfinance gender targeting characteristics

Why should MFIs lend to women?

Women represent the majority of the poorest living with less than one USD per day, according to Microcredit Summit 2005. The literature reveals that vulnerability and poverty are not the only reasons for intense women targeted programs in microfinanceⁱⁱ. Thus, what are the main reasons for the MFIs from the South to target women?

Pitt and Khandker's empirical study (1998) is one of the most substantial experimental analyses on gender issue in microfinance. They reveal that if 100 taka are lend, a men would give 11 taka for household expenditures, while a women would allocate 18 taka to household, probably due to their maternal sensitivity and responsibility, most of the lenders being mothers with small children. These evidences influence microfinance, reflected in intensive women targeting, and international donors offered targeted subsidies for women. In line with Pitt and Khandket, Armendáriz and Jonathan Morduch (2005) report on aid offered by Prograsa, now Oportunidades, in Mexican villages, where food was delivered directly to women, to avoid wrong utilization by men, who could sell the food and buy alcohol. There are many similar studies showing the positive impacts of targeting women on households' expenditure, based on women' commitments to family well-being. Beatriz Armendáriz notices women' empowerment due to lending, and also increase of self-esteem, personal and professional development and less discrimination, even though there are only few studies tackling this issue.

Many credit schemes targeting women reveal that, compared to men, women are more reliable payers, more conservative investors, punctual and registering lower defaulting rates, which make them attractive to MFIs' also for rational-profit reasons. Several studies, gathered by Beatriz Armendáriz and Jonathan Morduch (2005) reveal higher repayment levels of women microfinance borrowers, compared to male. Khandker and all (1995) report that while 15.3 percent of male customers were "struggling" to repay the loans, only 1.3 percent of women borrowers were in the same position. Gibbons and Kasim report that, in Malaysia women repayment rate is 95 percent and only 72 percent for men; Hossain (1998) confirms these evidences, in Bangladesh, 81 percent of women pay on time, compared to 74 percent of men. Rahman (1999) argues that women are more reliable clients, due to their higher risk aversion and their sensitivity to "verbal hostility" of credit officers. Women seem to be more affected by social exclusion in case of default, and are easier to be found in case of payment delays, since they spend more time close to their homes. Armendáriz and Morduch argue that due to dynamic incentives perspective, women are more motivated to repay since they have less access to alternative sources of borrowing, compared to men, reducing thus the risk of moral hazard. These reduce MFIs' operational costs, since they spend less time and money for credit collection.

The evidences of these studies, the field experiences and donors' funding practices led to a general accepted agreement in favor of lending to women, for social and economical reasons. However, in the last several limits of women targeting were reported, too.

Why women targeting could be misleading?

Recent field experiences and reports have challenged the initial enthusiasm regarding women targeting practices in microfinance, even though there are not many studies that analyze the impact of loans on the household gender equilibrium. Goetz and Sen Gupta (1996) investigate in their frequently referred study, the extent to which women have control over their loans in Bangladesh. They conducted a qualitative empirical study that reveals that only 37 percent of women were having total or significant control on their loans, while a large majority of them not being the real beneficiary of the loans.

Armendáriz argues that the exclusivist approach (restricting access of men to “women tailored loans”) often led to tensions within households that have multiple negative consequences, also on repayment rate. Information asymmetries between spouses on the amount of money each handle could lead to mistrust and tensions.

Women targeting and MFIs’ sustainability

Another limit of women targeting is the fact that often women targeting implies higher costs, often covered by subsidies, raising the question of sustainability. There is the belief that the MFIs focusing firstly on financial sustainability prefer to lend to better-off clients, able to “sustain” institutions’ profitability, leading to exclusion of the most vulnerable, less profitable. Still, there is no clear evidence on the assumption that increased focus on financial sustainability implies the exclusions of the most vulnerable, as Armendáriz and Roome (2008) argue, too.

Researchers show that access to financial services is not enough for women, who have less access to education in the South, are skilled in managing a business, and have low level of financial “alphabetization”. Thus, they often need additional training and business development services, but “who will pay the ferryman?” (EMN 8th Conference, 2011). Women run generally smaller businesses which generate lower revenues, leading to smaller size loans and need for more flexible financial products, which imply higher operational costs. To avoid transferring these costs to poor women through high interest rate, these programs need to be subsidized, either externally or internally through the cross-subsidies. But, these additional subsidies have impacts on the MFIs struggling for sustainability, the case of many European MFIs.

The ethical aspect could be another limit. Women targeting is still considered an important indicator for the social performance assessment,ⁱⁱⁱ but we should not ignore additional issues, like ethical aspects. If microfinance implies offering financial services to those excluded from formal financial services, restrictive women targeting could be misleading and create additional exclusion within microfinance.

Synthesis of the characteristics of the women microfinance clients in the South
<p>1) Demographics</p> <ul style="list-style-type: none"> - in general young women, having dependant, smaller children; - lower levels of education;
<p>2) “family circumstances”</p> <ul style="list-style-type: none"> - married, with children - high commitments to family well-being;
<p>3) “socio-economic circumstances”</p> <ul style="list-style-type: none"> - small businesses, less skilled (or unskilled) jobs; - lower incomes; - less alternative sources of financing; - more conservative investors, good reimburse rate; - rely on social ties ► more affected by social exclusion; - low business management and level of financial “alphabetization”; - need more flexible financial products;

Women targeting advantages and shortcomings	
<u>Advantages</u>	<u>Shortcomings</u>
<p>1) social advantages</p> <ul style="list-style-type: none"> - direct allocations for households' expenditures ► commitments to family well-being; - creating safety-net; - reaching poor and vulnerable populations; - women empowerment, less discrimination; <p>2) economic advantages</p> <ul style="list-style-type: none"> - risk aversion - good repayment rates; - less risk of moral hazard compared to men; - less time & money spent for credit collection; - revenues for the MFIs; - reaching new markets; 	<ul style="list-style-type: none"> - often women are not the real beneficiary of the loans – mission drift; - smaller size loans and need for more flexible financial products - higher operational costs; - need for BDS, but “who will pay the ferryman”? – need for subsidies, could affect MFIs sustainability; - exclusive women targeting led to information asymmetries between spouses, which increasing tensions between them and raise the ethical question, too;

Conclusions

This article aimed at objectively offering several lessons drawn from the literature and the experience gained by the MFIs from the South. In approaching the vulnerable clients effective targeting seems to be the only solution (Morduch and Haley, 2002). Taken together, the results of the article reveal clear social but also economical advantages of the women targeting practices, but also shortcomings that could countervail the positive aspects.

In Europe microfinance has become an important issue and is associated moreover to entrepreneurship and employment matters, and less to gender issue. Nevertheless, women in Europe still face discrimination against in the workforce and also obstacles in developing their own businesses. Considering the experience gained by the MFIs in the South in addressing women, European MFIs could draw valuable lessons in order to address women across Europe. Nevertheless, we should not ignore that there is need for adaptation of the South experience to Europe's realities and context; an effective targeting is conditioned by a thorough understanding of the specificity of European women. Thus, there is need for empirical studies analyzing the features of entrepreneur women in Europe. Also, pragmatic questions should also be asked, like: to what extent could microfinance really be an alternative for reducing the main barriers faced today by entrepreneur women in Europe? How and what type of products and services would respond to their needs? Who should pay for them? What about MFIs' sustainability?

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