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Micro-lending as a Model for Efficient Commercial Small-Scale Lending and its Application in Banks

Outline:

In no other area of banking interests of individuals and of the whole economy clash more vividly with those of commercial banks than in financing small and medium-sized businesses by credit. It is not clearly outspoken, but generally understood in informed circles that most banks in Europe retreat from this market segment. The reason is that the profit stays behind standard levels of return on investment dictated by international competition; in many cases this line of business even incurs losses. There is no doubt that this retreat damages national economies and in turn even the banks themselves, as the relevant market is reduced in the long run. In the same time initiatives modelled after developing policy are spreading in the industrialised countries that particularly cater for this market segment: Specialised intermediaries work in a framework known as micro-lending. This article explains some of the successful techniques of micro-lending and asks if the banks could benefit from those techniques as well in order to overcome their dilemma.

A. Introduction

For some decades credit methods have been discussed that employ particular techniques in order to finance very small businesses, often run by a single person. The discussion has been connected with development aid policies in first place. The initial idea was to make development aid more efficient by transforming grants into loans. Soon a number of varieties of those techniques had arisen, which differed significantly in terms of non-repayment rate as well as growth and cost coverage of the suppliers. Mostly cost recovery cannot be achieved, but some suppliers (such as BancoSol in Bolivia, Genesis in Guatemala and Bank Rakyat in Indonesia) could even make profit whilst growing rapidly. The most well known supplier today is the Grameen Bank in Bangladesh. Founded in 1976 it now has more than two million customers, 1,000 branches and gives out an average credit volume of 20 million US dollars per month.

In developing countries or those at the stage of economic take-off there are hundreds of such credit programmes targeted at very small businesses. The lenders are known as *micro-lenders* and the technique as *micro-lending*. The methods of allocating a loan differ among the organisations. They can however be distinguished from the practice of banks by the following characteristics, of which not all need to apply:

- short-term credits with high rates of interest
- punctual payment of instalments guarantees a follow-up loan
- credit worthiness investigation is based on payment record, character of borrower and viewing of the business (site visits)
- third-party guarantees are preferred to other forms of securities
- a very active management of risk with methods not typical for banks

Towards the end of the eighties these credit techniques began to be more and more used in the industrial countries. Aspen Institute counted more than 400 of such programmes in the US alone in 1996. The Small Business Administration (SBA), a US governmental body, has provided a special programme to refinance micro-lending activities. Typically the lenders are non-profit companies. The British Bankers Association counted 45 of such lenders in Britain in 1998, and the Hamburg Institute for Financial Services (IFF) described twelve comparable credit programmes in Germany.

The following description of approaches of services and techniques in micro-lending is based on the study “Benchmarking in micro-lending” produced by the four research institutes IFF (Germany), FACET (Netherlands), PFRC (UK) and CASA (Denmark) commissioned by the European Union. This study is documented in two handbooks (Evers et al. 1999 and Whyley et al. 2000). In addition the latest micro-lending and relevant banking literature was reviewed, in particular Jacob/Warg 1997, Copisarow 2000 and Conaty/Fisher, 1999 and some US studies, in first place Otero/Rhyne 1994 and Johnson/Rogaly, 1997. The following seven topics of analysis follow the key points found out as crucial for bank lending to small firms in Evers 2000 (doctoral thesis).

When evaluating and comparing micro-lending activities it is vital to take into account that the suppliers are faced with different regulatory backgrounds and cater for different target groups.

Regulation: In the US and the UK the definition of banks is based on saving rather than lending. This means that – in contrast to Germany and most other EU members –organisations without the status of a bank may lend out money commercially. This is a great advantage for micro-lenders. In Germany programmes similar to micro-lending can only be carried out by governmental bodies or in co-operation with banks performing as lenders.

Target Groups: Micro-lenders have different target groups: founders of start-up businesses, new entrepreneurs in their first small steps of economical growth and established businessmen at significant leaps of growth of their businesses. Different methods of service and counselling are necessary for these groups.

Due to these differences indices of performance such as number of allocated loans, delinquency rate and sustainability rate (cost coverage) also vary:

Performance Overview

	Staff/Affiliates as of 01.99	Disbursed loans 1998	Delinquency rate 1998	Sustainability rate 1998
Fundusz Mikro, *1994	64/33	10.700	2,3%	operational break even!
FINNVERA, *1999 *71 as Kera, *96 micro loan program	400/15	3711 (micro loans)	9%	n. a. (80% for all loans)
ICOF, *1973	3/0	32 ①	3,8%	50% ②
ACCION *1961 worldwide, *1991 USA	7 (N.Y.)	217 (N.Y.) 888 (total U.S.)	13,2% (N.Y.)	45% (N.Y.) 13 – 58% (U.S.)
ADIE, *1988	80/14	1629 ④	6% ④	20 – 30%
Working Capital, *1990	10/4	270	14%	20%
Glasgow Regeneration Fund *1993	4	46 (04.98 – 03.99)	n. a.	0%
Women's World Banking *1989	23/1	21 ③	0%	0%

① – from own ressources; 90 loans in total counting funds in management and backoffice service ② – based on income through lending activity
③ – all packaged for bank partners ④ – including packaged loans for bank partners

Source: Handbook for micro-lending in Europe, 1999: 27

1. Efficiency of Giving Access to a Competent First Counselling

Micro-lenders take the following measures to guarantee access to a competent first counselling:

(1) Potential clients are acquired actively in order to avoid effects of adverse selection and raise the standards of first contact. (When waiting passively for clients there is a risk of only acquiring entrepreneurs that are in a difficult financial situation, which shall be termed adverse selection.)

(2) General information according the loan product and the procedure is given at group counselling.

(3) More complex advice (e.g. setting up the business plan or analysing a branch od industry) is carried out at partner organisations and with public funding.

Policy of actively acquiring clients: Micro-lenders have developed a number of acquisition strategies that aim at raising the quality of first counselling. Often they rely on the help and the internal knowledge of current clients (as carried out by ACCION or Fundusz Mikro). Typically credit needs are raised in the initial contacts by pointing out possibilities of development. This reduces the number of first contacts with entrepreneurs who need to borrow money because of hidden business problems, which generally renders a high risk.

Group counselling: Most micro-lenders hold information sessions on a regular basis to explain the credit products and procedures to groups of interested potential clients. This takes less time than individual sessions, and the quality of advice given is enhanced, as more questions are asked by the group, rendering the information more comprehensible.

Co-operating partners: Micro-lenders that focus on the segment of business start-ups (like the French ADIE or the British Glasgow Regeneration Fund, GRF) co-operate with governmental subsidy initiatives, which for example provide or revise business plans. That way a better basis for the first counselling is achieved. Expertise can be a problem, though, as sometimes business plans are developed that transgress the knowledge and abilities of the borrower.

2. Efficiency of Credit Worthiness Investigation

Micro-lenders, like banks, face problems when assessing the credit standing of new or very small businesses. There is no or no recent balance sheet analysis, there are no or no meaningful business plans etc. To overcome the problems a number of methods are used that are uncommon to banks:

Site visits: A central feature of the credit worthiness investigation is the credit administrator visiting the site of the business. The extra effort and expense as compared to an interview in the bank is justified by the surplus information about the location of the business, its clientele, the abilities of the applicant and the quality of the services and products. Organisations like the Finnish Finnvera, or ACCION and Fundusz Mikro regard site visits as the core of risk assessment.

Check payment motivation by examining bills: Due to lacking analysis of business accounts and credit history the credit administrators of ACCION examine recent telephone, water and electricity bills. Debts and reminders are negative indicators.

Evaluation of character by interviewing key persons: Applicants are asked to provide references from landlords, neighbours or business partners. The credit administrator contacts these individuals in order to receive statements as to the reliability of the applicants.

Pre-selection with guarantors: The technique of co-signing is widespread. The applicants are asked to provide a number of guarantees, which are limited in case of high credit volumes. Entrepreneurs or people in constant full-time employment are usually accepted as guarantors, whereas relatives or members of the household of the applicant are rejected. The main aim is to implement a filtering system and to overcome asymmetric information by gaining access to informal information

Criteria, their hierarchy and weighting: The criteria of the credit worthiness investigation of Fundusz Mikro are:

1. motivation to repay,
2. entrepreneurial skills,
3. business viability and
4. cash flow coverage.

For each criterion there is a score in a rating system. Whereas entrepreneurial skills, business viability and cash flow coverage are also common to banks, the motivation to repay is unusual. Experience however shows that in case of small loan sums the motivation of the borrower is the key factor to determine, whether repayment obligations can be met. The compensatory potential of motivation decreases with an increase in credit volume. The weighting of other factors also changes with higher loan sums:

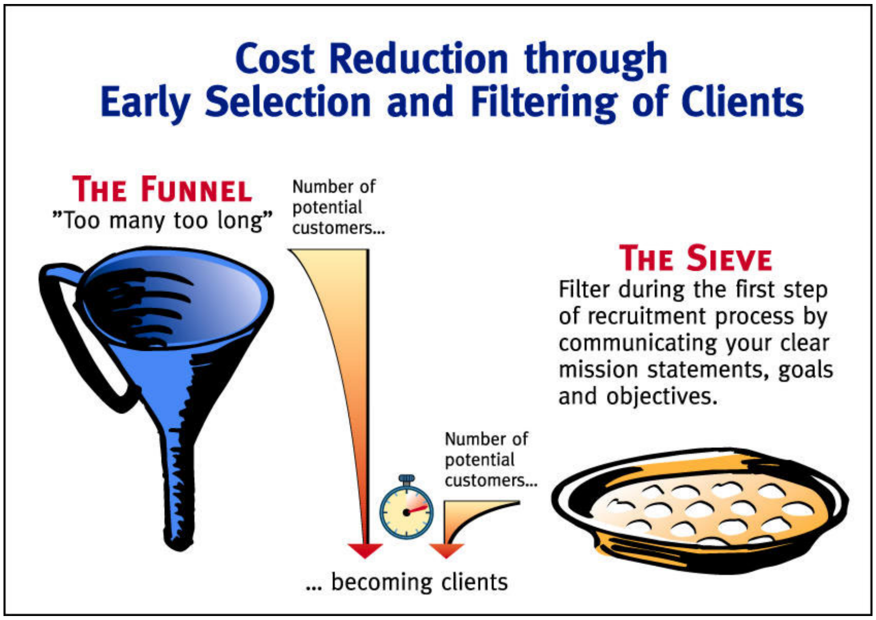
Credit worthiness criteria	**Weighting factor for a small loan of Z 5.000**	**Weighting factor for a large loan of Z 30.000**
Motivation to repay	40	10
Entrepreneurship / Entrepreneurial skills	30	20
Business viability	20	30
Cash Flow Coverage	10	40

Source: Handbook of Micro-lending in Europe, appendix on Case Study Fundusz Mikro: 5f.

Looking at the criteria that are missing as compared to banking practice of credit standing investigation can be revealing. Micro-lenders do not set up and evaluate complex indices (financial ratios) with regards to clients and balance sheets, which so far has been the focus of credit worthiness investigation in banking. In recent times the traditional sector questions this method as well.

Specific databases: The common databases set up by banks to compare the performance of companies within similar industries are dominated by bigger companies with high margins. Finnvera however sets up a specific database for small businesses to obtain suitable benchmarks. Small businesses are interviewed once a year concerning turnover, liquidity and return. In turn they receive an analysis of their competitiveness tailored for their specific line of business. This database also helps Finnvera to evaluate the competitive situation when allocating new loans.

High rates of acceptance: The parts of credit worthiness investigation explained above (such as site visits and rating) mean a workload of several hours. In case a credit application has to be turned down there is no profit to cover the expense. That is why applicants who are not credit-worthy have to be identified at as an early stage as possible. It is striking that many micro-lenders have to turn down only very few credits after the credit standing investigation is completed. (for more information on that issue see Copisarow 2000) In case of ACCION, ICOF and Fundusz Mikro it is just about 10%. A higher number, though, first applies for a loan, but does not finish the process of investigation. Taking this number into consideration, 25% of applicants of ICOF, or 30% of ACCION do not obtain credit, still a very low percentage as compared to the rate of declined bank credits. (Research carried out by the IFF shows that typically only 20% of qualified credit applications are successful.). The reason for the high rate of approval in micro-lending is that a very high level of transparency concerning the whole credit process enables businessmen to evaluate their credit worthiness themselves. In first counselling or comprehensive leaflets the potential borrowers learn about which criteria they and their businesses have to meet and according to which rules they are evaluated: "*We make sure that they understand what we are doing and what we are looking for*" (statement of Sophie Chabanel, a branch manager of ADIE, cf. Evers et al., appendix on ADIE, p7.).



Source: Handbook for Micro-lending in Europe: 17.

3. Size of Credit and Way of Financing

The size of the credit is established differently than in banking practice, as also is the way of financing. The main goal is to minimise the credit sum when giving out first loans. This is to minimise the risk both for borrower and lender. The question is not, how much is needed for the start or extension of a business, but what is the minimum sum to secure a step of development. This is combined with short credit terms – between 8 and 24 months depending on organisation and type of credit – and the perspective of a new credit in case of punctual repayment.

To ensure best transparency for the clients almost all micro-lenders make use of the method of annuities, that is the borrower has to pay the same amount of money every month. Empirical Studies show that fixed dates and amounts for repayment enhance repayment discipline, especially when the borrower is on low income (cf. Kempson/Whyley 1999: 32). On the basis of which repayment instalments can be afforded the credit amount and the length of term can be determined.

The most crucial thing of micro-lending methods, however, is something else: In case of punctual repayment the borrower may take out a new credit exceeding the amount of the old by up to 50%, if the development of the business allows for this. This credit technique is known as 'stepping', and is is employed by Working Capital, Fundusz

Mikro and ACCION (in all five US and 10 of the Southern American branches). They generally regard this as the core element of their credit technique. The borrower has an incentive to act in the interest of the lender.

4. Adjustment of Financing and Support Systems

The technique of 'stepping' is a core element within the management of adjusting the financing. Thanks to the short terms of the single step credits (e.g. an average of nine months in the case of Fundusz Mikro) there are regular contacts between borrower and lender to review the financial situation of the borrower. In addition the normal 50 per cent increase of the sum of the follow-up loan reflects the typical development of small businesses, which takes place in small steps. For bigger leaps of development or long-term investments the credit repayment period should be much longer, though.

There are more elements in the support systems that aim at securing tailor-made financing and counselling: zoning, standardised contacts and training initiatives.

Zoning is regional splitting of the area an organisation is working in into zones that are looked after by a particular credit administrator. Typically the zones are local districts within towns or other local authorities. The aim is to enable the credit administrator to develop a high level of knowledge on local economy and other local issues. Often different borrowers know each other. Frequent contacts in the local area establish an information network that helps with the credit worthiness investigation and enables to acquire new clients. Additionally the administrator can visit his clients more often, as valuable time on far-distance travelling is saved. That way it is easier to find out if the financing needs adjustment.

A number of micro-lenders try to ensure regular counselling and reviewing by introducing *standardised causes for contact*. It is discussed to introduce a similar technique in banks. One of the models is the contact manager, who establishes contact with the clients in regular intervals. The results are recorded in a contact form to which the actual credit administrator has also access. In another model the borrower regularly receives an indicator form to record the progress of the business. The results (or the failure to send back the form) can be a reason for contact.

Regular Training is another form of giving advice. In micro-lending training typically is carried out in groups. Often other borrowers give the talks, as entrepreneurs are more likely to accept experiences (often self-critical) of others rather then specialist knowledge.

In conjunction with step credits further education models on a training on the job basis can be introduced. Some organisations do not insist on educational measures prior to (or as condition for) the loan. Instead the different steps of credit are associated with different levels of competence. Fundusz Mikro for example demands a regular cash flow planning from the borrower from the third credit step onwards. Assistance is however given where necessary.

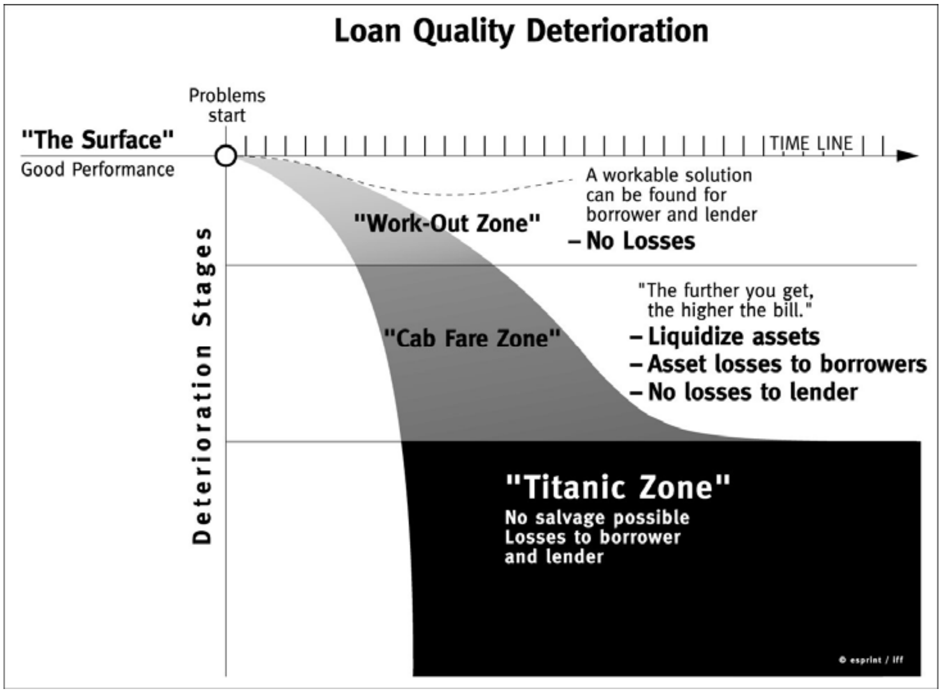
5. Timing and Efficiency of Identifying a Crisis and Intervening

In contrast to banks micro-lenders do not use frequent credit rating to identify a credit crisis. The current account is hardly monitored and balance sheet analysis plays only a minor role. That is because the organisations do not have access to the current account details, and balance sheet analysis causes much more expense than benefit, as it is not very meaningful micro and small firms, anyway.

Instead – as explained above – frequent contacts are used to try to identify a crisis. Besides the micro-lenders encourage the borrowers not to hide a crisis, as it is explained that announced problems are dealt with in a flexible way, whereas delays in repayment without prior announcement are penalised.

In case the instruments prove unsuccessful, that is a repayment instalment is not paid, the organisations get in contact with the borrowers very quickly. To be able to do so technical facilities (like special paying-in slips or electronic banking) have been introduced which allow to identify the respective borrower quickly.

Time is given great attention, as most micro-lenders had to find out that each extra day of not announced payment delay significantly enhances the risk of non-repayment as well as the difficulties to solve the problem constructively.



Source: Handbook for Micro-lending in Europe: p. 30.

The method of intervention is marked by two principles that can be labelled 'tough but fair' and 'system of levels of increased debt recovery pressure' (Evers et al. 1999: 36).

The borrower knows the reaction of the lender before he receives the loan, which means there cannot be bad surprises. The criterion 'fair' is put into practice by having transparency. Moreover the borrower knows that it is advantageous to act in accordance with the interests of the borrower at all times, as the measures steadily become more severe. This technique differs from that of the banks only in the following points:

- Because all rules are explained transparently, the borrower is unlikely to have the impression to be treated unfairly.
- A positive scenario is shown to the borrower at all times. If he announces the problems at an early stage, the credit and repayment scheme can be altered to avoid any negative consequence that may occur else, e.g. a more difficult access

to further credit. Even if the business fails, a new loan for a new start-up may be given in case the borrower co-operates.

A number of micro-lenders use the guarantors as a further instrument for the intervention in a crisis. It is believed that they influence the lenders to enforce necessary changes and improvements. Normally the lenders inform the guarantors if a first contact with the borrowers after the failure to pay an instalment has not been successful. Only after a number of missing payments the guarantors will be made to pay. The policies of the different micro-lenders vary as to in which cases the guarantees are made use of. Some organisations only use them if they suspect fraud, others to ensure repayment.

In line with banking practice a number of micro-lenders have special administrators that become responsible for the customer relation in case of a continuos crisis: ACCION for example replaces the credit administrator by a 'collection officer', if the administrator was unsuccessful with the initial intervention attempts. In a weekly 'collection meeting' all outstanding payments are discussed to ensure that measures are taken and to find out if measures proof to be successful. The aim is to ascertain that administrators report problems promptly.

6. Counselling after Credit Failure

The differences between banks and micro-lenders after the failure of a credit are only small. Most micro-lenders also consider taking legal action against their borrowers to recover outstanding debt, even if the costs for a trial are higher than the expected repayment. They do not want to become known as 'soft lenders' in order to retain high rates of repayment. Some organisations restrict legal action to cases where fraud is suspected (ADIE and GRF).

As mentioned above even in case of a business failure the borrower still is motivated to repay, because he then may receive a new loan for a 'fresh start'. Business failure figures are much lower than the average, but still quite high (ADIE has a repayment rate of more than 90% whilst the rate of business failure is 30%; Fundusz Mikro has a similar rate of business failure and a repayment rate of even 98%).

A number of organisations attempt to create the atmosphere of 'productive failure'. Borrowers whose business failed are invited as trainers for new founders of businesses (Working Capital) and experience of starting a business (also bad experience) is valued more highly than the theory demonstrated in business plans (ACCION, Fundusz Mikro).

7. The Suitable Administrator Image

The different micro-lenders do not have a uniform conception of the ideal credit administrator or counsellor. It is a general trend though that no previous knowledge of banking is required from the administrators, whereas most organisations are managed by highly qualified bankers (who may not necessarily have founded the organisations).

The reasons for this are different: The founder of Fundusz Mikro for example claims that for her credit method traditional banking concepts (and a traditional banking background of the administrators) are an obstacle, as the concepts cannot so easily be forgot. Instead she looks for administrators that have experience with running businesses, preferably who were entrepreneurs themselves. Administrators who *start* their career in micro-lending must have a university degree. As the credit procedures themselves are highly standardised, no banking background is needed. Flexibility and power of comprehension are the features needed to adapt to the credit procedures that are revised on a yearly basis. A basic induction of several days, in which the core principles and values of Fundusz Mikro are taught, is followed by one month training on the job. In addition administrators receive an extensive manual about the credit procedures and prerequisites.

ADIE exclusively employs graduates with high ratings and proven social commitment, regardless of their subjects. Training is solely on the job, and beginners can move from assistantship to managing a branch within only a few years. A portfolio database transparently keeps informed about the performances of all staff and branches. Regular meetings of the branch managers and personnel secretaries working across the branches ensure that new experience is exchanged and changes of credit procedures are implemented in all branches.

At Finnvera the credit administrators are termed 'business analysts'. They have to have a sound knowledge about a particular industry and mostly have a university degree in a relevant subject. Besides customer orientation is regarded as a key factor. A background in banking is not considered necessary.

ACCION, New York, experienced significant problems of performance due to a high level of fluctuation of staff. High competition between different lending schemes and a general burn-out-syndrome among the credit administrators were tracked as reasons. As a consequence there is a good level of support and training now. When recruiting new personnel a record in experience with clients is given preference to financial know-how. To compensate for this training programmes and the weekly collection meeting that is explained above are held.

A number of micro-lenders, such as Fundusz Mikro and ACCION pay their staff with regards to their performance taking into account strategic issues of portfolio development.

B. Approaches for Banks to Implement Micro-Lending

Problems of banks with smaller business clients have been discussed widely in specialist publication and the press lately. In recent years Swiss banks achieved a return on investment of about minus 14 % with their home business clients (Menk 1997: 3). For Germany the figure is estimated similar. Often the relations with small or medium-sized businesses are regarded as responsible for the losses. That is why more standardisation, a higher degree of market segmentation and partial retreat are demanded. On the other hand an individual need for counselling does not necessarily relate to the size of the company, which means that the prerequisites for standardisation are not given. At the same time entrepreneurs often depend very much on banks in this segment, because they are not fit for the stock market. Single attempts of banks to ask all their small business clients to discontinue the relation and decide for another bank proved unsuccessful. Besides it has to be assumed that a reduction in business with small companies would have negative effects in terms of a loss of private clientele and reputation because of critical media coverage. Finally the government would be likely to take steps against it. The British government for example reacted in the early 90s by reporting on the state of the small firm credit and introducing an ombudsman for small companies, 1998 with a task force and in autumn 1999 – in spite of a positive progress – it demanded a further progress and threatened to introduce a obligation to report modelled after the US Community Reinvestment Act (Cf. Bennet 1999: 1; Reifner et al. 1998 and Evers/Reifner 1998).

The techniques of micro-lending offer an alternative to the strategies of retreat or maintaining the deplorable status quo in small scale lending to business clients. In a workshop of autumn 1999 (held by the British Bankers Association and the IFF in London in September 1999) the following strategies were discussed and developed to implement micro-lending in the banking sector:

1. Internal Implementation

Banks can implement a number of micro-lending approaches within their business with small firms. A loan product with a slowly increasing credit sum (cf. 'stepping' as explained above) and regular fixed repayment instalments are regarded as possible within banking. Implementing a filter system consisting of limited guarantees to obtain informal knowledge and overcome asymmetric information is seen as a possible substitute for 'moral equity', that is the amount of equity the banks normally demand to investigate the client's commitment and reliability.

In risk management *after* credit allocation there are schemes underway to concentrate on current transaction and immediate contacts in case of problems rather than relying on static balance sheet analysis.

To gain the maximum advantage out of micro-lending it would, however, be necessary to alter the methods of segmentation of the market of business loans. Small businesses in which the entrepreneur himself is of core importance for the development of the company and its credit worthiness should then not be treated in the conventional way. In an appropriate counselling system emphasis has to be given to the relation of trustfulness between entrepreneur and credit administrator, on the controlled putting into practice of agreements, and on a partly automated analysis of transactions to monitor cash flow. In the scoring systems currently used there are a few tendencies to include personal factors. Apart from that there are no indications that the counselling systems become more personal. That is why with implementing this strategy only a part of the successful factors of micro-lending can be made use of. The aim would be a more personalised assessment.

2. Co-operation

Another opportunity for banks to use micro-lending techniques is to co-operate with existing intermediary organisations. Banks can transfer suitable credit applications, enhance the possibilities of transaction methods, lend out money to the organisations to re-finance the schemes, or help out with personnel on secondment. Micro-lenders have the opportunity to transfer their clients with grown potential to the co-operating bank, as they cannot cater for these clients with their own loan products.

In Germany a co-operation is an opportunity for the micro-lender to avoid founding a bank, in case the co-operating bank allocates the actual credit. Sparkasse Aachen and Sparkasse Göttingen (two saving banks) for example both co-operate with a micro-lender that caters for a well-defined target group and carries out the credit worthiness investigation and credit administration and has a share in the risk also. In the US this technique is widespread and known as 'packaging'.

3. Founding of a Specialised Subsidiary Company

The most far-reaching utilisation of micro-lending for banks can be made by founding a subsidiary company that concentrates solely on this specialised business. Similar to the German *Teilzahlungsbanken* that were founded by banks in the 70s to cater for the then disputed segment of small consumer credits with fixed instalments (for reasons of tradition and banking culture this segment was not dealt with directly) there could be an organisation suitable for micro-lending. As a first step new small-scale loans would be administered by this special organisation; in a later step also suitable existing credits could be transferred. It even would be possible to have such an organisation as a work-out unit for credits that run into problems.

Although model calculations show that the possible return on investment of such a subsidiary organisation is not comparable to current international standards, it can well recover its actual cost, which is a considerable improvement in comparison with the loss making status quo.

Finally a part of the business clients of the subsidiaries will develop to become lucrative clients for the main line of business. Grown companies with a suitably large credit volume as well as proven innovative ideas that need the backing of the large mother company are the key candidates. Taking into account these potentials for acquiring new clients for the bank plus further cross-selling potentials for the whole

range of products of the mother bank, such a venture could even be economically attractive – in addition to the benefits of its having positive image effects.
There are only very few records of experience though, as the model of a subsidiary company is as yet hardly used on an international scale. Moreover micro-lenders are reluctant to transfer grown clients to banks, as these clients have quite a positive effect on their own profit as well. A superficial analysis of the credit portfolios of micro-lenders suggests, though, that five to ten per cent of the clients of micro-lenders have a growth potential after a few years that is very interesting for banks.

4. Outlook

Which alternatives apply for which market segment?
It has to be taken into account that the products and techniques described were developed for very small businesses with low investment needs. In the portfolios of the existing micro-lenders there hardly are any credits of more than EUR 25,000 and companies with more than 4 employees. As described, stepping minimises the financing needs, which means that traditional business loans of up to EUR 50,000 still are within the possible target group of a micro-lender. According to IFF findings 65% of all business starters and 55% all other companies apply for less then EUR 50,000. So a relevant proportion of the existing business clients is an interesting target group for micro-lenders.
As yet the micro-lenders in the industrial countries are still lacking experience and professionalism to be able to expand rapidly in terms of the number of credits allocated and the overall credit volume. The Polish Fundusz Mikro may be an exception, as it allocated more than 10,000 credits in 1999. All organisations have their particular weaknesses and strengths and must increase competence through mutual learning.
The co-operation of banks and micro-lenders could indeed be a win-win situation. The banks could profit from more cost efficiency in small-scale business lending. Instead of reducing and standardising the market with all its negative effects there is a chance to reduce cost and learn from co-operation by setting up a subsidiary business. Micro-lending itself could become more professional. Examples where learning from banks is most necessary are given by Copisarow (2000: 30). Every step of each procedure should critically be compared with the practice of open-minded banks to find out if the approaches really are better or if the wheel is just

invented another time. Successful procedures would mean that micro-lending could become an option for businesses with up to 9 employees and a turnover of up to EUR 500,000 , which is the majority of all business clients.

More information in:

- Handbook for Micro-lending in Europe: Reducing cost and managing risk in lending to micro enterprises, version 2.12, February 2000, 46 p. + 40 p. annex, EUR 30
- Banks and micro-lending: support, co-operation and learning, version 1.0, April 2000, 63 p. + 48 p. annex, EUR 35

You can order a copy of the handbooks at IFF, fax 0049-40-309691-22, e-mail jan.evers@iff-hamburg.de

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