How to Assess Pro-Poor Financial Sector Development:

A Comprehensive Framework Applied to the Case of Peruvian Microfinance

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Foreword
for the doctoral dissertation by Christiane Ströh: "How to assess pro-poor financial sector development: A comprehensive framework applied to the case of Peruvian microfinance", submitted to and approved by the School of Business and Economics of the Freie Universitaet Berlin, Germany

"Microfinance" has become a catchword in the last few years. From international development cooperation it has made its way into national and local poverty-relief strategies as well as into global commercial finance. And from the very beginning of the turn from top-down development banking with cheap directed credit toward serious, sustainable banking for the poor in the 1960s and 70s, Peru has been one of the main arenas for a great number of actors and approaches in this field. Together with my colleagues and students at the Latin American Institute and the Department of Economics and Business Administration of the Freie Universitaet Berlin as well as the consulting firm IPC (Internationale Projekt Consult, Frankfurt/M.) on behalf of the German aid agency GTZ (Deutsche Gesellschaft für internationale Zusammenarbeit), I have had the privilege to observe and even participate somewhat actively, in the development of the Peruvian financial sector and its microfinance segments over the last nearly thirty years. Christiane Ströh's doctoral dissertation is therefore based on more than individual research, because it draws on broad historical records and academic reflexion for its comprehensive overview of the present stage of microfinance in Peru. Her teaching of the graduate-level course on microfinance at this Institute as well as her studies and consulting activities in Brazil, India, Mongolia, and other countries have also given her strong incentives and ample material to compare the Peruvian experiences with others and to follow the pertinent discussions between academics and practitioners on banking with the poor.

Studies on microfinance are normally centred around individual projects or programmes, whereas financial sector analyses tend to concentrate on commercial and investment banking, with little concern for microfinance. On the other hand, micro-economic approaches to finance make categorical differences between firms, consumer households and investors, and poverty-analysing studies make only skimpy reference to finance, - except the ones praising microfinance as a panacea. The specific value added by Christiane Ströh's thesis lies in the all-encompassing sector approach and the comprehensiveness of her framework to assess poverty alleviation by financial services.

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Coming from a political economy background, she takes "structural heterogeneity" seriously in that she recognises that the "genes" of the dominant monetary economy are different from the ones of the *economía familiar* of most of the poor, where the family-led enterprise is intricately linked to the household so that neither pure business nor consumer nor investor finance concepts and strategies would be adequate. From a great number of empirical studies in Peru and beyond, she extracts a convincing set of adequate financial services or "products" which poor families need most so that the demand side of pro-poor financial development can be defined properly in quite precise terms. Amartya Sen's "Development as Freedom" provides her with the decisive criterion for evaluating the articulation between demand and supply of financial services, namely access. The mere option, i.e. the freedom to go to a bank or a specialised microfinance institution in the case of need, becomes an important piece of "development" for the poor.

On the supply side, a broad range of financial institutions is therefore considered to be of decisive importance. With the help of modern information technologies, not only NGOs and international development cooperation projects have recently opened and deepened access to the poor, but also self-help cooperatives and commercial banks as well as public development banks such as the *Banco Nacional* in Peru, which is often the only provider of financial services in distant and marginalised localities. The central criterion of "outreach" to the poor is made operational by identifying scope, cost, breadth, depth and length, all of which are applied to the detailed data from the Peruvian cities, towns and rural districts. And the whole range of financial institutions is finally presented with their relevant products, - most of which in the voluminous appendix, which is a treasure trove of its own.

Christiane Ströh concentrates her case study on microfinance in Peru, and on the question of her topic "How to assess pro-poor financial sector development?" – which she answers quite convincingly with her "comprehensive framework". Broader questions, such as the role of the Peruvian financial sector in general on the determination of income and wealth distribution, power structures and pro-poor or pro-rich policies, are left aside. And her suggestions for further research focus on the needs of the poor and the adequate response to those needs rather than dreaming up revolutionary alternatives and change. Still, this thesis is a must for readers interested in a critical discussion on impact and relevance of microfinance for the poor as well as for members of the international development cooperation community, who struggle with adequate concepts, institutions and procedures in order to achieve the millennium goals and similar objectives.

Acknowledgements

What applies to life in general has become most apparent throughout the process of working on my dissertation: it would simply not exist in its present form without the wonderful support and help from my dear friends, my family, my professors and my colleagues, especially those in Peru. It was their advice and their critique, their provision of data and their suggestions, or simply their emotional presence that made all of them so essential to me in the course of the last years. I would like to thank all of them from the bottom of my heart, knowing that it will be extremely difficult to fully express the genuine and deep gratitude that I feel.

First of all, a very very special thank you must go to my close friends and colleagues from the Institute for Latin American Studies at the Free University of Berlin, Ursula Stiegler and Katja Kirchstein, for their incredibly insightful critique and their truly wonderful and unconditional support of my project. My deepest appreciation must also go to Laurissa Mühlich.

Underlining the importance underscored by the German expression for doctoral advisor—'doctor father'—, I am very grateful for the intellectual guidance, fundamental theoretical insights, and introduction to the subject of microfinance by my professor, Prof. Dr. Manfred Nitsch. It was due to his critical and convincing academic impetus that I fell in love with the topic and came to understand its potential for pro-poor development. Similarly, I wish to thank my 'doctor mother', Prof. Dr. Barbara Fritz, for all her valuable advice, for her invaluable support, and for giving me the opportunity of presenting my projects in her Ph.D. colloquium. At this point, I would also like to thank the participants of the colloquia for all the insights they shared with me. In essence, I am very happy about and grateful for the opportunities that both of my advisors provided me.

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[2] See the table of abbreviations for the full names of the institutions.

Portocarrero (USAID/IFC), Martín Valdivia (GRADE), and Johanna Yancari (IEP). In addition, I wish to thank all other experts, numerous credit agents, branch managers, and employees of microfinance institutions, banks, savings and credit cooperatives, and NGOs for sharing their knowledge and opinions with me. A very special thank you also goes to the many microfinance clients who answered my questions patently and with so much precision. This thanks is offered not only to those in Peru, but also to those in Brazil and India. The clients' answers and statements were extremely helpful in sharpening my insights, understanding, and questions addressing the beauty and challenges of microfinance. In Brazil, I also wish to thank Carlos Alberto dos Santos and his team from SEBRAE and those from SICOOB and CRE$OL for their support. In India and Germany, I wish to thank my colleagues from the NGO-IDEAs projects for all of the insights they shared with me.

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Berlin, 31 March 2010

Christiane Ströh

Summary

Microfinance has experienced increasing interest, both from public and private actors. However, quite often, rather generalized and exaggerated expectations on its developmental impact are propagated, and reliable information as well as adequate conceptually and methodologically sound frameworks are lacking. Increasing commercialization and other technological and financial market developments are calling for a comprehensive framework on pro-poor financial access as developed here, and applied to the case of microfinance in Peru. It is based on the review of theoretical and empirical findings as well as interviews on the relevance of financial services for the poor. Dimensions, categories and indicators of outreach are elaborated for assessing which kinds of financial services and financial sector developments serve poor populations, creating opportunities and helping them to cope with risk, without creating new sources of risk. Understanding pro-poor development according to Amartya Sen as increasing freedoms for the poor, what matters most are opportunities through access to reliable, diversified, cost-efficient and tailor-made financial services valuable to the poor.

For identifying the types of financial services which may open opportunities to the poor, it is crucial to analyze the socioeconomic situations they live and work in. Recognizing the structural heterogeneity which characterizes societies and economies of developing countries – and not only those –, other modes of production besides the dominant monetary economy are more relevant to the poor: It is generally the family-led mode of production which characterizes life and work of poor families within and around their family-owned businesses. Their specific patterns of production, consumption and investment as well as the lacking access to a comprehensive social net and adequate health and education services characterize the financial management needs of the poor. Family-led businesses are based on the labour potential and the wealth of the family which for instance turns rather small and short-term working capital loans into highly relevant financial products, because they often generate income from otherwise underemployed labour. For the family members, savings and emergency loans can be crucial for coping with life-cycle and emergency related larger expenses, and microinsurance gains importance, since public insurance and relief systems are largely lacking. Consistent with this theoretical base, financial diary research provides further empirical insights into the financial management patterns and needs of the poor. It shows that poor families use a multitude of complex and often costly arrangements in order to accumulate or borrow lump sums for covering larger expenditure needs both in their households and businesses from their small and irregular incomes. Microfinance can and should provide more comprehensive and reliable alternatives and additional options.

In order to deepen the understanding of pro-poor financial sector development, it is furthermore crucial to separate different types of impact which are often assumed altogether. The only *direct impact* of microfinance consists in improved (or worsened) financial management and in the increased choice poor populations have, for instance saving in a secure place, taking an (affordable?) loan or insuring important household risks. The widely assumed influence on the

income of microfinance clients is only an *indirect economic impact* which depends on the income generating potential of the client. In the case of microenterprise business loans for instance, incrementing the profit of the microenterprise depends on much more than access to credit, such as the local demand for the product or service offered and on the local competition. However, it is not only the self-employment channel which provides an opportunity for changes in income, but also the labour channel linked to changes in local economies stimulated (or drained) by (lack of) access to finance. The third type of impact is *wider social change* which might occur through microfinance activities, for instance empowering marginalized individuals within their families or communities or creating social capital within the community. These wider impacts depend however on the type of service provision and the type of services and guidance offered by the microfinance institutions. Group programmes might have impacts on the group members, their families and communities.

The proposed framework to assess pro-poor financial sector development does not undertake any impact assessment. Focussing on the direct impact of microfinance, the opportunities based on *de facto* access to tailor-made financial services for poor clients constitute the centre of the approach. 'Pro-poor financial sector development' is accordingly understood as financial sector development which provides valuable and accessible opportunities and hence more freedoms to the poor, but not necessarily as changes of the concrete living situation of the poor such as increasing incomes, according to Sen. The framework constitutes a comprehensive approach to assess this pro-poor financial access which is at the same time conceived as being open for new dimensions and categories showing to be relevant and ready for adaptation to new contexts of life within further research.

The application of the framework shows that it is crucial to differentiate the various dimensions of outreach, namely scope, conditions and costs of financial services as well as breadth, depth and length of outreach. One financial institution might offer well adapted products, but only in a limited geographic space, to a certain client group or at a very high price, whereas another one provides cheap loans, but only over a limited period of time. Accordingly, it is fundamental to disaggregate the analysis by financial institutions, geographic parameters and types of clients. The starting point of the framework are the poor's financial management needs and the lines of social marginalization in general. The financial services offered are then revised in detail – visualized also in graphs, tables and maps – regarding the financial management needs of the poor using the proposed analytical criteria.

For the Peruvian case, the application of the framework reveals for instance that the currently existing wide scope of different types of providers is crucial for attending the diversified financial management needs of current and potential microfinance clients, given that certain types of institutions focus on rather specific client segments, product groups or geographical areas. In very general terms, it can be said that during the last decade financial sector development in Peru, as defined in the present thesis, has been positive for the poor, with significant increases in scope of products offered and outreach to more and to more marginalized populations. Also from an international perspective, the Peruvian microfinance market constitutes a highly developed one. However, it is (still) characterized by a nascent microinsurance supply, limited access to secure and rewarding savings options, a very developed offer of short-term microenterprise loans, but very limited access to small and flexible emergency loans and long-term investment loans for the poor. Furthermore, there are certain geographic regions and marginalized groups of the population which remain excluded from the access to opportunity-providing financial services, partly due to demand-side barriers such as lacking financial education, information or trust in the financial service providers. Considering the future perspectives of pro-poor financial sector development in Peru, the increasing competition and mergers and acquisitions by large institutions might reduce the diversified supply for different financial needs which are currently met through institutional diversity.

A diversified offer of financial services is crucial for Peruvian microfinance clients. Considering that microfinance clients can range from very poor farmers to marginalized slum inhabitants and well-settled owners of small or medium family-led enterprises, this affirmation can be generalized. For providing tailor-made and accordingly opportunity-creating financial services to the poor everywhere, the recognition of their diversified financial management needs and is fundamental. Further research on this subject should go in that direction. In terms of developmental impact, it is crucial to keep in mind that the direct impacts of microfinance are modest and refer only to improved financial management by the poor. In order to avoid exaggerated expectations and the corresponding backlash, it is highly advisable to separate those direct effects from the indirect and wider impacts created through more or less comprehensive programmes with a microfinance component. Microfinance should always be seen as only one instrument within a much wider spectrum of development processes and policies.

Title and summary in Spanish

Título

Como evaluar el desarrollo del sector financiero oportuno para los pobres:
Un amplio marco de análisis, aplicado al caso de las microfinanzas en el Perú

Resumen

Las microfinanzas han experimentado un interés creciente, tanto por parte de actores públicos como privados, aunque muchas veces con expectativas generalizadas y exageradas en relación con su impacto para el desarrollo. Falta no solamente información confiable sobre ello, sino también un marco concepcional y metodológicamente convincente. En la tesis se ha desarrolado un amplio marco analítico para analizar el impacto de la comercialización y de las otras nuevas características del sector financiero, si funcionan en favor de los pobres. En primer lugar, el marco está enfocado en evaluar el acceso libre y fácil de los pobres a todas las instituciones de microfinanzas, incluso el sistema bancario formal. Está basado en resultados de investigaciones teóricas y empíricas sobre la importancia de los servicios financieros para los pobres y establece dimensiones, categorías e indicadores de acceso financiero para examinar qué tipos de servicios financieros y qué tipos de desarrollo del sector financiero podrían servirles para crear oportunidades y apoyarles para lidiar con el riesgo, sin generar nuevos riesgos para ellos. Entendiendo desarrollo con Amartya Sen como liberdades y opciones crecientes para los pobres, se subraya la importancia de las oportunidades de acceso. En relación con servicios financieros importa entonces el acceso a servicios confiables, diversificados, pagables, adaptados y valorizados por los pobres.

Para identificar, qué tipo de servicios financieros pueden crear oportunidades para el segmento pobre de la población, es crucial analizar la situación socioeconómica en la que vive y trabaja la gente. Reconociendo la heterogeneidad estructural que caracteriza las sociedades y economías de los países en desarrollo – y no solamente ellas –, otros modos de producción además de la dominante economía monetaria se hacen relevantes. Generalmente es la economía familiar la que caracteriza la vida y el trabajo de las familias pobres alrededor y dentro de la empresa y del hogar familiar. Sus patrones de vida y trabajo como también la falta de acceso a una sólida red social y servicios adecuados de salud y educación caracterizan a sus necesidades de manejo financiero. Empresas familiares funcionan con base en el potencial de trabajo y labor y en las modestas riquezas y activos de la familia, lo que hace altamente relevante por ejemplo créditos pequeños y de corto plazo para capital de trabajo, porque genera ingreso también para el capital humano subempleado de la familia. Para los miembros de la familia, ahorros y créditos de emergencia pueden ser fundamentales para lidiar con gastos mayores relacionados a eventos del ciclo de la vida y emergencias. En el contexto de la falta de cobertura de seguros y servicios públicos, los microseguros están tomando importancia recientemente. Las investigaciones empíricas con el método 'Diario Financiero' agregan valuables conocimientos pertinentes, a veces sorprendentes sobre los patrones y las necesidades del manejo financiero. Muestran que aquellas familias utilizan una multitud de disposiciones y arreglos complejos y muchas veces bien caros para

acumular o prestar sumas más grandes para cubrir necesidades de gastos sobresalientes con relación a sus hogares y empresas, contando con ingresos no solamente pequeños, sino también irregulares. En estos casos, las microfinanzas pueden constituir una alternativa más confiable, además de ser una opción adicional.

Para profundizar la comprensión de lo que significa el desarrollo del sector financiero para los pobres, es crucial separar diferentes tipos de impacto que muchas veces son asumidos juntos. El único *impacto directo* de las microfinanzas es el manejo mejorado (o empobrecido) de las finanzas por las opciones adicionales, como por ejemplo contar con un lugar seguro para ahorrar, conseguir un crédito (a buen precio?) o asegurando riesgos importantes del hogar o de la empresa. Los impactos de crecientes ingresos en los clientes microfinancieros constituyen *impactos económicos indirectos* que dependen del potencial de la generación de ingresos del cliente microfinanciero. En el caso de créditos para microempresarios, el incremento de las ganancias de la microempresa depende de muchas otras cosas más que del acceso al crédito, como por ejemplo de la demanda local por el producto o servicio ofrecido y de la competencia local. Pero no es solamente el canal del autoempleo el que constituye oportunidades para incrementar los ingresos de los pobres; es también el canal del empleo en el caso de cambios en economías locales posiblemente estimuladas por el acceso a servicios financieros. El tipo ulterior de impacto es el *cambio indirecto general social* que puede ocurrir relacionado a programas microfinanzas, como por ejemplo en el caso del empoderamiento de personas marginadas dentro de sus familias o comunidades o la creación de capital social dentro de la comunidad. Estos impactos sociales más amplios dependen de la gama amplia de servicios ofrecidos. Por ejemplo, enfoques grupales pueden tener impactos grandes sobre los miembros de los grupos y sus familias, pero también sobre sus vecinos y competidores y sus comunidades en general.

El marco de análisis propuesto no plantea ninguna clase de evaluación de impactos. Con un enfoque en los impactos directos, el acceso *de facto* a servicios financieros adaptados a las necesidades del manejo financiero de los clientes pobres está en el centro del marco. Por ende, 'desarrollo del sector financiero en favor de los pobres' es entendido como desarrollo del sector financiero que provee oportunidades valorizadas y accesibles y consecuentemente más liberdades y opciones a los pobres, pero no en términos de impactos indirectos como mayores ingresos u otros cambios en la situación de los pobres. El marco analítico constituye pues un enfoque para investigar este acceso para los pobres, siendo concepcionado como un marco abierto a la introducción de nuevas dimensiones y categorías que se muestren relevantes en nuevos contextos.

La aplicación del marco muestra que es crucial tomar en cuenta las diferentes dimensiones de acceso a servicios financieros. Ellas consisten en la diversidad y costo así como también la amplitud, la profundidad y la durabilidad del acceso, debido a que una institución financiera pueda ofrecer productos bien adaptados, pero solamente en un espacio geográfico limitado, para cierto grupo de clientes o a un precio muy alto. Otra institución de microfinanzas podría ofrecer crédito barato, pero solamente para un período de tiempo limitado. Consecuentemente, es fundamental desagregar el análisis por institución financiera, unidad geográfica y tipo de cliente. El punto de partida para el marco analítico son las necesidades de manejo financiero de los pobres y las líneas generales de marginalización en el contexto general social. Esto se refleja en los criterios analíticos del marco para la revisión detallada de los servicios financieros ofrecidos en el pais entero – visualizado amplia y detalladamente en gráficos, tablas y mapas. Así se analizan los diferentes productos ofrecidos por categorías de productos considerados como relevantes para los pobres, desagregado por tipo de empresa y por empresa individual también. En el caso del Perú, la oferta consiste en los siguientes "productos" típicos: cuentas de ahorro líquidas, ahorro a plazo, créditos microempresarios a corto plazo, créditos de inversión a largo plazo, créditos de emergencia, facilidades para transferencias y remesas y microseguros. De esta manera se elabora una visión detallada de los productos y de sus características claves para los clientes microfinancieros en el Perú. En un segundo paso, se analiza los costos de estos diferentes tipos de productos, como tambíen los cambios en los costos durante la última década. En un tercer paso se revisa los números de clientes usando los distintos productos y su repartición por tipos de servicio y los puntos de acceso a los servicios financieros. El quarto paso consiste en analizar la profundidad del acceso, es decir, si se llega a los más marginalizados. Tanto para investigar la amplitud como la profundidad del acceso se desagrega el análisis a nivel de distritos, de empresas y de tipos de empresas financieras. El análisis incluye todos los tipos de instituciones financieras ofreciendo servicios a clientes pobres. En el último paso, se focaliza en la durabilidad de la oferta microfinanciera en el tiempo. El análisis y los resultados son documentados de manera detallada en el apéndice de la tesis y constituyen una rica fuente de informaciones y conocimientos, especialmente para la lectora y el lector peruanos u otros interesados en los detalles de las microfinanzas en el Perú.

La aplicación del marco analítico muestra entre otros resultados que la existente diversidad de proveedores de servicios financieros en el Perú es fundamental para atender las necesidades diversas del manejo financiero de clientes actuales y potenciales de microfinanzas. Aquello es debido a que ciertos tipos de instituciones de microfinanzas sirven solamente ciertos segmentos de clientes y zonas geográficas o ofrecen solamente cierto tipo de productos. En términos muy generales, se puede decir que el desarrollo del sector financiero durante la última década ha sido positivo en términos de acceso financiero para los pobres. Ha habido un incremento significativo de la gama de productos ofrecidos y el acceso se ha extendido hacia más personas y poblaciones antes marginalizadas. Desde una perspectiva internacional, el mercado microfinanciero peruano constituye un mercado bien desarrollado; no obstante, está todavía caracterizado por una oferta nasciente de microseguros y una oferta limitada de servicios de ahorro seguros que son economicamente atractivos. La oferta de créditos a la microempresa para capital de trabajo está bien desarrollada, pero no tanto en términos de créditos para inversiones y para emergencias. Sin embargo, ciertas regiones geográficas y grupos marginalizados de la población han aun quedado excluidos de acceso a servicios financieros; en parte también por problemas del lado de la demanda, como la falta de educación financiera, de información o de confianza en las instituciones financieras. Tomando en cuenta las futuras perspectivas del desarrollo del sector financiero para los pobres en el Perú, la competencia creciente y las fusiones y adquisiciones por instituciones grandes podrían reducir la oferta diversificada de servicios financieros, que es actualmente implementada através de la diversidad institucional. Sin embargo, estos procesos podrían también ser interpretados como consolidación y endurecimiento del sistema total.

Una oferta diversificada de servicios financieros no es solamente fundamental para los clientes microfinancieros en el Perú, sino también en otros lugares, puesto que los clientes pueden ser desde campesinos muy pobres y habitantes marginalizadas de pueblos jóvenes hasta exitosos dueños de empresas pequeñas o medianas familiares. Para proveer servicios financieros adaptados y por consecuencia servicios financieros que abren oportunidades a los pobres, el reconocimiento de las sus distintas necesidades del manejo financiero es fundamental, y la investigación empírica debe seguir los nuevos caminos. En términos de impacto para el desarrollo, es crucial tener en mente que los impactos directos de las microfinanzas se refieren solamente al manejo mejorado de las finanzas por los pobres. Exigir más de este instrumento, significa contribuir al *backlash* que amenaza de denunciar los esfuerzos microfinancieros, porque no consigan cumplir las promesas exageradas de algunos de sus protagonistas en los últimos años. Vale diferenciar el modesto impacto directo de los otros tipos de impactos, hay de fortalecer estos impactos indirectos económicos y sociales, y, esencialmente, situar las microfinanzas como *un* instrumento dentro de un espectro mucho más amplio de procesos y políticas de desarrollo.

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List of Abbreviations

ACP	Acción Comunitaria del Perú
AFP	Administradores de Fondos de Pensiones (Peru)
AGROBANCO	Banco Agropecuario (Peru)
AIR	annualized interest rate
APR	annual percentage rate
ASBANC	Asociación de Bancos del Perú
ASCA	Accumulating Savings and Credit Associations
ATCB	annualized total cost of borrowing
ATM	automatic teller machine
BBVA	Banco Bilbao Vizcaya Argentaria
BCP	Banco de Crédito del Perú
BCRP	Banco Central de Reserva del Perú
BDS	Business Development Services
BEEPS	Business Environment and Enterprise Performance Survey
BOP	bottom of the pyramid approach
BRAC	Bangladesh Rural Advancement Committee
BRI	Bank Rakyat Indonesia
CCD	Covenant Centre for Agreement (India)
CEDLAS	Centro de Estudios Distributivos, Laborales y Sociales (Argentina)
CGAP	Consultative Group to Assist the Poor
CMAC	Caja Municipal de Ahorro y Crédito
CMCP	Caja Municipal de Crédito Popular
COFIDE	Corporación Financiera de Desarrollo S.A.
COOPAC	Cooperativas de Ahorro y Crédito del Perú
COPEME	Consorcio de Organizaciones Privadas de Promoción al Desarrollo de la Micro y Pequeña Empresa
CRAC	Caja Rural de Ahorro y Crédito
CSR	Corporate Social Responsibility
DFID	Department for International Development (UK)
DFN	Development Finance Network (Ohio State University)
EAP	economically active population
EDPYME	Entidad de Desarrollo de la Pequeña y Microempresa
ENAHO	Encuesta Nacional de Hogares (national household survey)
ENNIV	Encuesta Nacional de Hogares sobre Medición de Niveles de Vida
ESBG	European Savings Banks Group
FAI	Financial Access Initiative (New York, Yale, and Harvard Universities)

FAS	Fundación Alemana de Servicios
FELABAN	Latin American Federation for Banks
FENAREP	Federación Nacional de Cooperativas de Ahorro y Crédito del Perú
FINCA	Foundation for International Community Assistance
FONCODES	Fondo de Cooperación para el Desarrollo
FSD	Fondo de Seguro de Depósitos (deposit guarantee fund, Peru)
GDP	gross domestic product
GEM	Global Entrepreneurship Monitor
HDI	Human Development Index
HPI	Human Poverty Index
IADB	Inter-American Development Bank
ICA	Investment Climate Assessment
ICT	information and communication technology
IDS	Institute of Development Studies (Sussex, Bath, and Sheffield)
IFPRI	International Food Policy Research Institute
ILD	Instituto Libertad y Democracia
ILO	International Labour Organization
ILS	Internal Learning System
IMF	International Monetary Fund
INEI	Instituto Nacional de Estatísticas e Información (Perú)
IPA	Innovations for Poverty Action
IPO	initial public offering
J-PAL	Abdul Latif Jameel Poverty Action Lab
KfW	Kreditanstalt für Wiederaufbau
LSMS	Living Standard Measurement Study
M&E	monitoring and evaluation
MDG	Millennium Development Goals
MFI	microfinance institution
MFP	MicrofinancePractice
MINTRA	Ministerio de Trabajo y Promoción del Empleo de Perú
MMW4P	Making Markets Work for the Poor
MSMEs	Micro, Small and Medium Enterprises
MTO	money transfer operator
NABARD	National Bank for Agriculture and Rural Development (India)
NGO	non-governmental organization
NGO PROMUC	NGO Promoción de la Mujer y la Comunidad
NPL	non-performing loan

OECD	Organisation for Economic Co-operation and Development
PALS	Participatory Learning and Action System
PAR	portfolio at risk (in arrears)
PEN	Peruvian Nuevo Sol
PPA	Participatory Poverty Assessment
PRA	Participatory Rapid Appraisal
RCT	Randomized Control Trials
ROA	return on assets
ROE	return on equity
ROSCA	Rotating Savings and Credit Association
RUC	Registro Único de Contribuyentes (tax registration number, Peru)
SAP	structural adjustment program
SBS	Superintendencia de Banca, Seguros y AFP
SDC	Swiss Agency for Development and Cooperation
SDI	Shack/Slum Dwellers International
SEWA	Self-employed Women's Association
SHG	self-help group
SIS	Seguro Integral de Salud (government integral health insurance, Peru)
SMEs	Small and Medium Enterprises
SPA	Social Performance Assessment
SPIN	Self-Help Promoting Institutions' Network (India)
SPM	Social Performance Management
SUNAT	Superintendencia Nacional de Administración Tributaria (Peru)
SWOT	Strengths-Weaknesses-Opportunities-Threats
TFC	Financiera TFC S.A.
UIT	Unidad Impositiva Tributaria
UN	The United Nations
UNDP	United Nations Development Programme
UNFPA	United Nations Population Fund
UOB	única oferta bancaria (unique financial service provider, Peru)
USD	United States dollar(s)
VAT	value added tax
WBES	World Business Environment Surveys
WSBI	World Savings Bank Institute
WWB	Women's World Banking

PART A - INTRODUCTION

1 Setting the Stage: Trends in Microfinance, Focus of the Study, and State of the Art

> Microfinance has proved its value, in many countries, as a weapon against poverty and hunger. It really can change peoples' lives for the better—especially the lives of those who need it most. Let us be clear: microfinance is not charity. It is a way to extend the same rights and services to low-income households that are available to everyone else. It is recognition that poor people are the solution, not the problem. It is a way to build on their ideas, energy, and vision. It is a way to grow productive enterprises, and so allow communities to prosper.
>
> (Kofi Annan at the official opening of the International Year of Microcredit by the United Nations, 18th of November 2004)

> The life of money making is one undertaken under compulsion, and wealth is evidently not the good we are seeking; for it is merely useful and for the sake of something else.
>
> (Aristotle, The Nichomachean Ethics, Book I.5, c. 350 B.C.)

Microfinance[1], small-scale financial services for poor and low-income populations[2], is currently seen as a powerful and financially sustainable instrument for enhancing development and fighting poverty. International organizations as well as many governments and politicians worldwide have included financial inclusion—the creation of adequate access to finance for unbanked people and their small enterprises—into their development agenda. Regarding the provision of microfinance, different approaches and institution building strategies have been developed, with an increasing commercialization[3] of microfinance and an increasing presence of profit-oriented actors. At the same time, the advantageousness of microfinance for the poor is increasingly being discussed critically, partly based on recent scientific evidence on its impact, which questions the important impacts attributed to microfinance. The commercialization of microfinance and the usage of financial services in general can signify important opportunities as well as considerable risks to the poor. The central aim of this present study is to

[1] *Microfinance* is small and adapted financial services for unbanked people, typically poor and low-income populations, and for micro, small, and sometimes medium-sized enterprises that may or may not have limited access to formal financial services. Microfinance encompasses the full range of financial services relevant for the target group—including savings, loans, insurances, transaction banking, and remittances—, tailor-made for the needs and possibilities of these small clients. Microfinance is largely delivered by special microfinance institutions (MFIs), local savings banks, credit unions, non-governmental organizations (NGOs), and development banks; also, it is increasingly offered by such commercial players as commercial banks, non-bank financial institutions, or insurance companies.

[2] According to Amartya Sen's (e.g. 1999) understanding of poverty, income poverty is understood as one important capability deprivation that constitutes poverty. At the same time, poor people most likely still suffer from other deprivations (see Chapter 2).

[3] Commercialization of microfinance is understood in the present study as the move of microfinance providers towards profit-maximization far beyond cost coverage. Hence, it refers not to the formalization of NGOs and other informal institutions transforming into regulated commercial financial institutions, but to an increasing profit maximization of existing institutions and the entrance of profit-maximizing institutions into the microfinance market.

elaborate a comprehensive framework for assessing microfinance as a tool for pro-poor financial sector development and apply it ultimately to the case of Peruvian microfinance.

In this first Chapter, the origins and current trends in microfinance will be discussed first, addressing the relevance of the subject of the present study. The topic of the study and its structure will be presented in detail at the end of the first section. In the second part, a review of the relevant literature on financial sector development, access to finance, and impact assessment approaches establishes the need for further research into the identified topic. The third part describes the methodology of the study and explains the choice of the Peruvian case study.

1.1 Origins and recent tendencies in 'finance for the poor', purpose and structure of the study

Like many innovations, microfinance is often attributed to the one who made it popular. In the case of microfinance, it is Mohammad Yunus—awarded the Nobel Peace Prize in 2006, jointly with his Grameen Bank, 'for their efforts to create economic and social development from below' (The Norwegian Nobel Committee 2006)—who made important contributions to the notoriety microfinance enjoys today (see Nitsch & Ströh 2006; Armendáriz de Aghion & Morduch 2005: 136f.). But the roots of this popular approach for promoting development date back many years, even millennia. Microfinance or money management arrangements in the forms of small loans, savings, or insurance provided by moneylenders, traders, or group schemes (such as *chit* funds in India, *hui* in China, *tontines* in many African countries) date back to the first millennium B.C. (Seibel 2005: 6; Kane 2002: 296). From the middle ages on, more formalized microfinance schemes developed not only within Europe but also, for instance, in India, with approaches like merchant banking and, later, local loan funds and savings and cooperative banks (Hollis & Sweetman 1997; Geiger 1994; Seibel 2003: 7; Chowdhury, Mosley et al. 2004: 291). It is important to recognize and analyse these roots in order to learn from the advances and obstacles of the past (see Adams 1992; Seibel 2005). Furthermore, many informal arrangements for providing savings and loans to the poor might constitute an important potential for deepening and improving outreach and the possible effects of microfinance, as the case of Indian Self-Help Group Linkage Banking has shown, which builds on connecting informal groups to rural banks (Karduck 2006; Kabeer & Noponen 2005).

Traditionally, banks have generally considered poor clients and small enterprises as risky clients and usually excluded them from access to credit and other financial services (largely for reasons of incompatibility of information delivered by these clients with the banks' information needs, lack of formal guarantees, relatively high transaction costs, or, implicitly, to maintain social distance and so on) (Armendáriz de Aghion & Morduch 2005: 25ff.; Ray 1998: 543ff.; Gosh, Mookherjee et al. 2001). The development of a technology for overcoming asymmetrical distribution of information, (prohibitively) high transaction costs, difficulties in contracting, and other barriers in the lower segment of the financial markets constitutes the foundation of microfinance (cf. Tschach 2000: 3; Villafani-Ibarnegaray & González-Vega 2006: 5). Thus, this microcredit or microfinance technology is a specialized approach developed for serving the formerly excluded clients. It is based on having a close contact with the client; accepting informal, traditional, or alternative information sources; and offering guarantee and products adapted to the clients' needs and possibilities within the local culture (Armendáriz de Aghion & Morduch 2005: 147ff.; Tschach 2000: 65ff.; Adams 1992).

In the 1970s, the first microcredit providers began to serve low-income and poor populations, largely female self-employed and microentrepreneurs, with small loans based on this new client-adapted lending technology which constituted the essence of modern microfinance, although in a more diversified way. The pioneer institutions were often NGOs, like Acción International in Latin America, or small charity initiatives, like the Grameen Bank in Bangladesh. They began by providing loans to groups of borrowers pledging for each others' loan with 'joint liability'. Due to the lack of bankable guarantees, repayments were enforced through peer monitoring and peer pressure. Furthermore, the loan contracts were simple, with small amounts to be repaid frequently and soon after the loan disbursal, and had further dynamic incentives like increasing loan sums as the borrower showed her[4] reliability (Armendáriz de Aghion & Morduch 2005: 13, 85ff.; Tschach 2000: 88ff.). Subsequently developed methodologies for serving individual borrowers generally applied this 'step lending' approach (making larger loans as the client pays back punctually) in combination with establishing a personal relationship with the client, assessing her individual debt capacity, and implementing small and frequent instalments (Armendáriz de Aghion & Morduch 2005: 119ff.; Tschach 2000: 88ff.). From these beginnings developed the contemporary microcredit technologies of the solidarity group and individual microcredit, as well as variations such as the village banking approach, giving larger solidarity groups more responsibility.

However, the fundamental importance of savings and the ability of poor people to save were only discovered during the 1980s (Vogel 1984; Fiebig, Hannig et al. 1999) while the central meaning of insuring and insurances was discovered only in the 1990s (Churchill 2002, 2006). Although there is still a large number of providers today who focus only on microcredit, microfinance—the provision of the full range of financial services for a low-income population—has become widely recognized as the modern approach to microfinance in this millennium, given that 'many borrow, more save, and all insure' (Zeller & Sharma 2000, Chapter 4).

> The term microfinance, originally meant to comprise financial intermediation between savers and borrowers, was created only in 1990. In the mid-1990s it was taken up by CGAP, the Consultative Group to Assist the Poor, which has turned the microcredit revolution into the microfinance revolution and professionalized microfinance. To some extent it has reinvented history not only in Europe but also in Asia and elsewhere where micro- or informal finance and indige-

[4] In order to facilitate the readability of the present text, female personal pronouns are used throughout the study, referring always to both female and male clients, staff, researchers, and so on.

> nous banking have always been based on principles of self-reliance, viability and sustainability. CGAP rediscovered the principles, but not the indigenous financial sector, be it informal or formal. (Seibel 2005: 2)

As indicated in the citation, modern microfinance is also related to a financially viable and sustainable approach. The latter refers to another fundamental change since the time of the early microcredit NGOs: the commercial approach or the so-called Financial Market Paradigm, which constitutes the basis of the development of the currently existing microfinance industry. Seibel (2005: 2) indicates that the long-term viability, which has also been a characteristic of existing local providers of financial services for the poor, did, however, receive less attention in the microfinance community. The services of these informal, semi-formal, or formal local providers are also characterized by frequent and small transactions, often based on reciprocity and trust, using available arrangements for lowering transaction costs. A mix of lending, borrowing, saving, and insuring has been found to characterise informal financial arrangements, thus stressing the importance of conceptualizing financial services of the poor as micro*finance* instead of micro*credit*.[5]

During the late 1990s, it became clear that financial services could be provided to poor people on a commercial base (Vogel & Adams 1997: 366ff.). The main difference between the commercial approach and the previous directed credit or charity-motivated NGO microcredit approach lies in the fact that market interest rates are considered to be not only possible but also necessary in terms of the financial sustainability of the institutions providing microfinance. Financial sustainability, which depended crucially on increasing efficiency of the institutions, besides cost-covering interest rates and strict control of borrower default, signified the key to both mass outreach and the provision of microfinance on a long-term base (see Vogel & Adams 1997; Nitsch 2001: 3; Schmidt 2008: 7ff.). The important changes that the commercial approach brought to microfinance meant a 'microfinance revolution,' as published and announced in Robinson's (2001) book *The Microfinance Revolution: Sustainable Finance for the Poor*.

The new commercial approach was not welcomed by all actors of the growing microfinance community. Different forms of critiques have been prevalent, including from a normative point of view that it might be an ethically questionable form of development aid (e.g., Woller, Dunford et al. 1999) and a practice-related point of view that the related 'best practice model' of a 'win-win' commercial approach is not always the best solution to increase outreach in a sustainable way (e.g., Morduch 2000). Still, the commercial approach has been widely adopted and has led to an important growth in microfinance and the development of a whole industry (Littlefield & Rosenberg 2004: 38). It changed the practice of the institutions providing microfinance, even though many institutions continue(d) to rely on subsidies in a substantial manner when their views changed (Von Pischke 2008: 140ff.). The commercial approach stresses the importance of developing 'durable and sustained relationships among financial interme-

[5] See Adams 1992: 18ff., for first related insights; Matin, Hulme et al. 2002: Chapter 4, for a summary on recent insights into money management arrangements and related preferences of poor and low-income populations.

diaries, creditworthy clients, and depositors' (Vogel & Adams 1997: 374). The former 'beneficiaries' of subsidized or charitable programmes are thus seen as 'clients' paying a market price for needed financial services while the microfinance-providing MFIs have lost their charitable character. The focus on developing sound and broad financial intermediation instead of a 'credit providing approach' is emphasized. Although the problem of financial exclusion seemed to be theoretically solved through the commercial approach as a 'self-supporting commercial system which nevertheless was in the interest of the target groups' (Nitsch 2001: 13), the early 2000s saw the challenge of institution building of sustainable MFIs with a significant outreach.

In the following years, microfinance started to be seen as part of financial sector development (e.g., Littlefield & Rosenberg 2004), which is also reflected in the 3rd key principle of microfinance of the donor consortium on microfinance Consultative Group to Assist the Poor (CGAP): 'In order to achieve its full potential of reaching a large number of the poor, microfinance should become an integral part of the financial sector' (CGAP 2004a).

Since 2005, the microfinance community has been increasingly concerned with ethical aspects regarding a 'misuse' of the commercial approach (Schmidt 2008; Zeitinger 2008). Until the early 2000s, microfinance had been largely delivered by specialized microfinance institutions (MFIs), local savings banks and credit unions, non-governmental organizations (NGOs), and development banks. Although the achievements of these institutions have been important, they were reaching only a minority of the bankable population in the so-called developing countries[6] (DFID Financial Sector Team 2004: 5f.). During recent years, big commercial players, such as commercial banks, non-bank financial institutions, retail store chains, and insurance companies, have begun to enter the microfinance market. These very different organizations present in the current microfinance market—from small local non-governmental organizations (NGOs) to huge development agencies and (commercial) banks—have generally quite different objectives and missions and, hence, widely diverging approaches to microfinance. Linda Mayoux (2000) provides a useful classification of the underlying paradigms of the different approaches that can be observed: Some of the organizations, such as CGAP, focus more on the financial self-sustainability of microfinance, others concentrate on integrated approaches for poverty alleviation and livelihood improvement, and a third group focuses on gender awareness and empowerment of women and marginalized groups. In addition, since

[6] The classification of *developing countries* refers to the grouping used by the International Monetary Fund (IMF) in 'advanced economies' and 'other emerging market and developing countries' (IMF 2006: 169ff.): The group of advanced economies or industrialized countries shows higher levels of economic development (e.g., income per capita) and human development (e.g., Human Development Index rank) than the developing countries. Although the differentiation between developing countries and industrialized countries can be criticized for being (historically) based on a dichotomous understanding of development splitting the world into developed and underdeveloped countries, where the latter are helped 'to catch up' to the former (Lepenies 2008), in the present study the classification helps to group countries without pointing to a specific development path for either one of the groups. In the sense of the used understanding of *development* as *human development*, according to Amartya Sen, all countries could be called developing countries because human freedoms are restricted everywhere to some degree and could (and should) be enhanced.

the Compartamos' Initial Public Offering (IPO) in 2007, another paradigm could be added: the one of profit maximization far beyond financial sustainability.[7] Banco Compartamos' commercial success was due to the very high profits of the bank, which had been made through very high real interest rates—taking over 100% p.a. from their clients, far above their cost-covering interest rate—, and initial subsidies by donors (Epstein & Smith 2007; Waterfield 2008; Malkin 2008). In institution building, the lines between these accentuated paradigmatic approaches are gradual; for instance, between the financial sustainability and the profit maximization paradigms, a moderate for-profit approach could be added, being visualized by overlapping circles as shown in graph 1.1-A.

Further possible classifications of current actors in microfinance are based on their views on subsidy, distinguishing between for-profit and non-profit institutions and cooperatives (Von Pischke 2008: 139ff.), or regarding the type of actor or owner behind the institution, differentiating between the public and private sector or NGO and cooperative or mutual microfinance actors (INAFI 2007: 5ff.). As these categories might also be overlapping, various possible combinations are shown in graph 1.1-A.

The most common distinction, however, is made regarding the institution-building strategy (in the sense of long-term viable institutions;[8] see Krahnen & Schmidt 1984: 81ff.). Since the commercial approach, there are well-known institution-building strategies for modifying existing institutions such as *downscaling* or the 'downward-move' of commercial banks into the microfinance market (e.g., Banco de Crédito del Perú); *upgrading*, referring to the formalization of grass-roots microfinance NGOs (e.g., Banco Sol in Bolivia); and *linking* existing groups or schemes to the financial system (e.g., the Indian Self-Help Group Linkage approach), as well as the complete *restructuring* of an institution (e.g., the Indonesian development bank Bank Rakyat Indonesia, BRI) and *greenfield banking*, referring to the creation of new microfinance banks (e.g., the ProCredit banks) (see Krahnen & Schmidt 1984: 86). Today, other institution-building strategies with the aim of building commercially viable microfinance institutions can be identified from practice: *Complementary banking* is related to the service diversification of providers such as retailers of other than financial services (e.g., Banco Azteca in Mexico). Institution-building strategies with the double aim of organizational and financial sustainability complement the picture with the approaches of *professionalization and formation of federations* of local and mutual microfinance institutions and organizations (such as cooperatives or village banks).[9] Therefore, it is fundamental to recognize that the different institution-building strategies cannot be seen as alternatives, but rather as possible ways for entering or remaining in the

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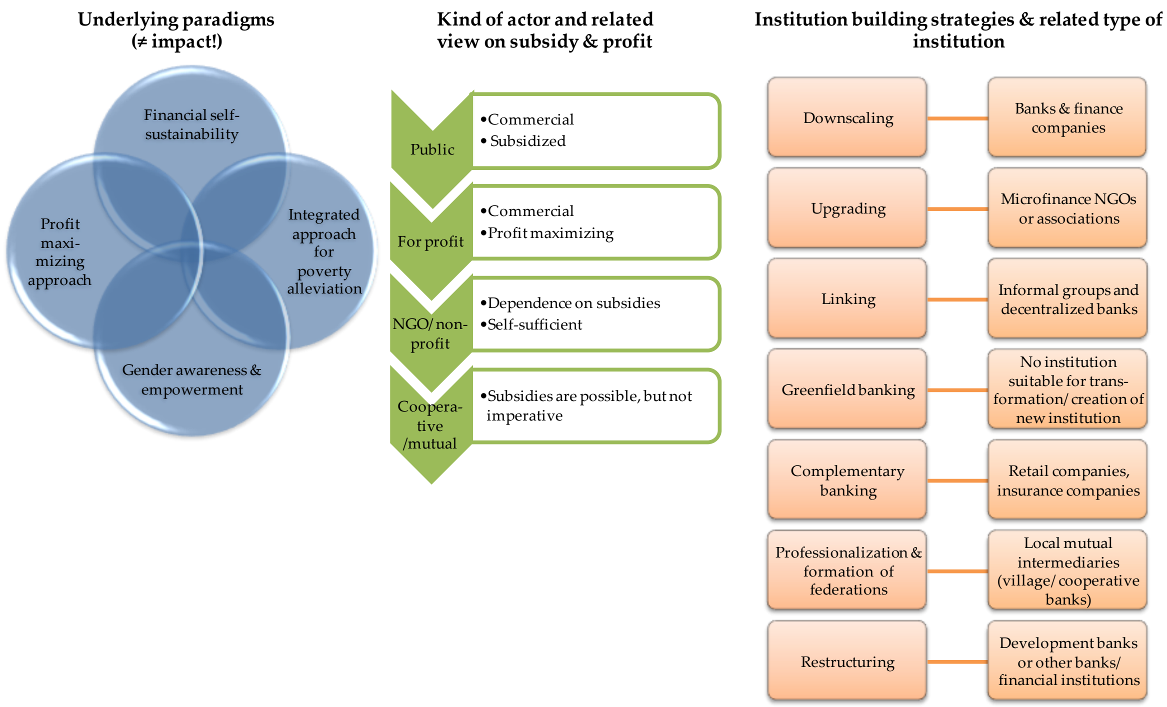
[7] The IPO was widely argued, raising ethical questions concerning high profits made from poor customers, e.g., in webinars—internet seminars—and important internet discussion groups such as the MicrofinancePractice (MFP) and Development Finance Network (DFN) listserves. For a compilation of the numerous discussions, see Houghton, Morduch et al. 2008.

[8] 'Therefore, on the operational level and over the medium-term, which is the normal planning horizon of development bureaucrats, sustainability is an equally important objective: A target-group oriented institution has to be professional, financially and organizationally stable and efficient in order to be permanently able to serve the target group' (Krahnen & Schmidt 1984: 87).

[9] This conceptualization was developed together with Katja Kirchstein.

microfinance market because they depend on the institutional setting available before the transformation (Krahnen & Schmidt 1984: 85) and on the objectives of donors or politicians. Combining the different classification criteria, the following picture of different institutions providing microfinance emerges (see graph 1.1-A):

Graph 1.1-A: Classifying microfinance approaches, types of actors, and institution-building strategies



Source: Own elaboration.

Besides their different origins and orientations, more or less diversified service scopes (between current accounts, savings accounts, different types of loans, insurances, remittances, and pension schemes) and different lending methodologies (e.g., individual, solidarity group, and village banking) characterize a highly divers microfinance sector. Hence, the panorama of institutions providing microfinance services ranges from small local NGOs or MFIs providing a microcredit as a unique product to large MFIs or downscaled banks offering a wide range of increasingly sophisticated microfinance products through a wide branch network or retailing chains offering financing.

The entrance of banks into the microfinance market can be seen as a consequence of the increasing commercialization and, in part, the orientation towards profit maximization of microfinance institutions. The sound returns of some of the most efficient MFIs and the large numbers of potential clients first attracted the interest of commercial actors, as reflected, for instance, in related publications. From 2005 on, for example, the international banking magazine *The Banker* began to publish various articles on microfinance and retail finance in developing countries as a profitable business opportunity with programmatic titles like 'Bring Me Your Consumers, Your Unbanked Masses' (2006) or 'Microfinance Joins the Mainstream' (Brown

2005), which discussed huge growth possibilities due to the large unmet demand (see also 'Banks can reach out to the poor' (2005); 'Microfinance gains momentum' (2005)). In their publication *Small Customers, Big Market: Commercial Banks in Microfinance* Malcolm Harper and Sukhwinder Singh Arora (2005) show, with the help of 18 case studies from 15 countries, how commercial banks have successfully engaged in providing financial services to low-income people. Downscaling is, hence, one of the institution-building strategies that have lately gained importance (see Arun & Hulme 2008: 5; UNCDF 2005a; Marulanda & Otero 2005a: 5ff.). Thereby, interest has come not only from the side of the financial institutions looking for 'The Fortune at the Bottom of the Pyramid' (Prahalad 2005) but also from the side of the donors or local governments aiming at private sector cooperation for development, not simply in the case of financial sector development (Rodríguez & Santiso 2007: 8; Petkoski, Rangan et al. 2008). Thus, banks are serving microfinance clients with increasingly sophisticated technology. Constituting, on the one side, an opportunity to increase outreach, this change might lead to losing contact with the clients, which has been recognized as central to the success of microfinance, or might carry other risks.

Today, microfinance has become a global industry interlaced with the important involvement and engagement of a wide range of actors beyond the traditional microfinance sector (Arun & Hulme 2008: 1). Deepening the domestic financial markets is one of the resolutions adopted by many international development conferences since the Monterrey Conference on Financing for Development in 2002, which outlined the importance of microfinance for its social and economic impact (United Nations 2002: 4).[10] The United Nations declared the year 2005 the International Year of Microcredit and stressed the general relevance of microfinance for the achievement of the Millennium Development Goals (MDGs), classifying microfinance even as a necessary means for achieving the MDGs in low-income countries (UNCDF 2005b: 3). Furthermore, there are specific microfinance-related campaigns like the Microcredit Summit campaign, which lobbies for reaching the 175 million of the world's poorest families with credit to 'ensure' that 100 million families rise above the '1 USD a day' poverty line (Daley-Harris 2007: 3).

Regarding NGO work, there are different degrees of involvement in microfinance, ranging from a large number of NGOs with increasingly important microfinance components within other programmes like the area of food security (e.g., Freedom from Hunger's Credit with Education programme) to NGOs being dedicated exclusively to the provision or promotion of microfinance (such as FINCA International in the first case and the ACCIÓN International Network or PlaNet Finance in the second case). The commitment of the most important national and international cooperation agencies and organizations to microfinance is expressed

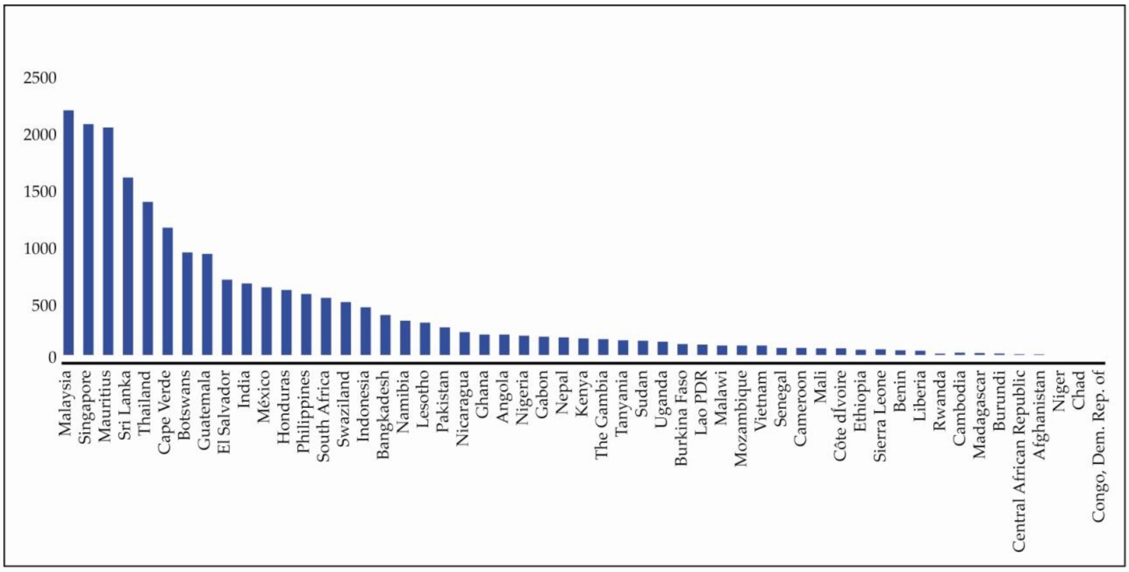
[10] Other examples of international development agendas that highlight the importance of microfinance for poverty reduction are the G8 Declarations of 2004 and 2005, the UN 2005 World Summit, the Commission on Private Sector Development, the Brussels Program of Action, the Africa Commission report (UNCDF 2005b: 3), and recent initiatives by regional development banks like the Inter-American Development Bank ('Opportunities for the Majority Initiative' 2006) and the Asian Development Bank (Microfinance Development Strategy 2000), as well as an increasing number of related conferences and programs funded by important donors.

by their membership within CGAP.[11] The list of participating organizations underlines the importance of microfinance in the international discussion on development aid and cooperation and is reflected in yearly expenditures of about 1 billion USD and estimations of the total amount of funds invested in microfinance by development agencies, development banks, donors, and private investors of 11.7 billion USD (CGAP 2008).

Furthermore, microfinance or financial inclusion has become a constitutive part of most national development agendas, not only of developing but also of industrialized countries. In the latter, the challenge consists in reducing financial exclusion of a rather small part of the population of largely socially excluded people experiencing difficulties with access to finance. Bank account access rates are typically above 80%, rising to 99% in some countries. In most developing countries, the challenge lies in providing access to finance for the majority because only a small part of the population has access to finance, with access rates to bank accounts around 10-20% (Peachey 2006: 23). These very broad estimates and generalizations help to distinguish between the different kinds of challenges in developing and industrialized countries but do not differentiate between countries or, within countries, between rural and urban areas and different classes of society, where access to finance varies significantly. The following estimates published by the World Bank Group (2009: 7) provide a further approximation of one dimension of access to finance in developing countries and emerging markets. The number of bank accounts per 1,000 adults is taken as a proxy for the likelihood of being banked in 54 countries, exclusive of industrialized countries. It shows the highest values for the 'Asian tiger countries', with two accounts per adult, and the lowest for central African countries, with barely any accounts per 1000 adults (see graph 1.1-B). Methodologically, this approximation is not unproblematic, but it represents the most recent cross-country estimates available and gives a broad idea of the huge existing differences in usage of accounts. For a detailed discussion of access to finance and ways to assess it, see section 1.2.

[11] Members are regional development banks, such as the African and Asian Development Banks; national development agencies of most industrialized countries, such as the Canadian International Development Agency; national development banks, such as the German Kreditanstalt für Wiederaufbau (KfW); the World Bank; regional development banks, such as the IADB; and international organizations, such as the United Nations Capital Development Fund. For a complete list see http://www.cgap.org/p/site/c/template.rc/1.26.1380/?page=print (accessed 4 September 2009).

Graph 1.1-B: Number of bank accounts per thousand adults in developing countries (2008)



Source: IBRD 2009: 7.

With the aim of deepening national financial markets, governments and related institutions have pursued different strategies, ranging from direct interventions in the respective financial systems through specific regulation and supervision to incentives and support for specific financial institutions. The wide range of policy measures and approaches translate into, for instance, adopting new laws and norms in banking (like the Brazilian *bancarização* with law no. 10,735 from 11 September 2003), introducing special legislation for microfinance institutions (like the Microfinance Institutions Act in Kenya and the introduction of *Ley de Ahorro y Crédito Popular* in Mexico), creating the conditions for the cooperation of different institutions (like the Self-Help Group Linkage Programme in India), providing microfinance though government-led schemes (like the government-directed programmes through local banks in Uzbekistan), introducing microfinance in public development banks (like BRI in Indonesia), or working out agreements with the private sector (like the 'account for everybody' in Germany). Microfinance policies can be found across very different countries and governments because the term *financial inclusion* does not imply a specific political orientation or ideology and can be realized through a combination of a variety of measures and approaches (such as Small and Medium Enterprise (SME) promotion, rural development, or small-scale agriculture policies). Furthermore, there are numerous cooperation arrangements between the different actors, such as national governments, development agencies, donors, investors, and development banks with the local business community and microfinance institutions for serving and developing the local microfinance market while also increasing competition and rivalry among different actors. A typical case is the support to MFIs by development banks working as second-tier institutions, with the same banks competing with MFIs through their first-tier business (e.g., BANSEFI in Mexico).

Lately, however, the enthusiasm for the commercial approach or the recognition that microfinance can be delivered in a commercially viable way, hence delivering 'development aid' at almost no cost, has changed into dismay about its increasing conversion into a profit maximizing approach and doubts about its impact. The mentioned Initial Public Offering (IPO) of the Mexican Banco Compartamos in April 2007 can be seen as the 'awakening moment' for the industry as large private profits realized on the backs of the poor have been made more possible by public funds (see Houghton, Morduch et al. 2008). More general doubts about the developmental impact of microfinance were, however, already being discussed before Compartamos' IPO. Persistent high poverty rates in well-developed microfinance markets, such as Bolivia or Bangladesh, and an increasing conscience about the lack of sound evidence concerning the impact have contributed to increasing doubts and critical discussion on microfinance. The recent anthology *What`s Wrong with Microfinance*, edited by Thomas Dichter and Malcolm Harper (2008), expresses the disillusionment of important microfinance practitioners and experts, pointing to the difficult and critical topics that have been widely ignored during the last decade of increasing enchantment with microfinance. Accordingly, the enthusiasm for microfinance as a tool for widespread and low-cost poverty reduction is increasingly questioned within the development community as well as the general public. The case of Compartamos has probably contributed to spreading the doubts and critical discussions to a wider public (see Epstein & Smith 2007).

The authors of the cited anthology also point to another fundamental problem of microfinance as an instrument for enhancing poverty reduction, which is particularly critical considering the size of funds and interest microfinance attracts: There is still very little evidence of the impact widely claimed with microfinance. This lack of evidence is especially true for the various effects beyond the improvement of financial management by the poor, hope for widespread poverty reduction, local economic growth, and empowerment of women. These effects are rather generally assumed, even if microfinance can, at best, realize contributions to some positive changes. The negative implications that microfinance can also have, such as debt cycles or increasing domestic violence, are largely neglected in the debate (see section 1.2 and Chapter 4). Important positive expectations have been formulated not only by many MFIs and NGOs but also by the powerful donor consortium CGAP, which stated in its 2nd 'Key Principle of Microfinance' that 'Microfinance is a powerful tool to fight poverty'. Poor households use financial services to raise income, build their assets, and cushion themselves against external shocks' (CGAP 2004b: 2). On the official page of the International Year of Microcredit 2005, the United Nations declares that '[m]icrocredit has been changing people's lives and revitalizing communities since the beginning of trade. Currently microentrepreneurs use loans as small as $100 to grow thriving business and, in turn, provide their families, leading to strong and flourishing local economies' (UN 2005). Furthermore, financial sustainability, even though a widely-accepted aim in current microfinance, is estimated to have been achieved only by 3-5% of the existing MFIs (Allen 2008: 49). However, regarding the importance of these MFIs, it must be recognized that there is an important concentration within the large institutions—with estimates of 80% of the clients being served by fewer than 10% of the largest MFIs—, which tend to be the sustainable MFIs (Allen 2008: 49).

Furthermore, exaggerated expectations related to microfinance are critical not only because of the Compartamos case and doubts about the depth and sustainability of impacts, but also because they attract development aid funds that could have been invested into other projects. Additionally, the recent 'run' on microfinance might attract nonspecialized providers to an area in which the in-depth knowledge of the clients and carefully adapted services are the base of the success of microfinance provision (Dichter 2007: 2). Another danger is that the enthusiasm of microfinance as a market-based development approach under-emphasizes both the protection of the poor as vulnerable consumers and the fundamental role and responsibility of the state for poverty reduction (Karnani 2008). From a perspective of political economy, microfinance as a market-based approach can also be seen as an opportunity for governments to withdraw from (expensive) welfare and social security measures.[12] Understanding microfinance as a 'political safety-net' might take pressure from structural inequalities, such as land ownership (Bond 2007: 244). Of course, the market-based approach might also be used to leverage public intervention with private funds and complement microfinance with specific government intervention, as exemplified by Brazil's new subsidized social security scheme for the self-employed and microentrepreneurs.[13]

Besides the hidden agendas of many actors promoting microfinance without a deeper look into the expected and unexpected outcomes and impacts (e.g., its being a very convenient way to channel funds of development banks), the exaggerated expectations are sustained by an unholy mix of too many success stories and too little systematic empirical research or too little interest paid to the more critical results. On the one hand, success stories about 'successful poor woman entrepreneurs' are not only omnipresent in the media, but also in the reports of the microfinance community (see, e.g., Daley-Harris 2007: 3ff.). On the other hand, impact assessments show mixed results, and there is little sound scientific evidence regarding long-term effects of microfinance (Bebczuk 2007: 40; Sievers & Vandenberg 2007: 1346; see section 1.2.2). However, measuring the many dimensions of impact of microfinance still remains methodologically difficult and expensive, thus partially explaining the resistance of donors and MFIs to commissioning expensive studies with doubtful results. During recent years, however, some advances have been made in developing cost-effective, practice-oriented, and scientifically sound approaches. Nevertheless, these efforts still show important limitations; among others focussing only on an analysis at institutional level.

[12] Governments in developing countries also have been using microfinance as a low-cost intervention for 'mitigating the social cost of adjustment' with structural adjustment programs (SAPs), e.g., implemented by the centre-right government of Bolivia when thousands of former employees in state-owned enterprises fell into self-employment (Velasco & Marconi 2004: 520).

[13] Since July 2009, previously informally working self-employed and microentrepreneurs can join social security with a reduced (thus subsidized) contribution of 11% of the minimum salary (51,15 Brazilian Real, initially) and gain access to health, maternity, and pension benefits for themselves and their families (complementary law no.128, from 19 December 2008, Ministério do Desenvolvimento 2009; see also http://www.previdenciasocial.gov.br, accessed 15 October 2009).

The subject of this present study emerges from the situation of the microfinance sector outlined above, in which a huge interest by the development community meets market tendencies of increasing commercialization and a new profit-maximizing orientation in microfinance. This situation is accompanied by a persisting lack of comprehensive and sound evidence, widely assumed important impacts, and uncritical enthusiasm for this market-led development approach in the fast-growing microfinance community. As will be shown, existing approaches do not provide adequate conceptual and methodologically sound frameworks for assessing changes that commercialization or other financial market developments might cause at the regional or financial system level. The present study is intended to fill this gap and to elaborate a framework for a comprehensive analysis of current developments in the microfinance market with regards to possible benefits and risks for the poor. The focus of the present study is on deepening the understanding of which kinds of financial services and financial sector development can serve low-income populations in terms of creating opportunities for the poor and helping them to cope with risk, instead of creating new sources of risk. In other words, the central subject of the present study is the conceptualization of what can be understood as pro-poor financial sector development and the elaboration of a framework to assess it. Therefore, the perspective of this study goes beyond the perspective of a single institution and its clients, including effects on non-clients, their families, and their enterprises. Thus, the proposed concept and framework of pro-poor financial sector development analysis focuses on financial sector development from the perspective of adequate financial inclusion for the poor, their families, and their communities. Possible macro-level economic development effects due to specific forms of financial sector development affecting the lives of the poorer part of society go beyond the scope of the present study and are, consequently, not discussed here.

Hence, the present study aims at shedding light on the degree to which some of the current tendencies in microfinance can be seen as beneficial for the poor. In order to obtain respective insights, the study not only aims at developing a suitable framework, but also at applying it to a specific empirical case. Recent financial sector development in Peru has been chosen for analysis because it is one of the most developed and diversified markets, with significant commercialization and growth trends that bear both a great potential (regarding the numbers of clients who can be reached in a short period of time) and considerable risk for the clients and for the entire national microfinance sector. The perspective taken for assessing whether the changes can be seen as beneficial for the poor is that of the national financial system. Thereby, the aim is to consider effects both for clients and non-clients, their families and communities, and related microfinance market dynamics.

The structure of the present study is as follows: In this first Chapter and Part A of the study, the introduction of the subject of the study is followed by a discussion of the state of the art in existing approaches for assessing access to finance and measuring its effects. For assessing changes from the perspective of pro-poor financial sector development, existing frameworks are reviewed and discussed in section 1.2. Although there have been important advances in methodologies for assessing impact and changes related to microfinance, the available approaches either focus on different types of research questions, are elaborated for being used only at the financial institution level, or show important conceptual or methodological shortcomings. This lack of an adequate available framework for exploring institution-building strategies in microfinance and financial sector development from a pro-poor perspective in a comprehensive way at the financial market level leads to the need for elaborating an own analytical framework. In the last part of this Chapter, the research design and methodology of the study and the rationale for selecting the Peruvian case are addressed.

The proposed pro-poor financial sector development framework is developed in Part B of the study. This framework is based on review, analysis, and further elaboration on theories and empirical research results related to pro-poor financial sector development. In this part, the second Chapter develops a crucial part of the foundation of the analysis on how far and why financial sector development and microfinance can be beneficial to the poor: the understanding of poverty. It is inspired by how poor people themselves perceive poverty and follows Sen's (1993, 1999) capability approach. This concept underscores that poverty—and hence development—is related to much more than its widely cited income dimension and depends on the many dimensions of human life, in which poverty manifests itself as the lack of capabilities and development as the expansion of the same. The present study aims at assessing not only short-term but also possible long-term and wider effects of current tendencies in microfinance, including related market dynamics. This assessment requires a broad understanding of the links between finance and enhanced freedoms for the poor.

In Chapter 3, the relevance of finance to economic development is discussed. Therefore, the theory of modes of production, conceptualized as socioeconomic formations as developed by Nitsch (2002a), provides insights into the economic structure of generally structurally heterogeneous developing countries. The recognition of the coexistence of different socioeconomic formations or modes of production within the same country or region acknowledges the complexity of the world and reality. Finance is demonstrated to fulfil different functions, depending on the societal and economic formations of the context, such as monetary and family-led modes of production. Particularly, the latter and their linkages to the dominant monetary mode of production appear to be relevant for the following analysis and are explored in more detail. Thus, the review of theoretical foundations is crucial to making evident and discussing the assumptions of existing analyses, studies that the microfinance approaches themselves are based on. As Keynes (1936: 383) points out in the last passage of his *General Theory*, '[p]ractical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist', which underlines the importance of reviewing the theoretical foundations for making the underlying assumptions visible and discussing them.

In Chapter 4, empirical evidence, insights from practitioners, concepts regarding usage patterns, financial instruments valued by the poor, and related effects for the poor are reviewed. Based on this analysis and the theoretical foundation laid in Chapters 2 and 3, a new classification of effects of microfinance on poverty reduction and development is proposed: Different kinds of effects are separated into the categories of directly finance linked, indirect economic, and wider social effects, and the micro and aggregated analytical perspectives are distinguished to provide more conceptual clarity. Conclusions on the usage patterns, preferences of the poor and possible effects reviewed are the basis for the analytical criteria to be included in the proposed framework. Therefore, the insights from practitioners' studies are considered along with scientific evidence because the latter is still scarce. The lack of reliability and sound assessment approaches in the practitioners' studies is addressed by considering the insights from the field as inspiration for building the categories of the framework, without using the results on impacts of these studies. The categories of the framework need to be assessed in a sound way and an approach adapted to the specific aim of the respective study, considering the drawbacks of traditional impact assessment studies (see section 1.2.3).

Finally, the framework for assessing a pro-poor financial sector is elaborated and presented in Chapter 5. This framework is elaborated based on the theories and different kinds of knowledge analysed. The discussed concept of poverty and the understanding of the link between finance and pro-poor development build the normative-theoretical foundations, and the analysis of usage patterns and different types of effects of microfinance provide the analytical categories.

In Part C, Chapter 6, the elaborated pro-poor financial sector development framework is applied to the particularly interesting case of recent financial sector development in Peru. The application of the different categories of the framework is thereby preceded by a contextualizing analysis of poverty and marginalization in Peru as well as an overview of the Peruvian microfinance market. Thus, the first section of Chapter 6 discusses the context of poverty and development in the Peruvian society, patterns of marginalization, and the importance of self-employed and micro and small enterprises for employment and economic development in the country. The second section addresses important recent tendencies in the financial sector and microfinance development, characterizes particularities of demand for microfinance in Peru, and the third section elaborates on the types of financial services relevant for microfinance clients. After this contextualization, the proposed pro-poor financial sector development framework is applied dimension by dimension to the case of financial sector development during the last decade in Peru.

The final Part D, includes the summary and discussion of the findings and elaborates on further perspectives. In the first part of Chapter 7, the results and insights related to the analysed theories, developed concepts, proposed analytical framework, and application of the framework to the case of Peru are reviewed and discussed. In the final section, further insights into pro-poor financial sector development and current trends, need for further research, and future perspectives are explored.

1.2 State of the art: Approaches related to pro-poor financial sector development

The current section reviews and discusses the literature on the primary topics for this present study. Different types of research approaches for assessing financial sector development, microfinance, and possible effects on the poor are reviewed. Because most research on financial sector development in the context of development focuses on access, this concept is defined and related research results are presented and discussed. Generally, these concepts do not assess what the changed situation of access to finance could mean to the poor. Thus, in a third step, existing approaches for assessing the impact of microfinance on the poor are reviewed, confirming the lack of an adequate framework for assessing the subject of the present study. The last topic discussed is that of usage patterns. Because access needs to be separated clearly from usage and the lack of an adequate approach points towards the need of elaborating a new framework, current knowledge about how poor populations use financial services and what their preferences are is central to this present study.

The following literature review includes a large number of practitioner reports, grey literature, working papers, books, and policy research papers because scientific literature tends to be very scarce in the field of research on pro-poor financial sector development, particularly focusing on the aspect of financial inclusion and effects on the poor. Only very recently has the number of journal articles on microfinance and pro-poor financial sector development and scientific research on the impacts of microfinance been increasing, a development that will also be discussed.

1.2.1 Defining and assessing financial sector development and access

Understanding and measuring access is important for discussing financial sector development, and most research on financial sector development focuses on access. However, access is not an easy concept to grasp, nor is it easily measurable, and it is often mixed up with usage. Accordingly, first, this important fundamental concept is defined as developed in recent publications; then, frameworks for assessing access and financial sector development are discussed, and in a last step, related empirical evidence is presented.

1.2.1.1 Defining access and usage of financial services

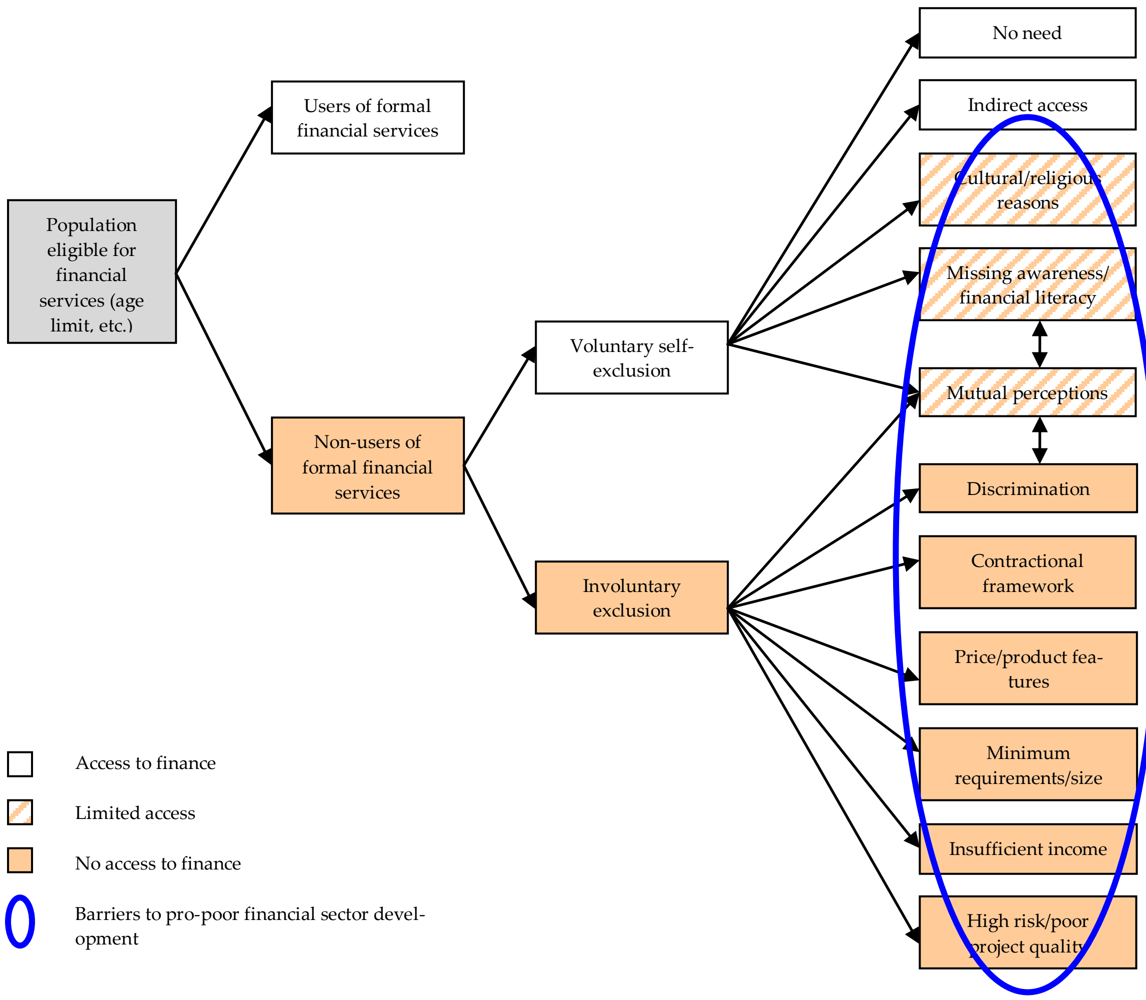
> Access to finance is not the same as use of financial services. Access refers to the availability of a supply of reasonable quality financial services at reasonable costs, where reasonable quality and reasonable cost have to be defined relative to some objective standard, with costs reflecting all pecuniary and nonpecuniary costs. Use refers to the actual consumption of financial services. (Classens 2006: 4)

The difference between usage—the consumption of financial services—and access to finance, which refers to the availability of financial services in terms of 'accessible supply', is fundamental. The notion of access turns the thought of 'supply of reasonable quality financial services at reasonable costs' the other way round: the absence of price and non-price barriers. Considering possible barriers, it becomes evident that both usage and access result from the interplay of supply and demand, as well as the general macroeconomic, institutional, and societal contexts that frame all kinds of economic activity. Accordingly, to assess access, demand-side barriers have to be considered along with supply-side barriers. However, these barriers are neither given nor self-evident, which partly explains the different definitions of *access*.

The criterion seen as the conceptually clearest is the absence of any kind of barriers to using financial services, as proposed in one of the latest policy research reports of the World Bank (2008: 27): 'Financial inclusion or broad access to financial services, is defined here as an absence of price or non-price barriers in the use of financial services'. Thus, the crucial point is the absence of systematic price and non-price barriers discriminating against certain groups of potential clients. It does not mean that anyone who would like to have access to finance should be able automatically to borrow a desired amount without a previous examination of the person's indebtedness capacity or to transmit funds internationally without any restrictions and information obligations (Demirgüç-Kunt, Beck et al. 2008). Considering the crucial absence of any systematic barriers, supply-side barriers define an essential part of the access situation (Demirgüç-Kunt, Beck et al. 2008), but demand-side barriers also play an important role. These can consist of lacking financial literacy, among other barriers, and thus systemic self-exclusion by a certain group of potential clients from the use of financial services, specific kinds of financial services, or financial service providers. *Financial literacy* refers to the ability of individuals to make appropriate decisions in managing their personal finances.

Finally, supply-side and demand-side barriers are also interdependent. For instance, the discrimination of a certain group of potential clients can lead to a systematic self-exclusion of a wider group of people. In graph 1.2.1-A, different types of barriers are listed, and the differences between access and no access to financial services are shown through different colours. Thereby, the decisive factor is not the difference between users and non-users, but barriers to access and whether the exclusion from usage is self-determined or not. Voluntary self-exclusion might be largely due to the lack of need of financial services (at a certain point in time) but also the existence of indirect access, for example, through family members. Socio-cultural or religious reasons might be reasons for self-exclusion, but they also constitute barriers of access due to the lack of adapted financial products offered. Hence, self-exclusion exists as long as it can be considered to be a deliberate decision of the people themselves. In terms of lacking awareness and the lack of financial literacy, the decision of not using financial services is no longer 'fully deliberate'; thus, they constitute demand-side barriers. Furthermore, they are closely related to the existing supply-side conditions because a lack of exposure and information about financial services often leads to a lack of awareness and low, thus exclusionary, levels of financial literacy. Besides this general impact of the conditions of the supply of financial services for the development of the demand-side, discrimination against certain groups of potential clients, in particular, can lead to 'voluntary' self-exclusion because it strongly frames the behaviour of the specific group since its members have experienced involuntary exclusion due to discrimination previously. Other reasons for involuntary exclusion of potential clients occur in the specific conditions of contracts and informational requirements for being eligible for financial services. Furthermore, high prices or specific price structures, product features (such as products designed for clients with regular incomes), as well as minimum requirements (such as minimum balances for accounts) or minimum size criteria (such as minimum amounts of credits disbursed) can result in exclusion barriers.

Graph 1.2.1-A – Differences between usage and access to finance and barriers to pro-poor financial sector development



Source: Own adaptation and interpretation of Demirgüç-Kunt, Beck et al. 2008: 29.

Hence, among different factors leading to involuntary exclusion from financial services, the factors that matter to 'access for all' and others that depend on individual characteristics of the consumer must be differentiated. *Financial exclusion*, in terms of financial system development, refers to the systematic involuntary exclusion of clients that could have used at least some financial products and would have benefited from them. It does not refer to individual exclusion because of individual high risk or low income, generally found in the case of debt-related financial services. These carry risks and harmful dependencies both for the client and her financial institution. At the same time, it should be noted that it is not through categories of 'high risk' that specific groups of clients are excluded, that is, for reasons of social distance from the bank or difficulties with accomplishing the regulation requirements that are associated with high risk by the bank. In considering low income, a bank could argue that a client cannot be served or is not able to access the bank's financial products, instead of offering, for example, tailor-made small-scale products. Still, it might be a reasonable decision not to lend to such a client. Graph 1.2.1-A summarizes the concept of access used within the present study. The barriers that impede pro-poor financial sector development are marked with a blue circle, including some demand-side barriers. These demand-side barriers can be addressed directly, for example, through financial education programmes, but can also be reduced by specifically adapted services, offering, for example, *halal* financial products. Mutual erroneous perceptions can also constitute persistent barriers between potential clients and financial institutions, which might be dissolved by offering guided client visits from the supply side or by new information on financial institutions reaching the demand side.

Once access is understood in terms of absence of systematic barriers that refrain people from using financial services, these barriers or limitations can be grouped and categorized in different manners. In their theoretical paper on 'the basic analytics on access to financial services' by Beck and de la Torre (2006: 4), the authors categorize the barriers in terms of geographic limitations (absence of bank branches and delivery points in remote areas), socioeconomic limitations (lack of access of specific social or ethnic groups, due to rationing, financial illiteracy, discrimination) and limitations of opportunities (lack of access for new profitable projects due to lack of formalized collateral, business connections). In his study on existing data on access to microfinance, Honohan (2005: 8) distinguishes between 'price barriers (service is available but too expensive), information barriers (e.g., poor household's creditworthiness cannot easily be established) and product and service design (banks fail to offer the kind of services that would be most useful for poor households)'. Even though Honohan does not consider the demand-side barriers, the idea of access through the form of absence of barriers is highlighted.

1.2.1.2 Frameworks modelling financial sector development and the focus on pro-poor access

Since the 1990s, the importance of private sector involvement and a commercial approach for poverty reduction on a large scale has been recognized among an increasing number of national and international development players and has been applied to microfinance through the Financial Market Paradigm or commercial approach. In many current approaches of international organizations, such as the United Nations, the discussion on the provision of commercial microfinance, as well as the 'Bottom of the Pyramid' (BOP) approach (Prahalad 2005), can be seen in close relationship to the 'Making Markets Work for the Poor' (MMW4P) approaches. The MMW4P approaches try to assess market development and effective access to different kinds of products or services. The MMW4P framework focuses on the markets themselves as main subjects of analysis, based on the insights of new institutional economics, and tries to make markets work for the poor as consumers and producers in terms of expanding their choices with a focus on policy recommendations. Some institutions, such as development agencies like the UK Department for International Development (DFID) have even focused part of their efforts on improving the approach for enabling markets. David Porteous (2004, 2005) works with the MMW4P approach analysing financial sector development in South Africa. He tries to assess the way financial markets can work for the poor in terms of the ultimate goal of expanding the choices of poor people.

However, increases in choices people enjoy are difficult to measure, depending on numerous soft indicators and personal preferences. Some studies try to assess access to finance exploring the accessibility and appropriateness of existing financial services for the poor: 'While markets work in a variety of ways, ultimately they benefit the poor by being accessible and appropriate' (Gibson, Scott et al. 2004: 7). Still, accessibility and appropriateness are demanding and slippery concepts, intricate to assess, if not impossible, without strong value judgments. In the case of appropriateness, it might be possible to agree on what is inappropriate (such as money laundering), but quite impossible to agree in the positive sense because *appropriateness* always refers to the specific market conditions, consumer preferences, and product specifications (Porteous 2004: 9ff.).[14] Besides, the concept of appropriateness implies a strong 'decision-maker bias' in terms of unequal agendas of the market participants, so that the question of the appropriateness of a certain service or product will likely be different whether poor people themselves, financial institutions, or politicians decide. It is even more problematic because decisions are often made by political decision-makers, consultants, or financial institutions and most likely will not converge 'naturally' with the opinion of poor people, who will probably have different opinions. Considering accessibility, it can be particularly difficult to separate the question of access to a certain product from the question of the consumer's choice of using the product, thus possibly leading to confusion, for example, about apparently high levels of access and low levels of usage because of a low demand that may be, in fact, caused by the consumers' choices not to use the product because they see it as unsuitable (Porteous 2004: 47). The indicator of 'effective access' developed by FinMark Trust, which considers the dimensions of geographic access, affordability, and product features affecting access, also remains vague in the last two dimensions, which were shown to be difficult to apply (Porteous 2004: 47f.). Although the framework of effective access remains vague about some of the dimensions proposed for analysis, Porteous (2004: 10f.) introduces the two useful concepts for operationalizing the accessibility and appropriateness of services in the context of pro-poor market development. However, these concepts of increasing usage and existing alternatives do not constitute a framework that can be applied but provide useful analytical procedures or

[14] A good example of the difficulty to determine appropriateness 'from outside' is the use of a cell phone by poor people. A decade ago, mobile phone technology had widely been judged as inappropriate for the poor because of its high cost and the lack of numeracy of poor people (Porteous 2004: 9). Nowadays, cell phones are being used by millions of poor people, and the large numbers of new customers are largely from developing countries. The World Information Society Report (2006) showed the positive development of the information society and the reduction of the digital divide in countries like Russia, China, and India and estimated more than 3 billion cell phone users by 2008 (ITU 2006).

categories, which will be taken up for the construction of the proposed framework in Chapter 5 of this study.

Among the approaches focusing more explicitly on access, different ways of assessing the 'access frontier' have been developed in the context of MMW4P research. The first access frontier analysis tool can be situated in the DFID financial sector approaches. It assesses the stage of development of a respective market for identifying different market policy zones. The aim is to assess the potential of market-based solutions to serve unserved people (Porteous 2005: 9), using *access frontier* to refer to the 'maximum percentage of people who can access a particular product on current terms and conditions' (Porteous 2005: 3). Thereby, access is understood in a dynamic context, and the policy zones refer to groups of clients who (i) already have access, (ii) could have access now, (iii) will be able to access a certain product or service within the near future, (iv) will not be reached by the markets in the future, or (v) do not want to use the respective products or services. The clients in the policy zone without market reach in the future are also called the 'supra-market group' and are, consequently, a case for some kind of public intervention (Porteous 2005: 10).

Another approach for defining the access frontier can be located within the World Bank research on access to finance. The 'access possibilities frontier' aims at specifying different kinds of access problems. Considering demand and supply constraints that result in geographic, socioeconomic, and opportunity-affecting limitations, the market results are considered as constrained optimums (Beck & de la Torre 2006: 4f.). 'Access problems' in terms of the access possibilities frontier approach can arise (i) when the financial system remains below the constrained optimum, (ii) when the constrained optimum or access possibilities frontier is too low relative to the frontier of other countries with comparable economic conditions, and (iii) in the case of credit markets, when the observed market outcome is excessively high compared to the access frontier, thus imprudent lending drives the market outcome for credits allocated beyond the constrained optimum (Beck & de la Torre 2006: 5). Besides the mentioned frameworks, there are further specific approaches for modelling access, such as the 'inefficiency-insufficiency-feasibility-gap' framework for rural financial deepening by Gonzalez-Vega (Gonzalez-Vega 2003). However, that framework aims at conceptualizing the access problems of rural finance from a theoretical point of view with the help of the three mentioned gaps, but it does not provide a framework for assessing financial sector development.

All these approaches and frameworks can be used for approaching financial system development in terms of access, inclusively access for the poor, but they do not provide approaches for assessing financial sector development in terms of pro-poor financial sector development. Although access for the poor can be thought of as one dimension of pro-poor financial sector development, the frameworks do not aim at assessing whether the kind of access provided will also be useful to the clients. Moreover, the definition of the kind of outreach remains rather vague in the frameworks discussed. There is, however, a helpful approach that goes one step further: Mark Schreiner's (2002) framework explores access in the sense of different aspects of outreach. Schreiner introduces six dimensions of outreach consisting of the worth to clients, cost to clients, depth, breadth, length, and scope, with the aim of assessing the social benefit of microfinance at an institutional level. These aspects of outreach constitute sound analytical categories because they capture the different dimensions of outreach relevant to clients. The qualitative categories opened for in-depth analysis are, however, analysed with a purely quantitative methodology, which does not make use of the analytical depth possible with the categories proposed (see section 5.1 for a detailed discussion). Consequently, the categories proposed are not accompanied by a convincing way to implement them and are, furthermore, conceptualized only for an analysis at the institution level. Hence, a direct application of his framework is not viable for the present analysis, but the proposed dimensions of outreach will be taken up for the elaboration of the pro-poor financial sector development (see Chapter 5). The proposed aspects, however, need to be further developed with analytical categories that help to assess whether the financial services provided can be understood as valuable or not for the clients. Before moving to the analysis of different frameworks for assessing the impact of microfinance on clients, the results of recent studies assessing access to finance will be reviewed.

1.2.1.3 Recent studies assessing access to finance

Access constitutes a basic dimension of financial-sector development in terms of financial inclusion. Recently, an increasing number of studies have focused on assessing access, but the empirical evidence is still scarce, and there are no specific insights as to changes in access related to the preferences of the poor, specific institution-building strategies, or commercialization of microfinance. Furthermore, the reliability of a considerable part of the evidence on access is limited as access is often still 'assessed' directly through usage categories, and even usage is measured through barely convincing proxies.

Recent empirical research on access to finance can be differentiated according to studies building on existing data and others based on newly collected data. The general challenge of all the studies on access to finance is the lack of coherent and comparable (cross-country) data from surveys concerning access to finance at the household and enterprise level, with the exception of the studies based on FinScope survey data from Southern Africa. Consequently, the following studies try either to identify other variables as proxies, in order to estimate important data from available data, or to work on the base of data collected in surveys conducted for the information needs of the respective studies. An overview on different sources of data that might be used for measuring access and usage and related difficulties will be discussed in terms of the research framework of the present study in section 1.3.

Considering the studies building on existing data, the CGAP report on 'alternative financial institutions' (CGAP 2004c), which uses these financial institutions for approximating access to finance by microfinance clients, exemplifies the difficulties of conducting a detailed assessment of worldwide access to finance. Focusing on savings and loan services, the applied criterion for defining alternative financial institutions consists in their mission, indicating that a social or developmental objective would be preferred to a financial one. Based on their social mission, state-owned agricultural and development banks, postal banks, cooperatives and other member-owned savings and loan institutions, other savings banks, low-capital local or rural banks, and specialized microfinance institutions or programmes are classified as alternative financial institutions (CGAP 2004c: 2). The data were accessed through the databases of large international development institutions or the respective associations, complemented by further research on omitted institutions. The results are only some very broad numbers because numbers of accounts sometimes had to be reconstructed (since only the volume was available), and there was no possibility for controlling for multiple clients nor for the socio-economic background of the clients; thus, it could not differentiate poor or near-poor clients see CGAP 2004c: 3ff.). Consequently, the results give only a very broad picture or an approximation of the clients of alternative financial institutions, with no specific focus on microfinance clients because many, if not most, of the 'alternative' financial institutions might also target a middle- or high-income population, even though CGAP assumes: 'A correct statement of this paper's main conclusion is that there are over 750 million accounts in various classes of financial institutions that are generally aimed at markets below the level of commercial banks, and that some substantial fraction of these institutions' clients are probably poor or near-poor' (CGAP 2004c: 1).

In CGAP's later report titled *Access for All*, by Brigit Helms, the evidence from the mentioned occasional paper is cited and complemented with evidence and descriptions of the microfinance sectors of the different world regions, based on data collected by the Microcredit Summit Campaign and the Mix Market, which still can be considered only a very incomplete approximation (Helms 2006: 6ff.).[15] Moreover, the report focuses not on gathering new data on access but on providing a comprehensive overview of issues relevant for microfinance and describing the development of microfinance at the levels of clients, microfinance providers, support services and infrastructure, and the macro levels of legislation, regulation, and supervision.

The World Savings Institute has recently commissioned two large studies on access to finance, both of which focus on access to finance in developing and industrialized countries. The first one (Peachey & Roe 2004) gives an overview of access to finance based on indicators created based on regularly collected financial data from the IMF International Financial Statistics, merged with measures of GDP, population, and price data from the World Bank Development Indicators. Their proxy is the relative cash use to deposits, which is then linked to financial depth (household and enterprise deposits as percentages of GDP) for exploring the link of the cash/deposit-indicator to the role of the banking system and the kind of customers using it

[15] The data are incomplete because the Mix Market relies on self-reporting of microfinance institutions and provides a database of only these microfinance institution where the management or other relevant stakeholders know the Mix Market and consider the publication of data as useful to the institution. The Microcredit Summit Campaign relies on knowing microfinance institutions in order to be able to contact them for requesting self-submission of data on their institutions (see the methodology explanations of the Microcredit Summit Campaign Report 2007; Daley-Harris 2007: 19).

(Peachey & Roe 2004: 35f.). In their second study, Peachey and Roe (Peachey 2006) explicitly noted appreciating being able to work with a more direct measure, the CGAP approach of assessing access to finance through the number of accounts at 'alternative financial institutions' (see above), which they refined further using data from the World Savings Bank Institute (WSBI), with the result of estimating 1.4 billion accessible accounts across developing and transition economies (Peachey 2006: 73). For further analysis, they merge the two approaches and classify the countries according to the degree to which free access to finance is repressed (Peachey 2006: 77 ff.).

In their studies, Peachey and Roe stress the difference between the access scenarios in industrialized and developing countries, where the latter suffer from lack of access of a considerable part of their population and the former show exclusion of a small marginalized part of their population. The rate of access in developing economies would be about equal to the percentage of the rate of exclusion in developed countries (Peachey & Roe 2004: 9ff., Peachey 2006: 23).[16] Considering the contribution different types of financial institutions make to financial inclusion, the importance of relationship banking and proximity, thus savings banks, is stressed (Peachey & Roe 2004: 62ff.; Peachey 2006: 99ff.), not a surprising conclusion in a study commissioned by the WSBI. The proxies used for arriving at these results are further questionable: For example, individual access is measured through the 'availability of a personal current account', which means the usage of personal accounts (Peachey & Roe 2004: 13).

In their study on barriers to bank access and use of financial services, Beck, Demirgüç-Kunt et al. (2007: 16f.) find that barriers such as required minimum balances for accounts and loans are negatively correlated with outreach. Regarding the context, both financial factors such as credit information sharing, and non-financial factors, such as the freedom of media, are positively correlated with the barriers (Beck, Demirgüç-Kunt et al. 2007: 21f.). Although they provide an interesting overview of barriers to bank services worldwide, their database does not make it possible to assess 'banking services for everyone', as the title of their document indicates, because only the three largest banks per country are considered. Accordingly, neither non-bank financial institutions are taken into account such as postal or savings banks nor the respective structures of the financial market, for example, with high or low degrees of concentration, as well as the relevance of non-bank institutions to access. In Germany, for instance, the largest part of private deposits and SME loans are held in small savings banks and cooperatives (according to Deutsche Bundesbank as of 31 December 2008) and would not be considered by the survey methodology mentioned.

Working on a database from a survey of financial regulatory agencies, complemented with data publicly available, Beck, Demirgüç-Kunt et al. (2005) present a set of cross-country indi-

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[16] For example, 10% of the population of Kenya (one of the more developed African financial systems) have some sort of relationship with banks and other financial institutions, and even in Mexico, only 20% of the urban population have access to bank accounts, whereas corresponding rates in industrialized countries are typically above 80% and in Germany and in the Scandinavian countries, they are as high as 98-99% (Peachey 2006: 23).

cators of banking sector outreach. These indicators focus on geographic and demographic outreach and provide a very broad overview, for instance, of geographic outreach through indicators such as the number of bank branches and ATMs per 1000 km^2 (Beck, Demirgüç-Kunt et al. 2005: 8). Although broad tendencies of access are provided, the conditions of access to finance in a specific country are not made explicit by the report because the focus on banks does not consider the structures of the respective national financial systems and, therefore, does not consider other financial institutions that operate like banks (like savings banks, cooperative banks, etc.). Looking at specific cases, the cross-country measures like ATMs per 1000 km^2 are very broad and do not consider the population density and the existence of largely unpopulated areas within certain countries (e.g., the Amazon region), where ATM presence is not even desirable. This very broad assessment is partly due to the restrictions of cross-country availability of data. The latest access to finance assessment in the World Bank policy research report titled *Finance for All?* (Demirgüç-Kunt, Beck et al. 2008) gives a very broad and detailed overview of conceptual issues, as well as empirical evidence and different studies and surveys undertaken, mostly within the World Bank context. Regarding empirical evidence, this very comprehensive report focuses both on the financial needs and access to finance of small firms and households and explores the related impact, but it does not provide any new insights regarding access to finance by the poor in terms of the relevance of different institution-building strategies and current commercialization.

The above overview on the most noted studies has shown the general lack of evidence with regards to reliable data and studies on access, barriers to access, forms of usage of financial services, and client preferences. This lack constitutes a fundamental difficulty in understanding and improving conditions and access to pro-poor finance worldwide. Although data exist on financial services and usage of financial services apart from the data assessed and presented above, most of these data only approximate usage and do not inform offer insight into access (see section 1.3).

1.2.2 Frameworks assessing the impact and relevance of microfinance and related results

> It is notoriously difficult and expensive to quantify household benefits resulting from financial services and to demonstrate causality, so it is not practical for most projects to produce such impact studies. (Rosenberg 2006: 8)

The review of impact assessments and other studies aiming at assessing the developmental effects of microfinance shows that, first, there are no such studies on the effects of commercialization and different institution-building strategies of microfinance and, second, the frameworks are not adequate for assessing pro-poor financial sector development at the financial system level. Impact assessments constitute the vast majority of studies that deal with the effects and impacts of microfinance, other than a small number of Social Performance Assessments (SPA, explained below). Both focus generally on the results of particular programmes or projects, usually on the results of the MFI that contracted the study. Although these studies take a close look at customers, their progress and problems, most of these studies show important conceptual and methodological shortcomings, such as fungibility, missing or unreliable control groups, or agency-problems.[17] Furthermore, impact assessments and SPA generally do not analyse the microfinance market as a whole, failing to consider involved players both on the supply and demand sides and the related market dynamics. Instead, most studies rely on an analysis of the clients or borrowers and their families. In addition, the final evaluation of microfinance programmes is often done in comparison to a situation of no intervention instead of comparing the results with other possible interventions (such as food for work programmes, labour market policies, etc.), thereby possibly resulting in misleading 'positive evaluations' of microfinance programmes and 'other development fads', as indicated by Ellerman (2008: 159). In the following, the shortcomings of traditional impact assessments will be discussed in detail and new (and sounder) approaches for assessing the effects of microfinance—specifically, Social Performance Management (SPM) and Randomized Control Trials (RCT)—will be introduced.

A very common conceptual shortcoming of impact assessments lies in underlying cause-and-effect chains that are often assumed without making the assumptions evident and discussing them critically. Mayoux (2000) shows the fatal consequences of 'wishfully' assuming cause-and-effect chains because they only foresee the virtuous not the vicious consequences of microfinance provision (see Chapter 4, graph 4-A). The different assumptions concerning impact can be seen as products of different development aims and different 'convictions' concerning how microfinance contributes to reaching a specific development goal. The existence of different actors with distinct aims and agendas confronts any attempt at impact assessment or evaluation of microfinance programmes or local initiatives with a fundamental and inherent challenge: Value decisions become inevitable during evaluations in contexts such as development lacking a unique and evident goal, such as the profit in business management, where the origins of monitoring and evaluation can be found (Nitsch 2003: 27ff.). The multi-dimensionality of the distinct objective functions of different actors and their multiple goals in the area of pro-poor financial system development could only be 'overcome' by conducting an impact assessment of pro-poor financial sector development by making strong value decisions or assumptions on the aims of the different actors, such as clients, MFI personnel, supervision officers, policy makers, and the cause-and-effect chains behind the observed changes. Furthermore, monitoring and evaluation (M&E) in multi-aimed contexts or 'from outside' suffer from agency problems of the evaluators and the different hidden agendas of the different actors and, especially, of the contracting parties. Thereby, the focus on the target group might be occluded by the aims and agendas of the different actors and the evaluator herself questioning the relevance of the results for poverty reduction and the target group if there is no actor to act as their advocate (eventually also in her own interest of being altruistic) (Nitsch 2003: 31ff.).

[17] These methodological shortcomings will be explained in more detail in the following section.

Thus, assessing the impact of development interventions is, even conceptually, a critical challenge. Moreover, impact assessment of microfinance carries special methodological problems. These shortcomings of impact assessments have been discussed since the 1980s (Von Pischke & Adams 1980), and increasingly since 2000 (Coleman 1999; Hulme 2000; Karlan 2001; Armendáriz de Aghion & Morduch 2005: 199ff.; Karlan & Goldberg 2006; Karlan 2008a: 1ff.; Meyer 2008). Still, a large number of smaller and larger impact assessments have been done since then. One central methodological gap is fungibility, that is, the central characteristic of money being standardized and freely exchangeable (inside the area of acceptance of the respective currency). Just as it is literally impossible to 'track the path' of the money taken from a savings account or from a loan disbursed to its final usage, it is also nearly impossible to learn whether the changes in the client's life are due to an investment financed with the borrowed money or would have been possible with money from other (informal) sources. Furthermore, even if the researcher or field worker could accompany the client to buy the investment goods or pay the credit in kind (e.g., fertilizer for agricultural purpose), she still would not know whether the client uses these goods as specified in the loan contract or whether the client would not have made the same investment—or an even better one because of more financial constraints—without the financial services she could access.

Von Pischke and Adams (1980) explain the methodological shortcomings of impact assessments in microfinance by categorizing the challenges that fungibility causes for impact assessments regarding substitution effects and additionality. *Substitution effects* refers to the fact that the money from a microfinance institution can be used for other purposes and the 'official loan purpose' can still be realized with other money, or in the extreme case of substitution—diversion—, the money can be completely used for another purpose without realizing the formally declared investment (Von Pischke & Adams 1980: 720). *Additionality* refers to the impact of an intervention in development cooperation in terms of changes that occurred due to an intervention that would not have happened in the absence of the same. For financial services, development cooperation seeks additionality by providing financial services that are either not available on the market or not available at an adequate scale or in adequate conditions (e.g., Development Cooperation Ireland 2005: 4).

Consequently, changes in the clients' households due to other reasons have to be clearly separated from the possible project impact. Because it is difficult, if not impossible, to know whether these changes happened through the use of the money from a microfinance institution or what the client would have done in the absence of access to finance, the observed changes in the client's household cannot be attributed simply to the existence of a microfinance institution or related programme. Probably, the client would have found another way to finance her investment for instance. Accordingly, only increased liquidity can be taken as a programme result, and it still has to be controlled for the development of the whole microfinance segment of the financial sector because the client might have just shifted from another institution without an increase in credits assigned or access to finance (Von Pischke & Adams 1980: 720). Nevertheless, even with information on increased liquidity, conclusions about additionality are difficult to arrive at due to possible changes in purchasing power (Von Pischke & Adams 1980: 720). In order to assess whether the additional liquidity would have contributed to the household of the client, a close qualitative long-term assessment would be necessary, thus still leaving doubt as to whether the (questionable) results of such an assessment would be worth the huge costs (see Von Pischke & Adams 1980: 721).

Impact assessments often try to directly overcome the challenge of being unable to track the changes and what would have happened without the intervention (i. e., the counterfactual) by estimating the impact with the use of control and comparison groups. The use of control groups largely suffers from the fact that it is very difficult to form unbiased control groups considering the possible sources of bias, such as the presence of other MFIs in the location of the control group, as well as the differences in the socioeconomic and climatic conditions of the different locations, on the one hand, and the overspill effects if the treatment and control groups are 'too close', on the other hand. Comparison groups, such as comparing new clients with older clients or current clients with former clients, might suffer in both cases from either selection bias considering that the most talented entrepreneurs became clients quickly after microfinance services were offered or the bias caused by the development of any organization, which might shift the focus to clients targeted over the years. A further practical problem with all clients and non-clients included in an impact assessment study is that financial services are largely managed at the family level, making it necessary to take the household as a unit of assessment. However, households frequently undergo changes in composition due to birth, marriage, death, and changes in family relationships, thereby hindering comparability over time. Moreover, most MFIs do not use a baseline of information on the poverty status of the client and her family, which could be used for tracking their development, and have limited possibilities for applying statistical tests on the data collected, for example, to check for statistical significance. These and other methodological problems are discussed in detail by Armendáriz de Aghion and Morduch (2005: 199 ff.), Karlan and different co-authors (Karlan 2001; Karlan & Goldberg 2006; Karlan 2008a: 1ff.), and Meyer (2008).

During the last decade, a broader recognition of the shortcomings and limited usefulness of such impact assessments and the increasing popularity of participatory and monitoring-focused approaches in development can be observed. Monitoring has been increasingly implemented with the help of participatory methods stressing the importance of monitoring for continuous project steering. This tendency has resulted in a decreasing importance of external evaluations focusing on 'proving impacts' and a trend towards the internal usage of review and feedback mechanisms as a base for learning and steering the focus on 'improving practice' (Hulme 2000: 80). This change involves periodic assessments of the project results through institutionalized assessment or feedback mechanisms, in many cases with the use of new research methodologies involving directly the target group that helps to set and adjust the project agenda according to its objectives (Hulme 2000: 87; Simanowitz 2003: 1ff.). Besides the alignment of impact assessments with the objectives of the target group, the target group itself is strengthened through participation in the reflection and decision-making processes (empowerment of the target group, e.g., through the internal learning system; Noponen 2003a, 2003b). In the research of the Imp-Act consortium,[18] monitoring and evaluation systems are being developed and applied in cooperation with partner MFIs, focusing on enabling the MFIs to learn from their clients and improve their services in the interest of their clients (Simanowitz 2001, 2003: 2ff.; Kabeer 2003). Most methodological approaches have been developed by practitioners with the aim of providing insights for enhancing the social performance or impacts of microfinance and applying quantitative, qualitative, and mixed methods research (Chowdhury, Mosley et al. 2004: 292ff.). The assessments can provide timely, credible, and useful information on social and financial performance (Chowdhury, Mosley et al. 2004: 292). Systems of institutionalized SPA are called Social Performance Management (SPM)[19] systems. Other examples for the development and application of social performance assessment and management are the NGO-IDEAs project[20] a network of developmental NGOs developing jointly participatory monitoring and assessment routines for microfinance and other projects, and in the broader development context, the Participatory Learning and Action System (PALS), developed by Mayoux (2003a, 2003b). The Internal Learning System (ILS) is another approach that applies a participatory methodology for enhancing reflection processes among participants and project staff on the changes occurring with the aim of 'improving practice' and empowering clients and staff (Noponen 2003b: 67, 2003a).

Another more recent new methodological approach in microfinance research is to use Randomized Control Trials[21] for constructing methodologically sound control groups, thereby allowing measurement of the counterfactual: how participants' lives (and others in their lives) would have been if they had not participated or if the new programme had not been introduced (see, e.g., Giné, Harigaya et al. 2006: 2ff.). This relatively new approach, which builds on research approaches from psychology and medical science, has been adapted and used in the field of microfinance by the Financial Access Initiative, in cooperation with researchers from important U.S. universities.[22] The aim of their research is to deepen the understanding of

[18] Imp-Act is a global action research program designed to improve the quality of microfinance services and their effect on poverty. Imp-Act works with 30 partner MFIs to develop credible and useful impact assessment systems based on the priorities of the organization and their clients. Imp-Act is jointly implemented by a team from three UK universities (Institute of Development Studies (IDS) Sussex, Bath, and Sheffield). Imp-Act was initiated and is funded by the Ford Foundation.

[19] The Imp-Act consortium defines social performance management (SPM) as 'an institutionalized process of translating an MFI's mission into practice. It involves setting clear social goals, monitoring progress towards these, and using this information to improve organizational performance' (http://www.imp-act.org, accessed 22 October 2008).

[20] For more information about NGO-IDEAs, see http://www.ngo-ideas.net.

[21] In studies implemented with the help of RCTs, one program (e.g., credit with or without education) or product design (e.g., savings with and without a commitment component) is compared to another by randomly assigning clients or potential clients to either the treatment or the control group. If the sample consists of clients, it is important to consider both new and existing clients (Giné, Harigaya et al. 2006: 4ff.).

[22] The Financial Access Initiative (FAI) is a consortium of researchers at New York University (NYU), Yale, Harvard, and Innovations for Poverty Action (IPA), focused on finding answers to how financial sectors can better meet the needs of poor households. The Initiative aims to provide rigorous research on the impacts of financial access and on innovative ways to improve access. It was launched with core funding from the Bill and Melinda Gates Foundation to the NYU Wagner Graduate School. Research by FAI researchers is also supported by the U.S. National Science Foundation, the Ford Foundation, the World Bank, CGAP, and other organizations (http://www.financialaccess.org, accessed 22 October 2008).

the impact of microfinance interventions and demand dynamics with scientific rigor, linked to the goal of providing insights for improving the specific interventions, programmes, approaches, and financial products studied (Karlan 2008a: 9). Thus, all their research is based on RCTs, which allow the construction of methodologically sound control groups (or even 'control villages' or 'control districts') in order to assess the counterfactual of the interventions or programme/product improvements (Giné, Harigaya et al. 2006: 2ff). Although the authors take into account ethical considerations, conducting experiments in a development setting remains sensitive. The methodology has been used successfully for testing changes in product and service design (such as extending credit to clients with and without education), but does not seem to be designed for capturing effects beyond the client or project level (Karlan & Zinman 2007; Karlan & Valdivia 2008; Karlan 2008b). Effects on non-clients and dynamics in local markets and societies are, hence, not assessed by these frameworks, even though scientifically rigid results at the client or project level are produced. Especially for assessing changes at the financial system level, this method is not adequate in and of itself, considering its experimental character.

Even though both recent approaches address both conceptual and methodological shortcomings of impact assessments in ways that are well adapted to the specific assessment needs of the MFIs—assessing and refining financial and social performance in the case of SPA/SPM and adapting processes and services in the case of RCTs—they still focus only on client-related changes and how to improve them. However, microfinance programmes not only result in changes for clients but also for their families, communities, and the markets with which they interact. In the case of microenterprises, the possible strengthening of client enterprises might displace other firms and lead to unsustainable levels of competition locally instead of stimulating local economic growth (Bateman 2006). These displacement effects might even further distort impact assessment results because control group members might have worsened development opportunities linked to the provision of microfinance, which are not captured, thus causing the results of the MFI to look even more impressive (Meyer 2008: 227). When indirect and wider impacts of microfinance are taken into account, they are often still assessed at the micro level or based on anecdotal 'evidence' with few sound reports (Dichter 2007; see Chapter 4).

1.2.3 Evidence on demand-side characteristics and usage patterns of financial services by the poor

The studies and data sources on usage patterns of financial services by the poor introduced in the following represent a compilation of recent qualitative studies with some newly developed research methodologies, which provide information on usage patterns and preferences from a demand-side perspective. A considerable number of the research projects and studies discussed below have been elaborated within the research programme Finance for the Poor and the Poorest and by FinMark Trust, both supported by DFID.[23] Four types of research approaches and related databases can be distinguished. These will be used in Chapter 4 for deepening the understanding of financial management by the poor.

The use of financial diaries[24] is a recent research approach in which trained local researchers visit a set of households fortnightly during a year to record and reconstruct all kinds of money management transactions along with the related value, the kinds of services or devices used, and their purpose. Thus, the money management behaviour of the participating households can be chronicled. In the case of the financial diaries research presented here, further qualitative research in the form of financial landscape studies has been conducted, with the aim of triangulation of information and situating the results in the context of the respective local community and economy. By tracking the households closely, the findings are much more exact than, for instance, a survey or other research exercises because people might not remember all the details of their complex financial lives after a while or may not consider certain instances to be relevant (e.g., reciprocal gifts). By recording all the different kinds of financial transactions, a detailed picture about the financial management services and devices used by the respondents can be drawn. Beside the important results of these non-representative in-depth studies, the results also enable improvements of other research approaches, such as the improvement of questionnaires of representative surveys.

Financial landscape studies and other approaches to participatory qualitative research aim at drawing a detailed picture of the informal and formal money management arrangements used and the reasons behind them in a specific context. They employ a mix of different qualitative research techniques, such as village mapping, household questionnaires, wealth ranking, focus group discussions, and in-depth and expert interviews. The usage of participatory methods is recent in economics and is still rarely recognized, but it provides in-depth insights from the perspective of the target group, though not in a representative way.

Representative surveys with a special focus on financial management can provide further insights into demand-side characteristics. There is a large number of representative household surveys, but only in a very few cases are questions on the usage patterns of different financial services and devices included (Stone 2005; section 1.3). In order to collect relevant and reliable information, the research questions need to be further developed based on strong and contextualized background knowledge because respondents are not always conscious of all the tools of financial management they use and an ambiguous formulation of questions might considerably bias results (see 'Analysis of data source', section 1.3). The surveys from Southern Africa and Indonesia presented and used herein were conducted explicitly by focusing on usage and access to financial services. Thereby, the Southern African FinScope surveys are a first

[23] Information about the research project can be found at http://www.devinit.org/findev (accessed 19 March 2008) and on Finmark Trust and the FinScope surveys at http://www.finmark.org.za/index.aspx (accessed 19 March 2008).
[24] The idea of the financial diaries was conceived by David Hulme and managed by Stuart Rutherford in Bangladesh, by Orlanda Ruthven in India (Rutherford 2002: 8), and later by Daryl Collins in South Africa.

series of representative household surveys on financial usage and access to include different kinds of providers and distinct financial management arrangements, including informal ones. The survey from Indonesia uses a new data collecting methodology by employing credit officers trained in microfinance as interviewers and combining the interview with an assessment of the debt capacity of the interviewees in order to reflect their point of view while taking into account the economic situation and debt capacity of the interviewee.

Enterprise surveys often include interesting questions on the usage of and access to financial services, but generally fail to address micro and small enterprises specifically. This is the case for Micro, Small and Medium Enterprises (MSME)[25] in developing countries, where the enterprise surveys publicly available do not capture the specific characteristics of family-led enterprises.[26] Accordingly, they will not be used in the present study.

A detailed overview of the empirical studies presented in the current section and analysed in section 4.1 (Saavedra & Valdivia 2003; Rutherford 2003, 2001, 2002, 2000; Rutherford, Mutesasira et al. 1999; Ruthven 2002; Ruthven & Kumar 2002; Ahmed, Mbaisi et al. 2005; Eversole 2003; Brusky & Fortuna 2002; Collins 2004; Financial Diaries n.d.; other Focus Notes;[27] Collins 2005; Collins & Morduch 2008; Porteous, Collins et al. 2008; Porteous 2007; Johnston & Morduch 2007; Zeller & Sharma 2000) is included in Appendix 4.1.1-A. It provides an overview on the locations of the studies and a short description of the respective database and methodology. The findings on usage patterns from these studies are presented in Appendix 4.1.1-B.

1.3 Research design and structure of the study

The present section explains the research design, methodology of this study and the rationale for the selected case. It also discusses possible sources of information and the data available and used for applying the framework. Finally, the proceedings of the research on the case of Peru, including the field research conducted, as well as the structure of the study are presented.

[25] *MSME* refer to micro, small, and medium-sized family-led enterprises. Although most enterprises belong to the micro and small category, it is important not to exclude middle-sized enterprises that show the central characteristics of being family-led. Self-employment is also included as the smallest form of household-based businesses (see section 3.2.1).

[26] In Eastern Europe and Central Asia, the Business Environment and Enterprise Performance Survey (BEEPS) provides detailed information on access to finance of (M)SME.

[27] For other Focus Notes about the Financial Diary research in South Africa, see http://www.financialdiaries.com.

1.3.1 Research design, methodology and case selection

The research design is based on an ontological understanding that recognizes the complexity of the world. Reality is seen as plural, complex, and interrelated. At the same time, the existence of different types of realities is acknowledged as depending on different perspectives, such as subjective, intersubjective, and objective realities[28] (Johnson 2008: 204). Accordingly, it is important to consider whose perception of the reality is been captured and analysed and whose reality should be at the centre of the study: the reality of poor and marginalized populations. In the construction of the proposed framework, the poor populations' own perspectives on poverty and preferences and usage patterns of financial services are taken into account. Using this worldview means that the way knowledge is 'gathered' needs to take into account that there are various kinds of important knowledge. Accordingly, types of knowledge—such as tacit, scientific, or practical knowledge—need to be considered so that they can be investigated for overlaps, combinations, and integration (Johnson 2008: 204). The recognition of the importance of considering and combining different types of knowledge beyond the results of scientific research is also central for the current study because there is important knowledge that can be acquired only from practitioner and practice-related studies and publications. The challenge of working with different types of knowledge has been dealt with by adopting a pragmatic approach based on Morgan (2007). It involves connecting theory and data in an abductive way 'moving back and forth between induction and deduction' (Morgan 2007: 73) and building the bridge between different worldviews by acknowledging different realities and taking into account distinct types of knowledge (see also Creswell 2009:11; Denscombe 2008: 273). The knowledge generated in such research is not seen as wholly context-dependent or entirely specific, and often researchers investigate whether the insights might be transferred to other settings.

Being aware of and acknowledging the overarching normative framework and the underlying meanings or normative connotations of theories and frameworks can help researchers to build bridges between different theories, research strategies, and the related philosophical underpinnings (Olsen 2007: 62ff.; Jackson 2006). In current development in economics, Amartya Sen and Joseph Stiglitz show openly the moral orientation of their work (Olsen 2007: 75). In the present study, the understanding of poverty is based on Sen's freedom-centred capability approach: His complex, multi-dimensional approach considering both opportunities for development and the living quality achieved provide the normative direction of the proposed pro-poor financial sector development framework, with the aim of contributing to a better understanding of which kind of financial sector development can be considered as beneficial to the poor. Therefore, different kinds of theories and results of empirical research and practitioners' studies are reviewed, analysed, and used for shaping and sustaining the proposed framework.

[28] *Subjective reality* refers to 'experiences, intentions, beliefs, and emotions of the individual', *intersubjective reality* is thought to be 'created and shared through human interaction and including language, culture, social structure, social institutions, and *objective reality* refers to 'material things as well as the objective impacts of subjective and intersubjective realities' (Johnson 2008: 204).

The research method implemented for developing and applying the proposed pro-poor financial sector development framework acknowledges the discussed ontological and epistemological position and consists of an integrated research strategy, making use of quantitative and qualitative methods and applying the approach of triangulation. For applying the framework, a mixed methods approach is applied as an approach that combines and integrates quantitative and qualitative methods beyond a mere combination of different methods (Morgan 2007: 48; Flick 2006: 17 ff). The quantitative method used is descriptive statistics, because of the lack of data for meaningful econometric analysis of the topic, which would only be possible with survey-based representative data on access and usage. Even though, in economics, theory- and econometrics-based approaches dominate, there is also a tradition of qualitative or mixed methods approaches (Piore 1983: 74ff.). For development economics, 'development constraints' generally do not follow standard theory and meaningful econometric analysis is even more difficult due to the lack of consistent and reliable data. In the present study, economics is understood as a social science rather than taking a natural science perspective of mathematicized economics. Triangulation is seen both as an independent methodological approach and as a way of conducting research within a mixed methods approach (Flick 2008: 7ff., 75ff.). In the present study triangulation is understood as an approach that consciously aims at 'combining multiple observers, theories, methods, and data sources […] [in order to overcome] the intrinsic bias that comes from single-method, single-observer, single-theory studies' (Denzin 1970: 313). This methodology, which aims at the combination of different theories, methods, and types of information, is not only implemented for applying the pro-poor financial sector development framework, but also for elaborating it. Denzin (1970: 301ff.) specifies the different types of triangulation as follows:

- Data triangulation: types of data triangulation like time, space, person and the triangulation levels of aggregate—person, interactive—person, collectivity—person;
- Investigator triangulation: single or different observers;
- Theory triangulation: single or multiple perspectives on the same set of objects;
- Triangulation of methods: within and between method triangulation.

Accordingly, theory and data triangulation has been implemented for elaborating the framework. For the application of the elaborated framework to the Peruvian case, triangulation of data and methods and cooperation with other researchers has been implemented, as detailed in the following section. Therefore, it was taken into account that only purposefully and carefully implemented triangulation can contribute to more accurate or less biased results, as well as a general broadening and deepening of the research (Fielding & Fielding 1986: 33).

The case of recent financial sector development in Peru emerges for various reasons. First of all, the Peruvian microfinance market is one of the most developed and diversified, and accordingly yields insights into pro-poor financial sector development regarding a large variety of institution-building strategies. Furthermore, in Latin America the commercial approach has been applied widely, both in the upgrading of microfinance non-governmental organizations

(NGOs) into regulated microfinance institutions (MFIs) and in the downscaling of commercial banks with increasing commercialization tendencies, which can also be observed in Peru. In 2005, when the present study started, a widely- circulated report on the profile of microfinance over 10 years (Marulanda & Otero 2005b: 5ff.) pointed to downscaling as a fast-growing, high-potential institution-building strategy among the two prevailing types of institutions. The downscaled commercial banks reviewed were serving 35% of the total outstanding portfolio and their growth rates from 2002 to 2004 were significantly higher, with 72% growth in outstanding loan portfolio for the banks (41% for MFIs and 36% for NGOs) and 27% growth in number of clients (with 34% for MFIs and 30% for NGOs) (Marulanda & Otero 2005b: 6ff.). Although these growth rates point to one of the possible dangers of downscaling—banks generally serve larger clients and thereby put under pressure the financial health of MFIs because these are their most profitable clients—the enthusiasm about downscaling and related increasing commercialization influenced the debate about further development of microfinance rather strongly (Marulanda & Otero 2005b: 7).

Different kinds of Latin American actors, such as governments, donors, and private sector actors—most importantly here the commercial banks themselves—have shown increasing interest in and commitment to downscaling as a form of institution building during the last years (e.g., the government-led bancarization in Brazil, the 'Bancarization for the Majority' initiative by the Latin American Federation for Banks (FELABAN – *Federación Latinoamericana de Bancos*) and Women's World Banking (WWB), the IADB downscaling programme or the downscaling of international banks like ABN AMRO or national ones like Banco de Pichincha. Hence, commercialization in the form of downscaling was raising the hope for fast increases in numbers of clients (breadth of outreach), improved productivity, and even lower costs due to the use of information and communication technology (ICT) and the large existing infrastructure and financial means, making banks appear to be the high-potential new actors of the next generation of microfinance institutions. At the same time, the painful experience of commercialization in Bolivia, which led to important increases in multiple clientship and indebtedness among clients and resulted in wide-spread over-indebtedness and a borrower's revolt (Rhyne 2001), marks this method of institution building also as a risky one. This result will apply for both clients and other MFIs, such as the financial system as a whole, if the crisis becomes systemic. Furthermore, it is not easy to know whether the engagement of commercial banks, especially of private banks, has been thought out and implemented as part of the core business or rather within a Corporate Social Responsibility (CSR) strategy, with important consequences to the way microfinance is implemented and the risk of withdrawal.

Understanding the increasing commercialization and enthusiasm for downscaling further motivating the analysis of pro-poor financial sector development, Peru provides an interesting case looking 'behind' the expected increases in breadth of outreach due to downscaling. First, a group of banks has started downscaling more than a decade ago, and the development since then has occurred under stable macroeconomic conditions. In addition, the downscaling occurred in a well-developed microfinance sector with a great institutional variety, including microfinance NGOs, specialized microcredit providers, municipal and rural savings banks, and savings and credit cooperatives, thus making the analysis of new market dynamics particularly interesting. Furthermore, downscaling did not follow a governmental 'push', and at the beginning of the study in 2005, Banco de Crédito del Peru was the downscaled bank with the largest portfolio of outstanding microloans in Latin America (although not the one with most clients; see Marulanda & Otero 2005b: 8). Thus, the Peruvian case provides a relatively lengthy experience of downscaling in a stable environment within a diversified and well-developed microfinance market, which allows the assessment of related market dynamics. Accordingly, the pro-poor financial sector development framework will be applied to the case of financial sector development in Peru during the last decade, analysing to what degree the changes during the last decade and the current situation can be considered as pro-poor, and differentiating the contribution to pro-poor financial sector development among different providers and types of providers of microfinance.

For implementing the qualitative research, seven local microfinance markets were chosen as case studies after a first phase of reviewing existing documents and information on the development and the situation of the Peruvian microfinance sector, including commercialization and downscaling tendencies. Because the Peruvian microfinance market is characterized by a strong regional segmentation with very distinct regional or local markets,[29] the case studies were chosen in order to represent the different kinds of local microfinance markets. Thus, three criteria were taken into account. The first criterion was the regional heterogeneity of the country, which led to the distinction of three zones with different geographic, social, and economic characteristics relevant to microfinance: the important metropolitan centre of and around Lima, the poorer Southern Andean region, and the Northern coastal regions (excluding the Eastern jungle regions for low population density). The second criterion addressed the degree of market coverage: the stage of development of the local microfinance markets. The third one aimed at including both specific local microfinance markets settings (such as a regional market without the presence of a dominant municipal savings bank *Caja Municipal de Ahorro y Crédito*, CMAC) and specific institutional experiences (such as an exceptionally successful rural savings bank, *Caja Rural de Ahorro y Crédito*, CRAC, or a different approach of a specialized microcredit provider, *Entidad de Desarrollo de la Pequeña y Microempresa*, EDPYME). Because the qualitative research was done together with the Peruvian supervision agency SBS, the choice of the markets to study was realized in cooperation with their microfinance specialists who had a deep knowledge of the market for doing supervision *ex situ* and *in situ* of the microfinance sector. The markets chosen are the following:

Market I:	Metropolitan zone of Lima (city)/Lima (department)—the economic, financial and political capital of the country and the place where the headquarters of downscaling banks are located;
Market II:	Arequipa/Arequipa—a well-developed microfinance market in the South of the country;

[29] For a more detailed description of the Peruvian (micro)finance market, see section 6.2.1.

Market III: Cuzco/Cuzco—a moderately developed microfinance market in the South of the country;

Market IV: Abancay/Apurímac—a slightly developed microfinance market in one of the poorest regions of the South;

Market V: Chiclayo/Lambayeque—a moderately developed microfinance market without regional leadership of a CMAC in the North and a different type of service provision of an EDPYME;

Market VI: Trujillo/La Libertad—a well-developed microfinance market in the North with the presence of an exceptional CRAC;

Market VII: Ayacucho/Ayachucho—a moderately developed microfinance market in the central Andean region with interesting microfinance NGOs and a relatively strong COOPAC.

The research related to the application of the framework was initiated through explorative field research in 2006 (February to April and September). Qualitative data were collected through semi-structured interviews and focus group discussions, completed by participant observation. In the distinct microfinance markets, the different kinds of locally present microfinance-providing institutions were visited, and their staff and clients interviewed. In the visited institutions and markets, the proceedings and interviews followed the same general scheme (see Appendix 1.3-A).

Nearly all interviews, as well as most of the participant observation, were conducted by two researchers: the author and a SBS staff from the microfinance area. The interviews could not be recorded in order to create an environment of confidence during the interviews and the participant observation, which would allow gathering more sensitive information crucial for the qualitative part of the study. Financial institutions were asked about their target group, the way they serve their clients, their positioning in the market, further strategies regarding their microfinance services, and the situation of competition in the local microfinance markets (see interview guide, Appendix 1.3-A). For documenting the interviews without being able to audiotape them, nearly all interviews were held with a team of two interviewers, and the transcription of the notes taken during the interviews was done the same or the following day, including mutual cross-checking, discussion, and revision of the information transcribed from the interviews. The results of the participant observations were also noted by both researchers and discussed shortly afterwards. Therefore, this triangulation of perspectives of both researchers proved to be very valuable, due to their different backgrounds and experiences, with the in-depth knowledge of the Peruvian microfinance market of the Peruvian colleague from the SBS providing additional insights concerning the information collected 'from a Peruvian point of view'. Within 36 branches or head offices of different financial institutions, interviews and participant observation were implemented through interviewing managers, staff, and clients of these institutions, and further interviews and participant observations were conducted with clients and non-clients in the seven market places chosen (see the list of institutions visited, Appendix 1.3-A).

A further triangulation, validation, deepening, and completion of the information collected followed in a second step of the qualitative research in the form of participatory workshops with focus group discussions on the situation of the microfinance sector and related commercialization and downscaling trends, allowing the interviewees to probe specific subjects in depth. Two workshops were organized in which the main tendencies and subjects of interest raised by the interviewees were presented for focus group discussion and further validation and completion. In another session of focus group discussions, the participants elaborated on SWOT (Strengths-Weaknesses-Opportunities-Threats) analysis regarding the current commercialization and downscaling trends and possible market dynamics. The first workshop was organized largely with business managers and other key staff from non-bank financial institutions that had been visited. The second workshop was organized among SBS staff (see workshop programmes and lists of participants in Appendix 1.3-A).

A third phase of the qualitative research consisted of interviews with 21 experts and representatives of Peruvian microfinance-related institutions. Thus, experts from within the financial system were interviewed, such as staff from the SBS and credit register enterprise and representatives from the associations and apex institutions of banks, CMACs, CRACs, EDPYMEs, COOPACs, and NGOs, as well as experts from related research associations, academics, consultants, and other related civil society organizations, such as consumer protection (see the list of interviewed experts and field manual for interviews and in Appendix 1.3-A).

The qualitative part of the research was largely conducted together with SBS. SBS' position, contacts, and organization were key to being able to interview so many different stakeholders, including the opportunity to interview the top management of banks, which is rather difficult for an individual researcher. This first explorative research phase was of central value for building a general understanding of the relevant actors and structure of the Peruvian microfinance market and building contacts for further research.

After a first triangulation of the qualitative information collected in 2006 with relevant quantitative information, in the second quantitative part of the research, large amounts of existing provider-related data representative of the national level were collected and analysed, including information disaggregated at the district level (in the case of SBS). These data were provided by and obtained from SBS, FENACREP, COPEME, and the Mix Market. Socioeconomic data were generally obtained from INEI, FONCODES, and MINTRA. Moreover, the existing data and results from user-related surveys and research were analysed. Further information necessary to implement the proposed framework was obtained through some further semi-structured interviews by telephone (see Appendix 1.3-A) and analysis of information from the financial institutions' websites, annual reports, and rating reports.

Applying finally the framework elaborated within the present study (see Chapter 5 for a detailed presentation), the lack of more detailed user-related information became evident. However, considering that the focus of the present doctoral thesis lies in deepening the understanding of what can be understood as pro-poor financial sector development and the elaboration of the proposed framework, a further period of data collection would have been beyond the scope of the present study. Accordingly, central analytical fields within the five dimensions of scope, cost, breadth, depth, and length of outreach were chosen and analysed with the help of existing data, in order to enable a coherent analysis of pro-poor financial sector development in Peru and an initial, partial application of the framework.

1.3.2 Data sources on access to finance and for the Peruvian case

Regarding data sources on access to finance and pro-poor financial sector development, there is a general lack of reliable, specific, and comparable data, visible only partially through the limited research results as discussed in section 1.2.2. Initiatives by national and international development agencies to gather more specific, detailed, and reliable data on access to finance and financial sector development (Ellis 2005; World Bank 2005; Classens 2006: 7) also stress this need, which is reconfirmed by the two comprehensive reports by CGAP (Helms 2006) and the World Bank (Demirgüç-Kunt, Beck et al. 2008). Even though some financial transactions, like stock market related transactions, are documented on a minute-by-minute base, the inclusiveness of the financial system and its outreach to the local population are rarely documented in most countries. Accordingly, even apparently simple and crude data, such as the percentage of people with savings accounts in a country or the number of households and microenterprises with loans, are not available in a cross-country format (Honohan 2005: 1; see also other studies reviewed in section 1.2.2).

Considering missing data, basic cross-country indicators, like usage of savings accounts, as well as more detailed microeconomic databases on the national level for detailed research would be important for research and market development (Honohan 2005: 2). Regarding cross-country data, the World Bank, UNDP, DFID, and FinMark Trust are working together on the definition of suitable access indicators and data-gathering techniques. They are aiming at harmonizing core questionnaires on finance to be included in all future household surveys (World Bank 2006: 3). At present, however, there is no comparable and comprehensive module of questions on finance included in cross-country household surveys, and even the World Bank promoted survey on living standards—the Living Standard Measurement Study (LSMS)—includes only a very limited and generally not comparable set of questions on access to and usage of financial services as shown, for instance, by Honohan (2005: 10ff.).[30] Regarding national databases, some related questions can be found in national household surveys, but generally, they do not aim at collecting a comprehensive and regularly collected set of variables on finance.[31] The only well-known source of representative surveys on access, usage, and

[30] See Honohan's (2005: 30f.) compilation of possibly relevant questions in LSMS surveys indicating that only a small part of relevant subjects are addressed and are generally not comparable due to differing questionnaire design. In his analysis of the 'savings and borrowing' questions from LSMS, Stone (2005: 13) shows that the frequency of asking the same and very crucial questions is very low.

[31] See the compilation of national surveys, including questions on finance by Stone (2005: Appendix B). This overview shows that even though some information on usage and/or access to finance is given, most surveys are stand-

related preferences are the FinScope surveys, initially introduced in South Africa and gradually covering more African countries.[32] In South Africa, where the annually repeated surveys have been conducted since 2003, the surveys are increasingly self-financed through syndication by interested financial service providers and other interested organizations, including South African government departments (FinScope 2007).[33] Accordingly, the proposed research framework is constructed in a way that it can also be implemented without survey-based information. Financial Diary research is another research approach generating interesting user-related data, but with a very limited coverage of small in-depth studies in India, Bangladesh, and South Africa up to now (Collins, Morduch et al. 2009). These approaches will be discussed in more detail in the following section and in section 4.1.

Data on access to finance and usage patterns differ, first, by the method of measurement and, second, by the type of source or channel of data collection. Furthermore, different concepts and ways of assessing access already discussed in the previous section have to be considered. Regarding the methods of measurement, direct and indirect metrics can be distinguished. Direct metrics aim at measuring access itself, whereas indirect measurements use proxies to try to assess access. Stone (2005: 5ff.) proposes a classification of indicators of access to finance, based on the kind of metrics: *Direct measurement* refers to data on access at a micro level (individual/household level), meso level (regional/municipal/neighbourhood level) and macro level (country level). *Indirect measurement* is related to potential proxies at the macro level, both from a theoretical and an empirical perspective. The differentiation between different sources and the related methods of data collection are important to consider in order to be aware of specific related advantages and disadvantages. Table 1.3-A provides an overview of the advantages and disadvantages in more detail as related to specific data sources. To illustrate the types of data sources, examples of data available from cross-country studies and on Peru are given.

Table 1.3-A: Types of data sources on access to finance and usage, related advantages, disadvantages, and examples

Data source	Advantages	Disadvantages	Examples
Provider related data (includes mostly only formal and sometimes semi-formal providers)			
Regulators, central banks, and federations	- data mostly easily available and collected regularly in relatively short periods - data partly verified by regulators (*in situ* and *extra situ* cross-checks)	- macro data only on usage and not directly on access - highly aggregated data, often with missing regional and social differentiation - interest-led data collection discriminating against small clients/ institutions (regula-	*Cross-country* - macro indicators on access to finance by the World Bank - widely differing at national level, depending on reporting structures, minimum reporting values

alone surveys without repetitions and are often even not representative at the national level (e.g., representing only urban areas) with usually a very limited set of questions on finance.

32 To date the following countries have been surveyed: Botswana, Ghana, Kenya, Lesotho, Malawi, Mozambique, Namibia, Nigeria, Pakistan, Rwanda, South Africa, Swaziland, Tanzania, Uganda, and Zambia (http://www.finscope.co.za/index.asp, accessed 10 November 2009).

33 In South Africa, the importance of such data has become evident not only for research and policy formulation, but for the market development driven by the financial institutions themselves, based on the new information on consumer preferences and missing services (Gibson & The Springfield Centre 2006).

Regulated financial institutions **Credit bureaus**	- direct measures on cost, scope and length, and indirect measures on access - detailed data on borrowers' behaviour and multiple borrowing relationships	tors focusing on stability), only on regulated providers - problems with robustness: multiple clientship, counting of inactive accounts, etc. - difficult access to credit registry data - data sometimes only registered from high minimum amounts on	*Peru* - detailed and disaggregated database on institutions supervised directly by regulator, partly publicly available - data from credit bureaus not publicly available, limited number of studies using these data
Unregulated MFIs, cooperatives, and NGOs (eventually assessed through their apex organizations)	- often detailed information about clients - M&E systems tracking institutional and client performance - interviews and focus groups with clients (e.g., client exit) by some MFIs	- lack of professional data management (especially in very small institutions) - difficult access through apex organizations due to lack of compulsory reporting mechanisms - general lack of verification of the data	*Cross-country* - MFI accessible through international organizations, like the Mix Market, the Micro Summit Campaign, but no comprehensive databases - studies by NGOs/MFIs often unpublished *Peru* - Cooperatives federated and many NGOs covered by apex NGO/ Mix Market data
User related data (can include formal, semiformal and informal providers)			
Household surveys (interviews at household or individual level)	- comprehensive and representative information on access and usage across different types of financial products, service providers and arrangements - insights into motivation behind specific financial management decisions, like preferred risk coping strategy - link to personal characteristics, like degree of risk aversion, etc.	- most surveys without relevant questions - very expensive and time-consuming (although the FinMark Trust shows commercial viability) - choice and phrasing of questions decides on quality of results - methodological challenges (finance managed at household level, which is subject to changing size)	*Cross-country* - very limited availability of comparable cross-country datasets, not included in LSMS or similar surveys - limited stand-alone national surveys - increasing coverage in Africa through FinMark Trust *Peru* - very few questions included in national household surveys (ENAHO) - small non-representative surveys on specific topics (see section 6.2.2)
Enterprise surveys	- comprehensive information on access across different kinds and sizes of enterprises - access to and usage of financial services generally among the core questions	- expensive and time-consuming - lack of representative and regularly conducted surveys - choice and phrasing of questions influences quality of results - focus often on larger businesses and on credit only	*Cross-country* - World Business Environment Surveys (WBES) - Investment Climate Assessment (ICA) *Peru* - little publicly available data on MSME
Focus group discussions, interviews, in-depth studies	- detailed information on usage patterns, access and client preferences, including informal providers from the clients' perspective - categories different from the researchers' pre-defined categories - useful qualitative complement to surveys	- results generally not representative or only representative of small communities - often designed for evaluation need of practitioners without publishing results or data gathered	*Cross-country* - most focus group discussions and interviews not publicly accessible - limited comparability due to different methodologies *Peru* - limited number of publicly available studies by local research institutes (see section 6.2.2)

Financial diaries	- all economic transactions tracked and cross-checked - very detailed picture of the financial management and usage patterns of poor people - useful qualitative complement to surveys	- costly and time-consuming - results generally not representative or only representative of small communities	*Cross-country* - Very limited availability (India, South Africa, and Bangladesh) by Financial Access Initiative (FAI) *Peru* - none
		Other sources	
Expert surveys	- fast and low-cost overview on context - specific questions about their field of knowledge, trying to avoid interest-led information	- possible bias due to the choice of experts - risk of manipulation and robustness of the data in case of low number of experts (even Doing Business works with only 10 expert in a large country like China) - information from the point of view of the expert	*Cross-country* - Doing Business (no MSME specific information) - Microfinance Banana Skin (on risks in microfinance) - IADB microfinance environment survey - few well-known surveys on microfinance *Peru* - Doing Business Peru - few well-known surveys on microfinance

Source: Own concept and design, with elements largely from Stone (2005), complemented with own elements, and from Honohan (2005), Genesis Analytics (2004), and World Bank (2006).

Note: Existing data sources that are not valued as relevant for the above table due to weak quality were not included in the table above, although recent studies have been working with them (for example of recent survey by the World Bank applying a rather inadequate survey methodology; see section 1.2.2). Still, the examples provided should be considered only as an illustration and not as an overview of related data and sources.

The table shows that assessing data on usage and access to financial services remains difficult, although there might be other sources of data that are not publicly available. Other than embedded data from examination of the context, which can be obtained from experts, the two main types of sources of data are either provider- or user-related data. Provider-related data are the most widely available, being periodically collected and published, but they are appropriate for assessing access or even usage only in a limited manner due to provider- and regulator-specific data collecting and reporting aims and formats. Even data on usage of financial services might not always be easy to use, for example, the very common measure of number of accounts per adult population for assessing the usage of the respective kind of financial services. The number of accounts is not automatically equal to the number of account holders. Due to internal reporting structures, these measures can often not be obtained from financial institutions or national regulating and supervision institutions.[34] Thus, working with the number of accounts might cause a systematic bias, for example, among countries or regions, because richer segments of the population tend to hold various accounts and poorer segments one or none (Stone 2005: 16). Consequently, the relative importance of multiple account holders differs according to the social structure of a country. In addition, few financial institutions

[34] Because regulators have (until recently) not been interested in retail transaction volumes like account usage data focusing on data considering stability, this kind of data is often not included in reporting structures and even not collected systematically by banks, which often have to rely on market research to learn the difference between the number of customers and the number of accounts for their own bank (Peachey 2006: 65).

check regularly for inactive accounts, so the assessed data should be considered as accounts once opened. Thus, comparing data on accounts per person (adult population), carries various particularities that have to be considered in the interpretation. In terms of the present study, the provider-related data used is updated on a monthly basis by the regulator and cross-checked under *ex situ* and *in situ* supervision. Regarding the frequent problem of regulator-provided data being biased towards larger amounts or institutions and highly aggregated, the information provided by the Peruvian banking supervision agency *Superintendencia de Banca, Seguros y AFP* (SBS)[35] has the important advantage of being counted using specific categories for microenterprise loans and microinsurance, allowing identification of related clients and records data from one Peruvian Nuevo Sol largely disaggregated by size and district level (see sections 6.2.2, 6.2.3). Furthermore, all directly supervised financial institutions are included in the database, including smaller ones and credit-only institutions.

User-related data surveys, especially in combination with in-depth Financial Diary research, can be very rich and comprehensive date sources, as long as the survey includes a well-designed and well-phrased section on usage, non-usage, and access to finance and related preferences. Besides single stand-alone surveys (Stone 2005: appendix F and G) and other unknown surveys, the FinScope surveys remain the main source of such data, covering an increasing number of African countries.[36] Regarding survey-based user-related sources in general, the specificity and adequacy of the questionnaires is extremely important because apparently simple terms, such as *having an account,* probably differ in their popular meaning from what the questionnaire is actually asking.[37] In the present study, there is very little information from representative household surveys available, thus few relevant possibilities of misinterpretation. The different small surveys analysed have been realized by local research institutions and well-known local experts on the local financial market so that the phrasing of the questions can be expected to be adequate (section 6.2.2).

Another big and largely unmet challenge is to find data assessing the whole range of financial services. Generally, provider-related data on access and usage focus on savings and loans.

[35] Concepts and citations from German, French, Spanish, or Portuguese in English are translations by the author. If the original term is difficult to translate or if it has a special conceptual value, sometimes a literal translation in single quotation marks is used, sometimes it is referred with the original term afterwards in brackets. All accentuations are by the cited author; in case of new accentuations, these are indicated.

[36] Even if South Africa is the only country in which both specialized survey data and research from Financial Diary results are available, this country was not chosen for the application of the framework, because Peru offers an exceptionally good situation regarding provider related-data, which does not apply to the case of South Africa. Moreover the Peruvian microfinance market is a unique case concerning its high degree of development, its institutional diversity, and the prevailing commercialization tendencies. Generally, there would not have been a market with all types of data available for the application of the pro-poor financial sector development framework.

[37] Field experience has revealed that many times, to have good results, the phrasing of the question is as important as the subject of the question: In South Africa, the question 'Do you have a bank account?' asked related to the FinScope survey showed an unexpectedly high rate of affirmation. Consequently, follow-up research was undertaken and showed that, on the one hand, all interviewees who had access to an account in a bank through a family member had affirmed the question, whereas others who had a savings account with ATM use of their own had answered negatively. Consequently, the picture drawn by the answers was considerably different from what was intended by the researchers (Stone 2005: 11f.).

Only a few demand-side surveys (such as FinScope) address the full range of financial services, including transaction banking, remittances, insurances, and pension schemes. Financial diaries also assess all kinds of financial services, and focus group discussion, interviews, or expert surveys might treat the whole range of financial services, depending on the specific research design. In Peru, the regulator-provided data even include information on micro-insurance and the limited data on remittances could be complemented with a database from the World Bank (section 6.3).

The existence of informal and semi-formal providers of financial services provides a further challenge for investigation, policy framing, or market research regarding the lower segment of the financial system. Because these financial institutions do not report to any regulating agency, provider-related data are usually nearly impossible to assess.[38] Only in cases in which informal or semi-formal financial institutions, such as small cooperatives or NGOs are federated in apex institutions or other kinds of second (or third) tier organizations, can client data be collected directly and in a systematic and regular manner from the apex institutions. Otherwise, the financial services provided by informal financial institutions can only be accessed directly from the provider or indirectly through user surveys, if questions that refer explicitly to this kind of financial services are included into the survey. Therefore, it is important to refer directly to locally relevant informal financial institutions because these are named and function differently in distinct countries, cultures, or regions.[39] This direct reference is even more important if informal financial arrangements are considered along with institutions.

In the present study, data on savings and credit cooperatives not directly supervised, *Cooperativas de Ahorro y Crédito del Perú* (COOPACs),[40] could be assessed from their federation *Federación Nacional de Cooperativas de Ahorro y Crédito del Perú* (FENAREP) as could data on microfinance NGOs providing microfinance from their apex NGO *Consorcio de Organizaciones Privadas de Promoción al Desarrollo de la Micro y Pequeña Empresa* (COPEME); both could be complemented with data from Mix Market (section 6.2.1). However, both types of providers are not informal, but not directly supervised, in the case of COOPACs, and not regulated but registered as NGOs, in the case of the latter. Furthermore, there are informal providers that will be introduced in section 6.2.1, which cannot be explored further due to missing data.

[38] In some contexts with widespread use of linking solutions for access to finance, the consideration of informal institutions is also crucial for assessing access to formal financial service providers. For instance, in African countries with widespread usage of ROSCAs, these informal financial institutions might also have a bank account on their own or in the name of one of their members, making the assessment difficult (Stone 2005: 7). In India, with increasingly widespread linkage banking, the assessment of informal financial associations—in this case the self-help groups (SHGs)—is relatively easy because there is a special group account arrangement for SHG banking that is generally also recorded by the respective banks because group-lending ensures complying with governmental priority lending regulations.

[39] For a list of names of ROSCAs worldwide, see 'ROSCAs: What`s in a Name?' at the Global Development Research Centre website at http://www.gdrc.org/icm/rosca/rosca-names.html (accessed 03 December 2008).

[40] For a detailed introduction of the relevant institutions providing microfinance in Peru, see section 6.2.1.

Considering the available data for the case of Peru, it can be stated that the provider-related data are exceptionally detailed and disaggregated, including specific information on the microfinance segment. Therefore, data not only from the regular SBS but also from FENACREP and NGOs follow the reporting lines of SBS and provide comparable data within the microfinance-specific categories (section 6.2.3). There is, however, very little representative user-related data available in the Peruvian market, and a limited number of smaller surveys with interesting insights into financial management by the poor. Within the scope of the present study, which focuses on the development of the framework for assessing pro-poor financial sector development, the implementation of an original representative user-related survey was not feasible, a situation that is also true for original Financial Diary research, which is long-term research over a minimum period of a year. Taking into account the similarities of the insights from the small surveys (section 6.2.3) with the results from the Financial Diary research (section 4.1) and the fact that these insights from very different countries provide a common picture of usage patterns, similar usage patterns and preferences are assumed for Peru within the present study.

The data already discussed were complemented by further quantitative data from the national statistics bureau *Instituto Nacional de Estatísticas e Información* (INEI), the Peruvian public development fund *Fondo de Cooperación para el Desarrollo* (FONCODES), and the labour ministry *Ministerio de Trabajo y Promoción del Empleo de Perú* (MINTRA), along with other sources of secondary data and information. Furthermore, the quantitative data were completed and contextualized by this researcher’s own qualitative field research, as described above together with the process for applying the framework to the case of Peru.

PART B – DEVELOPMENT OF THE FRAMEWORK

2 Conceptualizing Poverty and Pro-Poor (Financial) Development: Sen's Capability Approach

> Development can be seen, it is argued here, as a process of expanding the real freedoms people enjoy. Focusing on human freedoms contrasts with narrower views of development, such as identifying development with the growth of gross national product, or with the raise in personal incomes, or with industrialization, or with technological advance, or with social modernization. […] Viewing development in terms of expanding substantive freedoms directs attention to the ends that make development important, rather than merely to some of the means that, inter alia, play a prominent part in the process. (Sen 1999: 3)

Poverty and development have been defined in various ways. Definitions vary, not surprisingly, according to the author of the respective poverty and development definitions and measurements. Historically, the concept of poverty has been closely related to income. Near the end of the nineteenth century, the subsistence standard was developed in Great Britain, based on the work of nutritionists and research on poverty (Townsend 2006: 14ff.).[41] This concept of poverty remained the main concept until the 1970s and has preserved its importance in poverty analysis, especially in international debates, today largely in the form of the 'one dollar a day' poverty line established by the World Bank in the 1990s (Grinspun 2004). The post-war understanding of development as economic development in the form of increasing income per capita supported this income-based view of poverty (Arndt 1981; Hirschman 1981: 24). The income-based poverty concept has been criticized for reducing human needs to physical needs without taking into account the human being as a social being. In addition, such a GDP-based concept excludes other factors relevant to economic development, such as human capital.

In the 1970s, the basic needs concept, supported especially by the International Labour Organization (ILO), began to influence international and national development agendas. It added to development objectives the provision of essential (public) services, such as access to water, and the private family consumption needs of adequate food, shelter, and clothing (Townsend 2006: 18). Although being a more comprehensive approach that stresses the importance of basic public services, the concept was still based on income and had been developed by 'development specialists'.[42] During the same period, social anthropologists developed a context-specific way of understanding poverty, based on relative deprivations defined locally, within the culture and living conditions of each specific setting (Chambers 2007: 18f.). Their

[41] The following short overview aims at placing the poverty approaches chosen in the present study within the context of other poverty and development concepts. Therefore, the main lines of the development of these concepts must be simplified without in-depth discussion of the different schools and approaches and their interrelations.
[42] Professionals working in development cooperation and national poverty reduction programmes.

listening to the locals' reports on their living conditions and challenges constituted a first step towards a less 'top-down' and more 'subjective' understanding of poverty.

Fundamental changes in how poverty and development are conceived were initiated in the late 1980s and early 1990s by development practitioners, mainly in India. They developed and employed methods to give poor people the voice to define and measure poverty (Chambers 2007: 19). Participatory methods such as the Participatory Rapid Appraisal (PRA) opened the debate to small groups of poor and marginalized people to speak about their living conditions, hopes, and sorrows, analysing their own realities with the help of maps, diagrams, or matrices that are being further developed even today (Mukherjee 2002; see section 1.3). In the 1990s, not only practitioners but also the World Bank started to 'listen to the poor', commissioning large studies on poor people's perceptions of their situations. These studies changed the understanding of poverty from the situations of well-being and ill-being from the perspective of the poor people and brought new topics, such as vulnerability, into the development agenda (World Bank 2001; see section 2.1).

Amartya Sen (1988, 1999) was the first economist to develop a widely recognized and applied comprehensive concept of human development, centred in the opportunities people have to live the lives they want to live. His understanding of poverty and development includes the perceptions of the poor directly by defining as a development aim the things and lifestyles people themselves value. Furthermore, his concept comprises the different dimensions of well-being and ill-being mentioned by the poor (Sen 1993, 1999) and has gained important recognition in development practice.[43] Taking into account that the conceptualization of poverty matters fundamentally in the analysis of results and policies proposed,[44] the understanding of poverty used in this present study needs to be well founded and explained. Sen's human development approach is not only widely recognized and applied but also consistent with perceptions of poverty held by poor people themselves. The multidimensionality and openness of his approach are the reasons for having chosen his concept as a basic understanding of poverty and, thus, pro-poor development for the present study. In the following, Sen's freedom-based understanding of development and poverty will be presented and discussed after the first section analyses perceptions of poor populations. The dimensions of his framework that draw links to the importance of microfinance for the poor will then be explored in the last section of the present chapter.

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[43] The importance of Sen's approach to human development is, for instance, reflected in the fact that not only UNDP has developed different indices based on Sen's multidimensional poverty concept (such as the Human Development Index or the Human Poverty Index (Ranis, Stewart et al. 2006;) HPI (Fukuda-Parr 2006)), but also national governments and development agencies base their work (at least in part) on the capability approach, for instance, the German or the Peruvian government (BMAS 2003; Diaz Alvarez 2006).

[44] Using different concepts of poverty results in different groups of the population being defined as poor and having different strategies for public policy suggested, as shown by Ruggeri Laderchi, Saith et al. (2003, cited in Ruggeri Laderchi, Saith et al. 2006).

2.1 Poverty as lack of freedom: Definitions and dimensions of poverty by the poor

When asking poor people what poverty means to them and their lives, the importance of the painful experience of missing freedom and opportunities and voicelessness and vulnerability as fundamental sources and characteristics of poverty emerge from their answers. For their comparability due to the application of the same research framework with an extraordinary large sample, the insights into poverty by the poor analysed in the present chapter are taken from a World Bank initiated series of participatory poverty assessments,[45] even though a large number of other participatory studies on poverty and development exist. The first synthesis report *Can Anyone Hear Us?* (Narayan, Patel et al. 1999) gathers the opinions and statements of over 40,000 poor women and men in 47 countries and analyses the findings from 78 national participatory poverty assessments conducted in the 1990s (Narayan, Patel et al. 1999: 6; World Bank PovertyNet 2007).[46] The report focuses on common poverty patterns both according to the lives and perspectives of poor women and men and the institutional settings they live in. Although poverty is contextual and, therefore, intrinsically linked to the location and social context, the shared matters raised by the poor show the commonness of the human experience of poverty across countries (Narayan, Patel et al. 1999: 6). From the statements of many poor women and men it can be concluded that poverty is perceived as a heavy burden for the affected households.

> Poverty is pain; it feels like a disease. It attacks a person not only materially but also morally. It eats away one's dignity and drives one into total despair. (Narayan, Patel et al. 1999: 6, from Moldova)

> Don't ask me what poverty is because you have met it outside my house. Look at the house and count the number of holes. Look at my utensils and the clothes that I am wearing. Look at everything and write what you see. What you see is poverty. (Narayan, Patel et al. 1999: 26, from Kenya)

Living in poverty is described as a painful experience, both physically and morally, affecting many dimensions of life (Narayan, Patel et al. 1999: 6). Its persistence can be explained better by analysing its complex interlocking character and understanding poverty as a multidimensional, contextual, and dynamic phenomenon. Thereby, the patterns of poverty depend strongly on the seasonal, institutional, local, and social context but, at the same time, show many common characteristics, like its multidimensional character (Narayan, Patel et al. 1999: 6 ff.).

[45] In the 1990s, the World Bank began to conduct poverty assessments routinely, in which the quantitative database, such as poverty lines, sociodemographic data, etc., is complemented with a poverty assessment by its primary stakeholders, poor men and women, in the form of participatory, open-ended processes called Participatory Poverty Assessments (PPAs) (Narayan, Patel et al. 1999: 15).

[46] The authors applied an inductive approach with systematic content analysis, using computer-based research programs to analyse the material from the respective poverty assessment reports (Narayan, Patel et al. 1999: 18f.).

This contextual and dynamic character of poverty can be assessed by analysing how gender, age, status, location, and socioeconomic and cultural context influence the individual definitions of poverty and its causes (Narayan, Patel et al. 1999: 26f.).[47] The transitory as well as the contextual character of poverty appears in the people's testimony, when lines are drawn between rich and poor. Categories like 'temporarily poor', 'resourceless poor' or 'God's poor' are mentioned. *Temporarily poor* refers, in this case, to previously prosperous cotton farmers suffering from a drought in Swaziland, *resourceless poor* were defined by the Ghanaian interviewees as the immigrant widows and landless workers, and *God's poor* referred to the people who were disabled, old, widowed, or childless with little or no hope for improvement (Narayan, Patel et al. 1999: 28).

> It's the cost of living, low salaries, and lack of jobs. It's also not having medicine, food and clothes. (Narayan, Patel et al. 1999: 29, from Brazil).

One side of the complex multifaceted nature of poverty is material deprivation: lacking the basis for material well-being, like food, land, and other assets as well as having unemployment or 'poor' unstable employment situations causing unfulfilled physical needs and suffering (Narayan, Patel et al. 1999: 29). These deprivations may even arise when the resources needed are available, but poor people lack access to these resources (Narayan, Patel et al. 1999: 12).

> Poverty is lack of freedom, enslaved by crushing daily burden, by depression and fear of what the future will bring. (Narayan, Patel et al. 1999: 31, from Georgia)

Furthermore, poor people describe the difficult psychological consequences that are related to the choices they are confronted with, such as spending the money for feeding the children or health treatment for a family member, and the shame and stigma they feel because of their situation. The central attribute of lack of freedom due to missing capabilities is also described as the sense of 'being stuck' in a difficult situation without the means to change this situation. The lack of freedom is also felt by the poor interviewees as not being in a position to change their situation or lacking the power to do so.

> Poverty is humiliation, the sense of being dependent on them, and of being forced to accept rudeness, insults, and indifference when we seek help. (Narayan, Patel et al. 1999: 26, from Latvia)

Voicelessness, powerlessness, and dependency often characterize the poor's socioeconomic situation and their relation to landlords, employers, moneylenders, or bankers, making them vulnerable to exploitation, such as price exploitation of agricultural products through immediate cash needs and missing bargaining power. In addition, poor women, in particular, manifest increased fear because of crime and harassment due to their living conditions. Indebted-

[47] For example, in Ghana, women understood poverty as food insecurity, whereas men associated poverty with a lack of material assets. The kind of assets judged as important was linked to income generation abilities for younger and to agriculture for older men (Narayan, Patel et al. 1999: 26f.).

ness is another factor that can worsen a situation of dependency in a debt spiral sometimes causing even personal dependency on the lender (Narayan, Patel et al. 1999: 31ff.).

These situations of dependency, helplessness, and voicelessness stress the importance of Sen's capability approach: The missing opportunities for changing their situations characterized by unsatisfied needs constitute the poverty of poor women and men. In the same sense, the testimony of poor people stresses the importance of a diverse set of physical, human, social, and environmental assets and access to these resources. Assets can be both productive (e.g., livestock) or fixed (e.g., jewellery), and their use depends on the kind of asset, the social context, and the urgency of family needs (Narayan, Patel et al. 1999: 40). Consequently, people rarely speak about income but about resources that cannot be mobilized, probably due to the power relations behind the access to the assets and the linked opportunities, as a statement from Ecuador shows:

> We have neither land nor work. […] Some of us have land in the reserve, but we can't transport our products from there because it is too far. It is difficult to carry them, and since I don't have land here, and only in the reserve, I am poor. (Narayan, Patel et al. 1999: 39)

Vulnerability is another dimension of poverty, closely linked to the dimensions of dependency, lack of access to resources, and thus, the deprivation of capabilities that constitutes persistent poverty, in this case, in the sense of a limited ability to cope with shocks. For example, in rural communities, seasonal climate changes and changing water and food availability are critical whereas rainy or very cold seasons bring problems both to rural and urban areas because of floods or additional expenses, such as for heating (Narayan, Patel et al. 1999: 45f.). In addition, many poor people live in areas with extreme weather conditions and are the populations most affected by natural disasters (because of living close to rivers, because of lack of solid houses, etc.). Furthermore, traditional coping mechanisms are being exhausted through environmental degradation[48] (Narayan, Patel et al. 1999: 45f.). However, not only is vulnerability characterized by the inability to cope with seasonal climates or natural disasters, but it also refers to uncertainty about different assets, including economic or social resources. Thus, vulnerability can be defined as 'a lack of key sets of assets, exposing individuals, households, and communities to increased or disproportionate risk of impoverishment' (Narayan, Patel et al. 1999: 48). Thus, *vulnerability* refers to exposure to risks, insecurity, and shocks that characterize the lives of poor people (Cohen & Sebastad 2006: 25; Chambers 1989: 1). Vulnerability differs across communities, households, household members, types of employment, health situations, ages, gender, and other factors. Disabled, weak, very young, or very old people and single women often belong to the most vulnerable groups. Their dependency is one of the roots of their vulnerability because they do not have a reasonable base of resources themselves (Narayan, Patel et al. 1999: 49f.).

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[48] Such as living from or selling collected natural resources, like wild fruits, fish, or firewood (Narayan, Patel et al. 1999: 46).

Because the state does not provide basic public services and access to assets in a satisfying manner (and local NGOs do so only in a very limited way) (Narayan, Patel et al. 1999: 8, 37), informal institutions and networks often remain the main, although somewhat problematic, support mechanisms that poor people rely on. On one hand, these important informal networks can alleviate consequences of poverty. People living in poverty can meet their daily needs better, for example, with a small emergency credit from relatives so try to strengthen the social relationship for reciprocal help in 'worse times', as they can rarely afford formal insurance (or do not have access to adequate microinsurance that would fit into their budget) (cf. Narayan, Patel et al. 1999: 44). Consequently, social relationships support people in managing their daily lives and provide 'social nets' for times of emergencies or crisis, as a interviewee from Senegal stated:

> The most important asset is […] an extended and well-placed family network from which one can derive jobs, credit, and financial assistance. (Narayan, Patel et al. 1999: 44)

On the other hand, social risk-sharing arrangements and support mechanisms among poor people can also impede the way out of poverty of individual community members or families, by limiting their accumulation of resources or long-term investments through the social or traditional commitments to respond to the increasing claims from network members (Narayan, Patel et al. 1999: 45). In addition, the social network, social cohesion itself, can suffer because the burden of poverty and massive lack of material assets can weaken the social ties built on reciprocity because people are no longer able to meet social commitments, thereby affecting community solidarity (Narayan, Patel et al. 1999: 35ff.). Thus, social networks do not substitute for missing formal possibilities of managing and gaining access to important assets and dealing with dependency and vulnerability, even though they help people to cope with these situations. Adequate financial services can be an effective tool for more efficient management of the few resources, such as getting access to assets through a microcredit or coping with shocks with the help of microinsurance or savings. The ways in which poor populations use financial services and their preferences and needs regarding financial management will be explored further with the help of Financial Diary research in section 4.1.

2.2 'Development as freedom' and Sen's understanding of poverty and pro-poor development

Amartya Sen's understanding of development is intrinsically linked to poverty because, according to him, development occurs when poverty is reduced. In this perspective of development, which is intrinsically pro-poor and focuses on the freedom people enjoy, poverty is not merely understood as income poverty or based on lack of goods but is linked to the privation of basic capabilities that characterize the lives and livelihoods of poor people (e.g., the lack of access to drinking water; Sen 1999: 20). Nonetheless, the importance of the income variable being one of the major causes of poverty in the sense of a fundamental source of capability deprivation is recognized (Sen 1999: 87). In this sense and as indicated before, the term *low-income population* should be understood when used in this study as referring to income poverty as one important capability deprivation constituting poverty. At the same time, however, poor people most likely still suffer from other deprivations.

For reducing poverty in terms of capability deprivation, development is seen as an 'integrated process of expansion of substantive freedoms that connect with on another' (Sen 1999: 8). Therefore, the 'expansion of freedom is viewed, in this approach, both as the primary end and as the principal means of development. Development is the removal of various types of unfreedoms that leave people with little choice and little opportunity of exercising their reasoned agency' (Sen 1999: xii). Consequently, the main focus of Sen's development approach is on creating the missing opportunities and possibilities that characterize poverty. These freedoms or capabilities that frame the quality of human life are considered both as instrumental freedoms for development (their instrumental role) and as separate development goals (their constitutive role).

Instrumental freedoms are classified by Sen (1999: e.g., xii) into the following categories:

- Economic facilities,
- Political freedoms,
- Social facilities,
- Transparency guarantees,
- Protective security.

At the same time, he stresses the intrinsic links between the different freedoms and that the non-economic freedoms or rights can, in addition to their constitutive value, be very effective in enhancing economic progress and growth (Sen 1999: 37). The constitutive role of freedoms, then, refers to the substantive freedoms that influence the quality of human life. These substantive freedoms refer to the ability or capability of people to avoid situations of extreme poverty, such as severe lack of food, health, education, and political participation that lead to undernourishment, starvation, premature mortality, inadequate literacy, or political repression (Sen 1999: 36). All these freedoms are important development goals of their own and have to be distinguished from their contributions as freedoms instrumental in enhancing development: 'The intrinsic importance of human freedom as the pre-eminent objective of development has to be distinguished from the instrumental effectiveness of freedom of different kinds to promote human freedom' (Sen 1999: 37). Nevertheless, they are generally positively related in contributing to the general capability of a person and are usually also complementary with one another (Sen 1999: 38).

Although income-focusing approaches have been quite dominant in research and poverty reduction policies, an understanding of development as human well-being, as Sen argues, has a long history among philosophers, economists, and political leaders,[49] and more recently, a multi-factor understanding of poverty has been used in a growing number of poverty assessments.[50] Sen's capability-centred or freedom-centred development approach also constitutes the normative base for well-known development and poverty reduction studies and approaches: The Human Development Report is based on Sen's understanding of poverty and is published yearly with different multi-dimensional indicators for people-centred development.[51] The central indicator, the Human Development Index (HDI),[52] is an example of an application of a human-centred development concept for research and policy. Approaches focusing on human development and working with Sen's approach[53] address poverty as a multidimensional phenomenon that is transitory, in the sense of the dynamic dimension that people can get out of poverty or become impoverish, and contextual, referring to the socio-economic and institutional arrangements that mould development conditions.

Central for the theoretical foundations of the present study is Sen's understanding of capabilities:

> The evaluative focus of this 'capability approach' can be either on the *realized functionings* (what a person is actually able to do) or on the *capability set of alternatives she has* (her real opportunities). The two give different types of information—the former about the things a person does and the latter about the things a person is substantively free to do. Both versions of the capability approach have been used in the literature, and sometimes they have been combined (Sen 1999: 75; italics partly added).

The capability approach refers to these two 'categories of freedoms': First, the functioning set consists of the different things a person values doing or being, like participating in community life or being well-nourished. In the different functionings of a person—what she does or is—her achievements and, hence, her actual situation is reflected (see Sen 1999: 75). The second

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[49] As Aristotle stated in ancient Greece, 'Wealth is evidently not the good we are seeking, for it is merely useful for the sake of something else' (Human Development Report Office 2007a; Sen 1988: 1), or see Adam Smith's work on human necessities and living conditions (Sen 1999: 24).

[50] From the 1990s on, this multidimensional understanding of poverty and development considering a combination of economic, social, political, and institutional factors has progressed to become the predominant paradigm in the international debate on development and in international cooperation for development, as in the World Development Report (2000/2001) with its programmatic title *Attacking Poverty: Opportunity, Empowerment, and Security* (World Bank 2001) or in the Paris Declarations (OECD 2001).

[51] See the description of the concept of the Human Development Reports (Human Development Report Office 2007a) in which the founder, Mahbub ul Haq, states, 'The basic purpose of development is to enlarge people's choices' and the explication on the origins of the human development approach with the following citation by Sen: 'Human development, as an approach is concerned with what I take to be the basic development idea: namely, advancing the richness of human life, rather that the richness of the economy in which human beings live, which is only a part of it' (Human Development Report Office 2007b).

[52] The HDI provides a composite measure of three dimensions of human development: living a long and healthy life (measured by life expectancy), being educated (measured by adult literacy and enrolment at the primary, secondary, and tertiary level), and having a decent standard of living (measured by purchasing power parity, PPP, income) (Human Development Report Office 2007c). Therefore, other dimensions of human development, such as income inequality, gender relations, or political freedom, are not included.

[53] Today there are different groups or schools working on and with a human development approach; and regarding the capability approach, there even exists a network of scholars and practitioners working with the approach, called The Human Development and Capability Association (cf. http://www.capabilityapproach.com/Home.php, accessed 23 November 2007).

category, the capability set, addresses freedoms or opportunities and describes the choice from alternative options (or from alternative functioning combinations) and, thus, refers to the freedom of choice a person has (Sen 1999: 75).[54] These opportunities matter, independent of each person's decision to use them or not. Accordingly, the fact of being able to choose can be seen as an important additional degree of freedom because there is a big difference between not eating based on free choice (e.g., for religious reasons) and not eating because there is no food available. The capability approach combines the substantive freedom linked to having different alternatives to choose from—the opportunities—and the 'real situation' in the sense of the actual achievements—the functionings chosen and realized. For the assessment of poverty, opportunities or functionings or both might be used, according to the subject assessed. Related to pro-poor market development, opportunities especially matter because they represent the real access to services and products that matter, leaving the decision of purchasing or using them to the individual (Sen 1999: 142; see section 5.1.1).

The capabilities or freedoms people enjoy can also be understood by looking at the different roles of freedoms. Different kinds of freedoms people enjoy can be always seen as having a primary end (their constitutive role) and or as being a principal means (their instrumental role) of development (Sen 1999: 36). Hence, development 'as freedom' is understood as human development that enables people to live the lives they choose or that enhances their living quality. The constitutive role of freedom referring to these freedoms as proper purposes is then related to the opportunities that consist of the possibilities and related choices people have. The instrumental role of the freedoms contributing to human development in the sense of reaching the desired living quality refers to the functionings, as the latter consist of the achievements or opportunities used (Sen 1999: 74ff.). In sum, the capability approach refers, on one hand, to freedoms and real opportunities people have and, on the other hand, to the achievements or functionings that contribute to human development in an instrumental way. Besides these two core parts of the capability approach, there are more elements fundamental to understanding this approach.

The opportunities and functionings have to be seen in terms of individual agency and its embeddedness in the specific socioeconomic and cultural contexts. Thereby, the central element of agency is the greater ability of people to be able to act and induce changes according to their objectives and values (Sen 1999: 18f.) Consequently, Sen's *agent* is not the instruction-bound agent of principal-agent-frameworks but refers to the individual who is able to act according to her own beliefs and aims. Thus, the agency room or space people are disposed to use is seen, on the one hand, as being for individual initiative and people's self-help capacity. On the other hand, the individual person and her agency freedoms are inherently linked to the socioeconomic context because she is as member of the society, part of the public, socioeco-

[54] These central categories of the capability approach will be referred to as functionings and opportunities, although Sen has changed the denomination of these during the development of his capability approach, later using *freedoms* instead of *capabilities* for linguistic reasons, stating that 'Capability is not an awfully attractive word. […] Perhaps a nicer word could have been chosen' (Sen 1993: 30; see Alkire 2002: 18f.).

nomic, and political life and related transactions (Sen 1999: 16). Considering the importance of development as a process of overcoming the deprivations that poverty causes in people's lives, Sen (1999) continues:

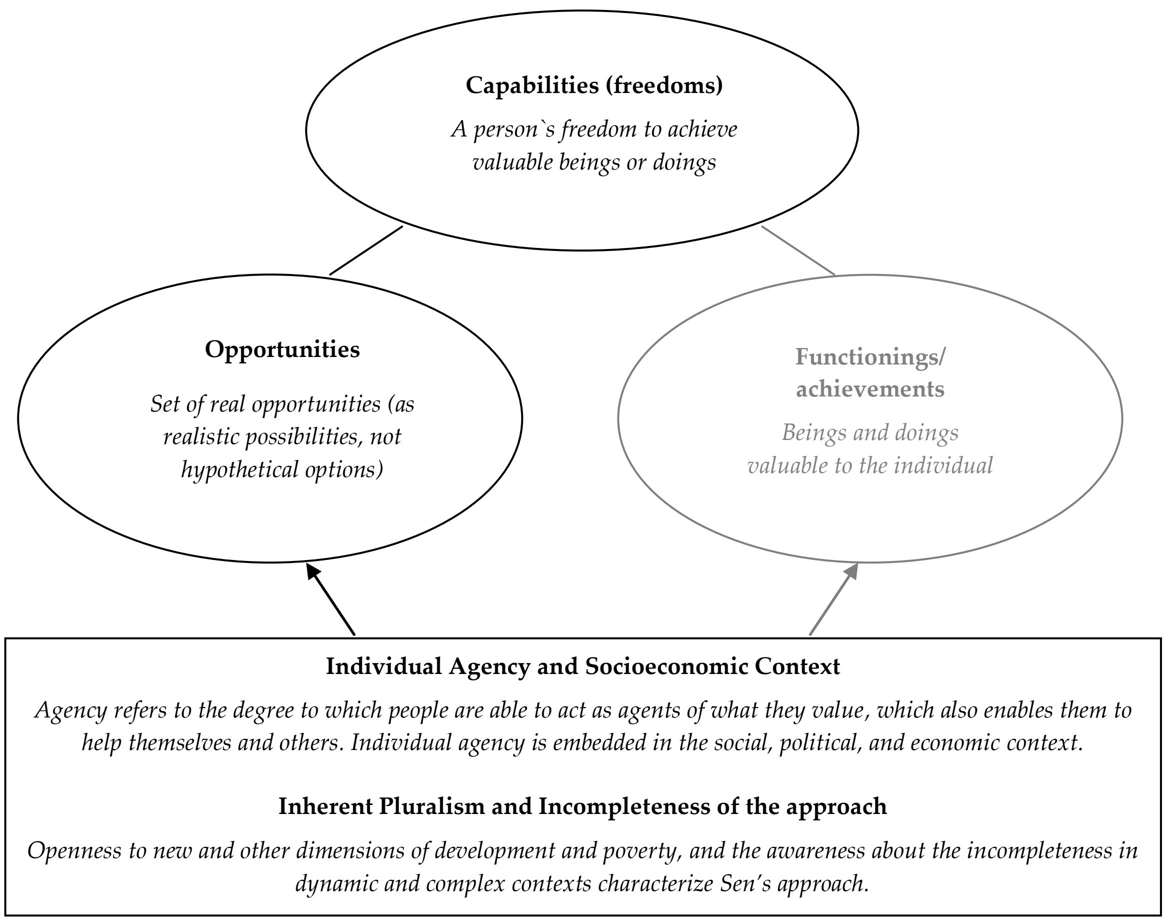
> Indeed, individual agency is, ultimately, central to addressing these deprivations. On the other hand, the freedom of agency that we individually have is inescapably qualified and constrained by the social, political and economic opportunities that are available to us. There is a deep complementarity between individual agency and social arrangements. (xi-xiii)

A last core element of Sen's capability approach is its complex plurality and inherent incompleteness (see, e.g., Sen 1988, 1993, 1999). Sen never defines *freedoms*, *opportunities*, or *functionings* in an all-embracing way, but rather presents different definitions and leaves room for including new dimensions and factors or a different valuation. This openness of his approach to the complex and multi-dimensional realities of development and poverty allows the possibility of innumerable adaptations of Sen's approach according to the developing topic, cultural, socioeconomic context, and all the different faces of reality (Alkire 2002: 10). At the same time, the approach becomes more difficult to grasp compared to a concrete framework with clearly defined assumptions. Sen himself also underlines the importance of the openness of his approach: 'Indeed, through informational broadening, it is possible to have coherent and consistent criteria for social and economic assessment' (Sen 1999: 253). Hence, Sen considers that the incompleteness of his approach has both a fundamental and a pragmatic function. The fundamental function refers to the complexity of well-being and inequality, which demand a conceptual openness. The pragmatic side allows the individual researcher working with Sen's approach to focus on specific aspects relevant for her research and recognizes the problems of limited analytical depth in a complex world with dynamic contexts (Sen 1992: 49).

Moving from a very broad conceptual and informational base into a framework that can be operationalized for research is not easy, as has been noted by different authors working with applications of Sen's capability approach. Even though Sen's concept is widely used among both academics and development practitioners (e.g., by the scholars of the HDCA or those publishing in the Human Development Journal and using the different indices modelling human development used by UNDP), the operationalizing of Sen's approach remains difficult and questionable. First, the complexity of the approach related to the wide range of functionings makes operationalization difficult (Sudgen 1993: 1953). The wide range of functionings is especially difficult, as Sen does not explicitly provide any valuing among different types of freedoms, which would be especially useful in prioritizing basic capabilities, according to Stewart 1996. Nussbaum (2000) not only criticizes the missing normative valuation of freedoms, but also proposes a framework of concrete 'central human functional capabilities'. The openness of the framework can be criticized, on the one hand, for its arbitrariness, but, on the other, it allows for one of the fundamental conceptual strengths of the framework because missing dimensions, such as ecological sustainability for future generations, can be included in the framework, which was deliberately made incomplete and open by its author.

In the present study, Sen's approach will not be applied directly, but it constitutes the base of the proposed framework because it defines the understanding of poverty applied in this research. Accordingly, the aim of development and, specifically, pro-poor financial sector development is enhancing people's freedoms, which will be assessed considering the real opportunities they have. Thereby, the individual is seen as related to her respective context, and the principles of openness and incompleteness apply to the proposed framework (see Chapter 5). The main elements of Sen's approach relevant for the present study are presented in the following graph 2.2-A. The part of the functionings is in grey letters because pro-poor financial sector development will be assessed based on real opportunities in the proposed framework.

Graph 2.2-A: The central elements of Sen's capability approach



Source: Own elaboration based on Sen 1999, Alkire 2006, Alkire 2002: 4 ff.

Furthermore, Sen's vision of poverty provides some fundamental insights into how financial services can contribute to enhance the freedoms of the poor, as discussed in the next section.

2.3 Links between Sen's capability approach and the provision of financial services for the poor

Although the holistic make-up is one central characteristic of Sen's approach to pro-poor development, the discussion of specific freedoms and their role in enlarging people's freedom also constitutes an important part of his approach. In the following, links between the capability approach and the usage and usefulness of financial services by and for poor people will be explored. These links relate, on the one hand, to the freedom dimensions of economic and social facilities and, on the other hand, to the elements of individual agency and the instrumental and intrinsic value of freedoms.

> Economic facilities refer to the opportunities that individuals respectively enjoy to utilize economic resources for the purpose of consumption, or production, or exchange. (Sen 1999: 39)

Access to finance is understood by Sen as an important factor for increasing economic opportunities and achievements of individual agents. Thereby, he stresses the importance of financial services for all classes and sizes of enterprises: 'The availability and access to finance can be a crucial influence on the economic entitlements that economic agents are practically able to secure. This applies all the way from large enterprises (in which hundreds of thousands of people may work) to tiny establishments that are run on micro credit' (Sen 1999: 39). The mentioned economic entitlements also refer to the concept of capabilities of the agents, that is, economic opportunities and functionings. Furthermore, the importance of economic facilities is also discussed in terms of their instrumental role for improving social facilities:

> Economic facilities (in the form of opportunities for participation in trade and production) can help to generate personal abundance as well as public resources for social facilities. Freedoms of different kinds strengthen one another. (Sen 1999: 11)

Hence, in the same way as complementarity and interrelations of different freedoms are discussed, the opportunities and functionings created by access to adequate financial services might contribute to enlarge other freedoms, such as social facilities. Naturally, these effects might also be negative in the case of financial services that might reduce opportunities or functionings of certain individuals or groups of people. Evidence regarding the effects that access to microfinance can have on increased opportunities, such as managing assets and coping with risk, and how economic facilities can be improved will be explored further based on empirical research in Chapter 4.

Regarding social facilities and political freedoms, Sen (1999) also mentions the possible contribution of microfinance to social change if provided in group arrangements. Largely used in Asia, these approaches are very popular, and there is anecdotal evidence that non-economic changes can be noted at the village level, such as in the empowerment of women, in group-based initiation of small self-help initiatives for local development, in improved health or education conditions in the village, or even in increased political participation.[55] Considering the interdependence of different freedoms, Sen notes

> the need of open discussion of social issues and the advantage of group activities in bringing about substantial social changes. Women's organizations have begun to play a very important part in this transformation in many countries in the world. For example, Self-employed Women's Association (SEWA) has been most effective in bringing about a changed climate of thought, not just more employment to women, in one part of India. So have participatory credit and cooperative organizations[56], such as the Grameen Bank and Bangladesh Rural Advancement Committee (BRAC) in Bangladesh. While emphasizing the significance of transaction and the right of economic participation (including the right to seek employment freely), and the direct importance of market-related liberties, we must not lose sight of the complementarity of these liberties with the freedoms that come from the operation of other (non-market) institutions. (Sen 1999: 116)

Sen's focus on development in terms of individual agency and the differentiation of the instrumental and intrinsic functions of freedoms are further elements of the capability approach that is valuable to the following analysis. The recognition of people living in poverty as individual agents suffering from capability deprivation might further strengthen the recognition of poor people as small clients and not as beneficiaries waiting for charity, even though extremely poor, destitute, aged, or disabled people might often need some basic social welfare benefits in order to be able to profit from the opportunities financial services offer them.[57] Within the research approach of the present study, the importance of individual agency is also respected in the sense of respecting the individual's decisions regarding the usage of financial services; this stance differs from those often taken in impact assessments that aim, for instance, at assessing whether a client used a loan for the pre-established purpose.

Considering both the instrumental and the intrinsic value of freedoms, Sen (1999: 74) stresses the importance of the ultimate aim of increasing people's ability to live the life of their choice: 'I have tried to argue for some time now that for many evaluative purposes, the appropriate "space" is neither that of utilities (as claimed by welfarists), nor that of primary goods (as demanded by Rawls), but that of the substantive freedoms—the capabilities—to choose a life one has reason to value'. Hence, possible increased capabilities related to access to finance do not consist simply in the financial services a person can access and makes use of or the goods she can obtain, but they are related to the 'relevant personal characteristics that govern the conversion of primary goods into the person's ability to promote her ends' (Sen 1999: 74). Accordingly, the focus stays on what finally matters for living the life one would like to: not only

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[55] Therefore, it should be considered that, for these wider social and political effects of microfinance, NGO support and consultations are essential for developing the strength and awareness of the group (see section 4.2; Gohl 2007).

[56] Although participatory and cooperative organizations certainly can have many interesting effects on non-economic freedoms, it can be questioned whether the mentioned organizations are not more group-based than participatory or cooperative, considering that their respective organizational approach may involve intense steering from above and the groups are formed by the organizations' staff, not by initiative of their clients.

[57] The focus of many providers is on serving the 'working poor', as proposed, for example, by Robinson (2001), which is both discussed critically and challenged in practice, for instance, by SafeSave in Bangladesh (http://www.safesave.org, access 13 October 2008).

having income or material goods, but converting them into food, clothes, a pilgrimage, or a gift for an important social event. Whereas a loan, for instance, might be decisive for purchasing necessary material for the family's microenterprise, which ultimately produces the family income, the process of converting assets for realizing the desired life might also be enhanced directly by access to financial services. A wider range of financial services allows poor people to manage their assets and liabilities in more efficient forms, for example, by realizing long-term goals through savings and reduced vulnerability due to having some insurance or the ability to finance urgent expenditures like medical costs through a short-term loan. Besides a more efficient 'conversion process', financial management alone (besides investment in a microenterprise) can contribute to increase the family income, such as by selling agricultural production later at a high price because of being able to live on a small consumption loan after the harvest season.

Focusing on the ability of people to finally realize the desired life, inequality gains a new dimension besides income inequality: that of capability inequality. A person having difficulty producing a significant amount of material goods or a considerable income will also have more difficulty in converting her income or goods gained into the life situation she desires (Sen 1999: 119). Consequently, income-earning ability and income-using ability are closely linked and are both included in the capability approach. Both abilities depend on real opportunities and partly frame the achieved beings and doings. Hence, for assessing pro-poor financial sector development, it is fundamental to assess whether financial services provide opportunities not only for income generating but for using and converting income, not overloading the generally expected gains in income through access to credit. Thereby, the proposed approach is considered both as open and incomplete in the sense of acknowledging the high complexity of the research topic and its dynamic characteristics, which is also fundamental for the following methodological reflections and propositions.

3 Theoretical Approaches on the Relevance of Financial Services for the Poor

The relevance of the present study is based on the basic assumption that financial services matter not only for the economy in general but also for individual people and those with low income or small enterprises. Thereby, the relevance of financial services for poor populations can be analysed through two main channels: First, the impact of financial sector development on growth and the impact of that growth on the living conditions of the poor, and second, the direct relevance of financial sector development to the poor through financial inclusion. This second channel constitutes the topic of the present study and refers to the possible changes related to access to and the usage of financial services in the lives of poor populations. Accordingly, the role of the financial system for pro-poor development is analysed from a microeconomic perspective, focusing on how financial inclusion is realized, how poor populations use financial services, and what the relevance of financial services for poor and low-income populations is. Although the macroeconomic perspective on pro-poor financial sector development and the effects of growth and economic development are also relevant for the living conditions for the poorer sections of society, such an analysis is beyond the scope of the present study. Furthermore, links between finance and growth (e.g., Levine 1997; Goldsmith 1969; Patrick 1966; Maswana 2006) and between economic growth and pro-poor development (Priewe & Herr 2005: 25ff.) are argued in theory and questioned in empirical research: There are contradictory empirical findings both on the contribution of financial sector development to growth[58] and on the contribution of growth to increasing incomes,[59] with some authors defending the disproportionally positive effect of finance-related growth on the poor, even in considering the economic opportunities of the poor (Levine 2008).

Accordingly, the theories reviewed in the following discussions have been chosen because of the micro focus on pro-poor financial development from the perspective of financial inclusion and the context of the developing countries they address. However, unlike the link between finance and economic growth, there is no solid nor comprehensive theoretical base for the link between finance and pro-poor development. Accordingly, different theories that treat the links between the poor, their ways of living and earning income, and financial services are discussed. Besides the approaches that explicitly focus on the way poor populations live and earn and the links to finance, other approaches that open categories that help to deepen the understanding of the link between financial-sector development and pro-poor development through financial inclusion are discussed. The first approaches to be discussed are theoretical ap-

[58] Some authors and studies by development agencies state that finance seems to lead the process of economic growth (King & Levine 1993: 730; Levine 1997: 709f.; DFID Financial Sector Team 2004: 14; World Bank 2001: 75) while others show a negative relationship between finance and growth and also bi-directionality (see Lawrence 2006 for a compilation of different studies). The main authors of the Theory of Finance pointed to the need for financial liberalization to spur economic growth (McKinnon 1973; Shaw 1973), whereas, currently, the economic down-turn and costs related to financial crises are realized in the context of increasing instability linked to financial deepening (Roubini 2008; Loayza & Ranciere 2005).

[59] See Priewe & Herr 2005: 35ff.

proaches modelling the functions of the financial system in the economic process, focusing on Ross Levine's (1997) functional approach to the relevance of the financial system for the economic process from a micro perspective, which opens relevant categories—the financial functions—for further analysis. Joseph Schumpeter's (1911/1997) analysis of economic agents in the economic process opens different categories of entrepreneurs that help to understand the specific business dynamics of poor and small entrepreneurs. Nitsch's (2002a) theory of simultaneous modes of productions is central for approaching the different socioeconomic formations coexisting in structurally heterogeneous developing countries and understanding the process of economic and social development. Due to the way poor populations or even major parts of the population in developing countries live and work, the family-led mode of production is introduced as the central socioeconomic formation, and the related characteristic way of earning income and doing business is linked to Schumpeter's theory (Nitsch 1995: 93ff.). In the second section of the present chapter, the analysis will focus on theoretical approaches by Nitsch (1995) and Zattler (1997), modelling the role of finance in a central family-led mode of production.

Furthermore, it is important to note that the understanding of money and its relevance to the economy within the present study is based on a view that gives inherent importance to money and credit, as formulated by the 'Monetary Keynesianism' or the 'Berlin School' of economic thought, as referred to in Hajo Riese's later years (see, e.g., Riese 1989, 1995; Riese & Altvater 2001; Riese & Hölscher 2004). Thereby, money is submitted to the logic of the market economy (Riese 1995: 46, 49), 'lifting the veil' of classic and neoclassical understandings of money and finance.[60] The approaches modelling the role of finance for the economy and stressing its importance, like the theory of finance and its functional approaches, generally do not discuss further consequences of the real importance of the financial sector to the 'real sector', for the way money is modelled. Within the family-led mode of production central to the following analysis, a (neo)classical barter-originated understanding of money can be considered as relevant, due to the use of money for transactions on spot markets differing from the function of money in the monetary economy, where it is considered to be created 'from nothing' (Nitsch 1995: 95).

3.1 Financial functions, types of entrepreneurs and modes of production

> For bankers, politicians and policy-oriented economists, it has always been self-evident that the financial sector of a country is of great importance for economic development. (Schmidt/Von Pischke 2004: 2)

In the following sections, the chosen approaches modelling the link between finance and economic and pro-poor development from a micro perspective will be presented and discussed,

[60] With neoclassical assumptions of a 'goods-based economy', the origin of money as conceived in barter and finance is understood as a mere veil over the economy (see, e.g., Smith 1776/1978: 22ff.; Simpson 1976: 258; Friedman 1969; Friedman 1992: 29ff.; Marx 1858: 144).

given that this relationship has not always been self-evident for economists, especially among economists working with (neo)classical assumptions beyond the authors of the theory of finance and the functional approaches.

3.1.1 Financial functions in the economic process

Levine's approach to different functions of the financial system in the economic process as conceived from a micro perspective provides useful categories for the subsequent analysis, which will be presented and complemented by other functional approaches in the following discussion. His work is based on the understanding of the structural or intrinsic importance of the financial system for the economic process: growth. Levine positions his understanding of the interrelation of the financial and real sphere and, accordingly, his functional approach as follows:

> The major alternative approach to studying finance and economic growth is based on the seminal contributions of John Gurley and Edward Shaw (1955), James Tobin (1965), and Ronald McKinnon (1973). In their mathematical models, as distinct from their narratives, they focus on money. This narrow focus can restrict the analysis of the finance-growth nexus, and lead to a misleading distinction between the 'real' and financial sectors. In contrast, the functional approach highlights the value added of the financial sector. The financial system is a 'real' sector: it researches firms and managers, exerts corporate control, and facilitates risk management, exchange, and resource mobilization. (Levine 1997: 689)

The starting point of Levine's theoretical link between finance and growth is market friction in the form of information and transaction costs. The importance of the financial system arises from its ability to decrease these costs. Thereby, the financial system's primary function of resource allocation is divided into five basic functions:

1. 'facilitate the trading, hedging, diversifying, and pooling of risk,
2. allocate resources,
3. monitor managers and exert corporate control,
4. mobilize savings, and
5. facilitate the exchange of goods and services'. (Levine 1997: 691)

The channels through which growth is influenced by the financial system and the services it provides are capital accumulation and technological innovation. Through both channels, Levine examines possible contributions of the five basic functions of the financial system to growth (Levine 1997: figure 1A). For a coherent understanding of the financial system's relevance to economic development, Levine argues that there is no need for a synthesis of the different functions, explaining: 'In fact, by identifying the individual functions performed by the financial system, the functional approach can foster a more complete understanding of finance and growth' (1997: 701). His solution to the somewhat still disintegrated functions of the financial system is to integrate them into the form of a parable—Fred's story (Levine 1997:

701ff). Fred is an entrepreneur who has developed a design for a new innovative truck for extracting rocks from quarry and needs access to finance for realizing his business idea: The complicated production of Fred's invention can be realized through specialization that is facilitated considerably through the financial medium of exchange (function 5). In order not to overburden or endanger his family, Fred could then finance his truck production through liquidity and risk pooling and risk diversification, keeping the savings of his family diversified without having to invest all his savings in his own (illiquid) project (function 1). The financial institution collects savings from other participants of the financial market (function 4) and lends parts of these savings to Fred to finance his truck project (function 2) and it monitors its implementation (function 3).

Another definition of the primary function of the financial system as—'to facilitate the allocation and deployment of economic resources, both across borders and time, in an uncertain environment'—is the cornerstone of Merton and Bodie's (1995: 12) functional approach, which considers uncertainty in the economic process. Their functional perspective on assessing institutional change of the financial system stresses the importance of considering institutions in analysing how the functions of the financial system are performed and how institutional change happens (North 1994). The functional perspective, situated by Merton and Bodie (1995: 10) within the tradition of New Institutional Economics (Williamson 1985: 16), goes beyond a static institutional analysis. It is presented as an approach suitable for the analysis of the financial environment and related institutional change, through its focus on the economic functions of the financial system. Hence, the authors do not focus on showing the importance of the financial system for economic development or growth, but on providing a research framework with detailed financial functions that helps to assess the changing financial environment.

Among other economists using a functional approach for assessing the 'real effects' of the financial sphere, some only assess the functions without further development of the (neo)classical assumptions their analysis is based on (e.g., Hellwig 2000; Bitz 2005) while others develop the functional approach based on heterodox foundations, as does Tobin (1992: 80). In addition, the 'functional perspective' of Merton and Bodie (1995) has been applied in the volume *The Global Financial System* to the different functions of the financial system as the authors continue to address the 'functional perspective'.[61] Although the different functional approaches considered here differ both in their exact definition of the specific economic functions of the financial system and in their respective research focuses, their main line of thinking is very much the same: By looking at the functions the financial system performs in an economy, the relevance of the financial system for the economic process becomes evident.

[61] Their later works are not discussed here because, for the present research, their presentation of the functional approach from 1995 is the most interesting part of their work; moreover, their more recent publications aiming at 'a synthesis of function and structure' based on a neoclassical foundation is not perceived as a more insightful approach because of its less clear distinction between the institutionalist and neoclassical perspectives, which are synthesized in the functional approach (see Merton & Bodie 2005).

Because this functional view on financial services provides a basic micro perspective on the financial system that is useful for the present analysis, the different approaches are delineated in table 3.1-A. In the table, similar categories of financial functions are grouped according to approaches with different theoretical bases, and that they are related to different kinds of financial services or products offered to microfinance clients (see the last column of table 3.1-A). Levine's categories are shown to be the most comprehensive.

Table 3.1-A: Overview of different approaches towards financial functions

	"The functions of the financial system" by Levine (1997: 691ff.)	**"Functional perspective" by Merton and Bodie (1995: 12ff.)**	**"The functions of financial markets and intermediary institutions" by Tobin (1992: 79ff.)**	**"Economic functions of the financial system" by Hellwig (2000: 4ff.)**	**"Functions of financial intermediaries" by Bitz (2005: 25ff.)**	**Possible service range in microfinance**
Financial communication	Facilitate the exchange of goods and services	Clearing and settling payments (e.g. TB)		Intertemporal exchange		Transferring money and effectuating payments (TB)
Risk mitigation	Facilitate the trading, hedging, diversifying, and pooling of risk	Managing risk (e.g. I)	Risk pooling, reduction and allocation	Allocation of risks	Transformation of risk	Risk mitigation (I), managing damage (S, C)
Financial leverage, allocation & monitoring of resources, and capital pooling & appreciation	Pooling savings	Pooling resources and subdividing shares (e.g. C, S)	Convenience of denomination	Provision with liquidity	Transformation of size and maturity	Capital preservation (S)
	Aquiring information and allocating resources	Transferring resources across time and space (e.g. C, S, PF), providing information (e.g. C, S)	Maturity shifting, transforming illiquid assets into liquid liabilities	Allocation of resources for investment, comparison of investment alternatives	Transformation of information needs	Financial leverage (C), capital appreciation (S, PF)
	Monitoring managers and exerting corporate control	Dealing with incentive problems (e.g. C, S)		Information, monitoring and control		

Source: Own elaboration, based on Levine (1997), Merton & Bodie (1995), Tobin (1992), Hellwig (2000), and Bitz (2005).

Legend: TB=Transaction banking, including remittances; I=Insurance; S=Savings; C=Credit; PF=pension funds.

3.1.2 Schumpeter's entrepreneur and his banker: The crucial role of the financial system

In his *The Theory of Economic Development*, Schumpeter (1911/1997) stresses the pivotal role of financial intermediaries for economic development. For Schumpeter, money is created from credit and gains its importance through the creation of new purchasing power 'from nothing' by the disbursement of loans, creating new economic opportunities (Schumpeter 1911/1997: 100ff.). Thus, the services provided by financial intermediaries are seen as crucial to the economic process, and credit is no longer bound directly or indirectly to savings because capital can emerge from money-based credit. For the present study, however, it is not his understanding of money but the role of financing and credit modelled in the economic process that is important.

In his insights on the importance of financial intermediation, Schumpeter (1911/1997: 104f.) stresses the role of credit for pushing a capitalist economy on a higher growth path and distinguishes between different forms of credit and their specific contributions to economic development. Consumptive loans *(Konsumtivkredit),* which refer to loans for consumptive purposes in the households and to loans in the case of emergencies in business, as well as regular business loans *(regelmäßiger Betriebskredit)*, are not considered important to the development of the economy by Schumpeter (1911/1997: 149ff.) because they only facilitate circulation. The kind of productive loan *(Produkivkredit)* that matters for Schumpeter is the entrepreneurial credit *(Unternehmens- oder Gründerkredit).* This belief is grounded in the Schumpeterian analysis of economic growth as a process of 'creative destruction' *(schöpferische Zerstörung)*, which is led by the innovative entrepreneur *(Unternehmer).* This innovative entrepreneur is the one who pushes the economy to a higher growth level through the implementation of a new combination of factors of production. Because the entrepreneur does not own the means for realizing her innovative ideas, she depends on the purchasing power given to her through entrepreneurial credit, which is not based on existing goods and can be described as a certificate on future benefits *(Bescheinigung künfiger Leistungen)* (Schumpeter 1911/1997: 147). This central moment in Schumpeter's process of 'creative destruction' is, therefore, the creation of purchasing power 'from nothing' so that the new combination will be financed from new purchasing power (Schumpeter 1911/1997: 109). The process of money creation is then seen as the creation of a means of payment by the banks, based on promises on the future (cf. Schumpeter 1911/1997: 108f., 143).

The creation of new purchasing power is seen as essential because it permits the economy to move to higher levels of growth, where only innovations or new combinations permit the 'change of the countenance of the world economy' (Schumpeter 1911/1997: 103ff.). Because entrepreneurial credit is the only one that can push the economy to a higher growth path, this entrepreneurial credit is the central moment for economic development in Schumpeterian economics. Consequently, among economic agents, a privileged role is given to the innovative entrepreneur *(Unternehmer)* realizing new combinations. The 'normal business owner' *(Wirt)* is seen only as a part of the normal economic cycle, with no fundamental credit need described because she can finance her production out of her own resources, based on the running business and through bank loans that facilitate economic circulation *(Zirkulationskredit)* (cf. Schumpeter 1911/1997: 105ff.). In supporting the entrepreneur in realizing the important new combinations, the banker becomes the second central figure in Schumpeter's theory, and like the entrepreneur, she accepts the challenge of uncertainty inherent to the new combinations. As new purchasing power is created by banks, 'the innovative and executive capacity of entrepreneurs needs to be accompanied by the far-sightedness and ability of bankers to evaluate aright the potentials of new initiatives' (Roncaglia 2006: 425). However, to finance innovative production, the entrepreneur needs the 'wise' support and risk management advice of 'her banker', considering the given uncertainty: 'The banker, therefore, is not so much primarily a middleman, […] He authorizes people, in the name of society as it were' to innovate (Schumpeter 1911/1997: 90). Thereby, Schumpeter highlights the crucial role of the financial system in economic development and makes, at the same time, a distinction crucial to understanding microfinance: There are different kinds of 'entrepreneurs', with the normal business owner or *Wirt* being much more prevalent than the innovative *Unternehmer* and showing different financing needs, which will be further explored in section 3.2.

3.1.3 Structural heterogeneity and the importance of different modes of production

> For deepening this question regarding the tensions between the economic and the political sovereign, it is important to introduce another category besides the capitalist monetary economy and the government-led economy, which is the family-led economy, as the majority of the economically active population in the Latin American countries are neither employed by private nor by state enterprises, but work in the so-called 'informal sector' in the cities or on the countryside in small and middle enterprises, that mainly rely on the labour of the family members of the owner. (Nitsch 1995: 93)

The last part of the present section examines the underlying modes of production *(Produktionsweisen)*. Understanding the term *market economy*, as suggested by Nitsch (2002a: 109), as only a generic term that refers all kinds of markets in all periods of history, including the ancient slave market, the oriental bazaar economy and medieval trade regmines as well as the contemporary non-socialist economies, a more precise set of concepts is being suggested beside the dominant monetary economy along the Schumpeter-Keynesian enterprises driven by capitel market and innovative entrepreneurs. Considering the societal and economic structures in Latin America, Nitsch introduces the family-led mode of production *(Familienwirtschaft)* alongside the capital-market based or monetary economy *(Geldwirtschaft)* and the state-led economy *(Staatswirtschaft)* (see, e.g., Nitsch 1995, 2002a). Within Nitsch's theory, the monetary economy is characterized by its budget constraint being the interest rate earned by the wealth owner[62] and the economic process being developed by the innovative entrepreneur as modelled by Schumpeter (1911/1997). This entrepreneur implements innovations based on bank loans or other capital market vehicles, thereby pushing economic growth. Money is considered a medium of deferred payment because debt contracts in the financial system are money-based and, hence, credit-based, as conceptualized by Monetary Keynesianism (Riese 1989, 1995). The state-economy consists of state-led firms or a public sector that differs fundamentally from the monetary economy because of its 'soft budget constraint', depending on political objectives and counting at least implicitly on government-sponsored 'emergency financing'. Money is thus considered to be a means of payment for taxes and grants, as well as a means of exchange and for deferred payment (Nitsch 2002a: 113). In family-led economies, the family-managed business is partly integrated into low-income households, the consumption needs of the family govern important decisions, and money is understood as a means of payment, with only occasional use of ecternal finance. As most low-income and poor people are,

[62] *Wealth owner* refers to those market participants who possess and freely dispose of wealth *(Vermögenseigentümer)*, as opposed to the financial institutions that only hold the wealth *(Vermögensbesitzer)* (Nitsch 1995: 79).

at least in part, involved in family-led economies, this mode of production will be analysed more thoroughly in the following section.

Another important characteristic of structural heterogeneity[63] consists in the interwovenness of the different modes of production. Hence, different modes of production not only coexist but also are interlinked: family-led economies are linked to the monetary and state economy through the provision of labour and business relationships; private actors invest in state-owned firms, and these might cooperate with capital-led firms (Nitsch 2002a: 113). Besides their quantitative structural importance, these other modes of production often function at least partly as a 'cushion' for frequent troubles or crashes of monetary economies, for example, in the Latin American contemporary economies in crisis during the 1980s (Nitsch 1993: 459f.). Besides these three most important modes of production in Latin America, other modes of production are distinguishable, like the traditional *hacienda* economy, the present Chinese *guānxi* economy (Nitsch & Diebel 2007), illegal pirate and mafia economies, nomadic herder economies, indigenous community economies, and the solidarity-based *economia solidária* (Singer 2000; Ströh forthcoming).

The differentiation of distinct modes of production within the social formation of an economy opens up the possibility of analysing different combinations of basic economic, societal, and cultural structures, the insertion of people and enterprises in different modes of production and related but different ways of life and work. Thereby, the general scheme[64] opens the eyes for the specifies of the cultural-juridical-institutional and societal superstructure *(Überbau)* of each mode of production, including its own dynamics, interacting with the materialistic economic base. Because of the struggle fo hegemony, this approach provides a powerful tool for analysing transformation and development as well as, last but not least, revolutionary change (Nitsch 2002a: 94; Zattler 1997). Latin American countries are typically marked by the coexistence of monetary, state, and family-led economies, thus by structural heterogeneity in terms of the different modes of production and related lifestyles that coexist in the same country, region, and even household. The distinction between different modes of production is crucial to the present study. Because economic decisions are made in different ways in the respective modes of production, the mode of production largely determines the financial management needs, usage patterns, and possibilities. In the case of microfinance clients—poor and low-income households and micro, small, and medium enterprises—the family-led mode of production fills a large part of their financial lives and needs. Accordingly, this mode of production and the relation of the ones living and working in family-led economies to financial services will be explored in the following section.

[63] The term *structural heterogeneity* was introduced by Armando Córdoba (1973) in the 1960s, based on the analysis of different modes of production in international companies, the oil sector, state enterprises and small businesses in Venezuela. The concept points to the coexistence of different societal and economic formations in developing countries that have then been introduced into the theoretical analysis of underdevelopment by the authors of the centre-periphery model and the *dependencia*, pointing to the fundamental differences between 'developed centres' and 'underdeveloped periphery' both within and among countries (Nohlen 2002: 696f.).

[64] For a detailed description of the general model and different types, see Nitsch (2002a: 93ff.).

3.2 Finance and pro-poor economic development: Family-led economies and their needs for financial services

Taking into account structural heterogeneity and distinguishing between several coexisting socioeconomic modes of production, present the possibility of a deeper understanding of the way the economic process works with and for low-income populations. Important portions of the income of low-income population are earned in MSMEs, which are often owned by a family member, so accounting is not separated between household and enterprise. These family-led economies *(Familienwirtschaften)* or household economies *(économies domestiques)*[65] refer to the family members and their non-agricultural or agricultural businesses (like the typical corner store in the basement of the family's house or *agricultura familiar)*. In the present study, middle-sized enterprises with a modest number of workers and employees are included in this mode of production if they function as family-led enterprises. Theoretical approaches to the economic dimension of family-led economies and their specific financing needs is scant; however, Nitsch (1995, 2002b, 2002a, 2004) and Zattler (1997) provide comprehensive analyses of this specific topic, which are complemented by related literature on family-led economies.

3.2.1 Characteristics of family-led economies

From a macro perspective, the central characteristic of family-led economics is the lack of societal division of labour *(gesellschaftliche Arbeitsteilung)* among asset owners and holders, entrepreneurs and labour: The household-based business is run with the labour force as well as the assets of the family, for instance, in a farm or a small backyard factory. Thereby, the family might be assisted by domestic servants and a handful of permant or temporary workers or perhaps even an accountant for bookkeeping (Nitsch 1995: 93). From a micro perspective, family-led economies are characterized by their vital links to surrounding social networks along with market-based relationships: generally reciprocity-based relationships with family members, relatives and friends in the social context or *milieu.* Accordingly, the way in which economic decisions in family-led economies are made depends strongly on the respective social and cultural context (Zattler 1997: 100ff.). Thus, it can be noted that, the more the individual decision for maximizing one's own (or the family's) benefits respond to cultural norms of reciprocity, the more economic decisions are made based on a mix of economic and social motives (Zattler 1997: 109). Hence, family-led economies should always be seen as the interplay of the family-based business, the household and the surrounding social context. Furthermore, family-led enterprises are often characterised by a lower degree of formalization, with many firms not having proper registration and labour consisting largely of non-remunerated family

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[65] Although in cultural anthropology the difference between household and family is important, with distinctions based on culturally based understandings of the family and the household and their relationships, for the present analysis, both terms are used as synonyms. This usage is based on the slight difference in these terms in microeconomic analysis (the collective that conjointly takes economic decisions; Hohlstein, Pflugmann-Hohlstein et al. 2003: 337) and in political science (smallest group in the society; Wasmuth 2002: 221). Furthermore, the terms referring to 'family-led economy' in different European languages are constructed based on both *family (Familienwirtschaft, economía familiar, economia familiar)* and *household (économie domestique).*

workers and informally employed workers. Informality or the lacking statistical-bureaucratic registration of economic activity is understood in the present study as a further characteristic of the family-led mode of production, instead of constituting a central category of analysis, focussing on the way the small (probably informal) enterprises work and their insertion into the economic process beyond the registration of the enterprise or employment. As Nitsch (1997: 221) indicated, the informal sector is 'referring to the mostly poor economy at the urban peripheral zones in Africa, Asia and Latin America. It signifies an economy and a way of life, that is marked by easy access, the usage of local resources, high labour intensity, small-size enterprises, little presence of technology, the usage of family labour, high competitiveness, and the lack of formalized relationships to dependences of the state' (Nitsch 1997: 223). This understanding is in line with Zattler's (1997: 114ff.) distinction of family-led economies as the centre or densification of the surrounding social networks, including the following three characteristics of the organization of family-led economies:

1. The relationships or reciprocity among family members is not limited only to feelings or the exchange of goods or services, but also comprises the production of goods and services for marketing to others. The sum of these production activities constitutes the family-led enterprise and is based on the usage of family labour and assets.
2. The family-led economies are embedded in a bigger social network or *milieu*. Within this social context, traditional norms and habits often persist, partly due to the rural origins of many migrants constituting important parts of urban informal sectors.
3. There is little integration of the family-led economies into the monetary market economy or governmental-administrative structures. This leads to a kind of 'contextual morality' which means that the reciprocity and confidence-based relationships exist only within the social network or *milieu,* but not regarding to other actors which might be treated with distrust and without applying the business ethics that rule the family-economies' context.[66]

These and other characteristics of family-led economies impact business management and the relation between the business and the family. Because the family-led enterprise itself is based on the participation and assets of the family on the input-side and it constitutes, at the same time, their main source of revenue on the output-side, it is deeply interwoven with the family members' needs and possibilities (see graph 3.2-A). Hence, the business logic of family-led economies is led by the family's consumption needs and the budget constraints of the family wealth, and differs fundamentally from the logic of profit-driven enterprises in the monetized economy in which the capital market functions as budget constraint (Nitsch 1995: 93f.). In family-led economies, generally the head of the family but sometimes other family members dominate entrepreneurial decision-making and the dispositions about the family-owned as-

[66] Although not further elucidated by Zattler (1997), the low degree of integration of family-led economies into the surrounding monetary (and state) economies does not mean that family-led economies do not have relations to these economies of varying intensity (e.g., the family-led firm as a supplier or a family member as employee).

sets (Nitsch 1995: 93). Accordingly, the viability of the family-led business does not depend on the interest earned on the invested capital but on the dispositions of the family and on a possible alternative use of their labour and their other assets: Based on his investigations of family-led agriculture in rural Russia, Čajanov (1923/1986) shows that a distinct calculation of acceptable business results has to be considered for family-led economies. Whereas, in a capital-led business, the profit is calculated by 'gross earnings – expenditures – wages = net profit', in the family-run economy, it is not the net profit that matters. The relevant category is the net labour output, which is calculated by 'gross earnings - expenditures = net labour return' (Čajanov 1923/1986: 38). Consequently, labour is not calculated as a cost factor, but what matters is the return per labour. The budget restriction for the family economy is then the arduousness of labour, and its relation to the consumption needs of the family defines the final labour input and, consequently, the family income in terms of marginal utility gains (Čajanov 1923/1986: 35). Due to their different accounting methods, these enterprises still realize positive results under conditions in which capitalist enterprises would have to show losses, being one of the reasons for their robustness and resilience – and also their poverty, since they continue to produce below full cost until reaching a level at which there is a better use for the labour of the family in other fields (Čajanov 1923/1986: 35ff.).[67] Under conditions of missing income-generating alternatives, this situation can lead to self-exploitation, underemployment, and hidden unemployment according to an understanding of 'labour' within international labour norms.

Another reason for the resilience of family-led businesses can be seen in reduced transaction costs, for example, labour. Using family or family-related labour, there are practically no search costs and—especially relevant in contexts of lacking generalized business ethics and rule of law—there are virtually no incentives for behaviour that could negatively influence the business results (such as shrinking assets or asset misuse) (Zattler 1997: 125, 118). The living standard of family members or relatives employed depends almost directly on the results of the family-run enterprise and recognition in the social network (Zattler 1997: 199). Furthermore, inside the family-run enterprise, the labour of women, elderly people, or children can be used more efficiently whenever they are needed and available because the location of the business and the family's living space are often the same (Zattler 1997: 119). Only with increasing specialization of the family-run enterprise, the use of hired labour may be advantageous because a family member might no longer meet the required qualifications.

Moreover, within family-led economies, the production pattern might be adapted to changing conditions, as well as the consumption and reproduction patterns. This 'extended fungibility' is characterized by Lipton (1984: 192) as the ability of a family-led economy 'to adapt to changed production conditions by adjusting, not only its production behaviour, but also its consumption and reproduction decisions'. Because the family-led enterprise is steered accord-

[67] Thus, Čajanov refers, in this case, to the family-based agriculture but shows later that this is also true for non-agricultural family-based economies.

ing to the family's consumption needs, the extended fungibility might signify self-exploitation of family-labour, but it may also drain business capital for consumption (e.g., reducing the business stock for paying medical expenses of a family member). Hence, it is important to consider that there is no separation of goods, assets, or cash flows between the household of the family and its business. Income and expenditure flows of the family's household and business tend to meet same 'cash box' because there is no separate accounting. Accordingly, business income might also be spent for covering needs of family members, and additional income by family members might be used in the business.

Regarding the origins of the family-run enterprise's assets, the following balance of a family-led enterprise shows the overlapping and interlocking relationships, if not the union, between household and enterprise regarding their assets and liabilities (see graph 3.2-A). The balance sheet is built on a broad understanding of assets and capital, including moral or social dimensions of capital. It is fundamental to work with such a broad understanding of capital for understanding family-led economies because the predominant mechanism of allocation follows the logics of social, reciprocity-based relationships. Furthermore, it is important to apply this broader understanding of capital on both sides of the balance to the approach developed by Nitsch (1995).

Graph 3.2-A: Balance sheet of a family-led enterprise

Balance sheet of a family-led enterprise

Assets Natural assets • Access to natural resources Real assets • Land, house, etc. • Cattle, machines, consumption goods, etc. Financial assets • Cash box, savings, deposits, etc. • Insurances • Right to emergency loans • Market partners: suppliers, clients Human capital • Family labour and health • Know-how talents Social/ moral capital • Reciprocity • Social security • Public services • Labour rights • Culture	**Liabilities** Relatives, friends, and neighbours • Monetary • Non-monetary Banks and insurance companies MFIs/ cooperatives, saving & credit groups • Loans with formal collateral • Loans with alternative collateral (e.g., step-lending, reputation, peer pressure) Market partners • Providers, clients • Business venture partners Money lender • Emergency loans Corner store • For consumption **Equity** Equity of man/ husband Equity of woman/wife Equity of children Equity of other close or involved relatives

Source: Adapted and summarized from Nitsch 2004: 46.

The balance in graph 3.2-A delineates assets, equity, and liabilities in family-led economies, showing the interwoven relationship between the household and the enterprise. On both sides of the balance, *activa* and *passiva* of the family-led enterprise are built on the family and the social network of the family. Because the family's resources are part of the enterprise, the family's needs also govern the entrepreneurial decisions, which are made in the family's interest or, mostly, what the family head considers the family's interest. Furthermore, the involvement of relatives and friends also means that their interests should be considered. Accordingly, the success of business relationships with formal business partners like financial institutions depends on the consideration of the whole family-led economy with the involved family members and their reciprocity-based social network as a business partner. Allocating, for example, a microenterprise credit in a sustainable way means to consider the income and expenses not only of the family's business but also of the consumption needs and additional income of the family members.[68] At the same time, the location of the family-led enterprise inside the reciprocity-driven context of the family and relatives also contributes to its resilience. Through privileged access to the assets and capital of the family, the relatives, and the social entourage, the family-led business is managed in a context of limited competition (Zattler 1997: 121). In most of the relationships of the family-led economy, money is used as a means of exchange in spot markets and only rarely as a means of payment for satisfying the fundamental credit relationships, as is the rule in the monetary economy (Nitsch 1995: 95). Using money largely for cash transactions might contribute further to the resilience of family-led economies in times of high inflation and currency crises (Nitsch 1995: 95).

3.2.2 Family-led economies and their relation to financing

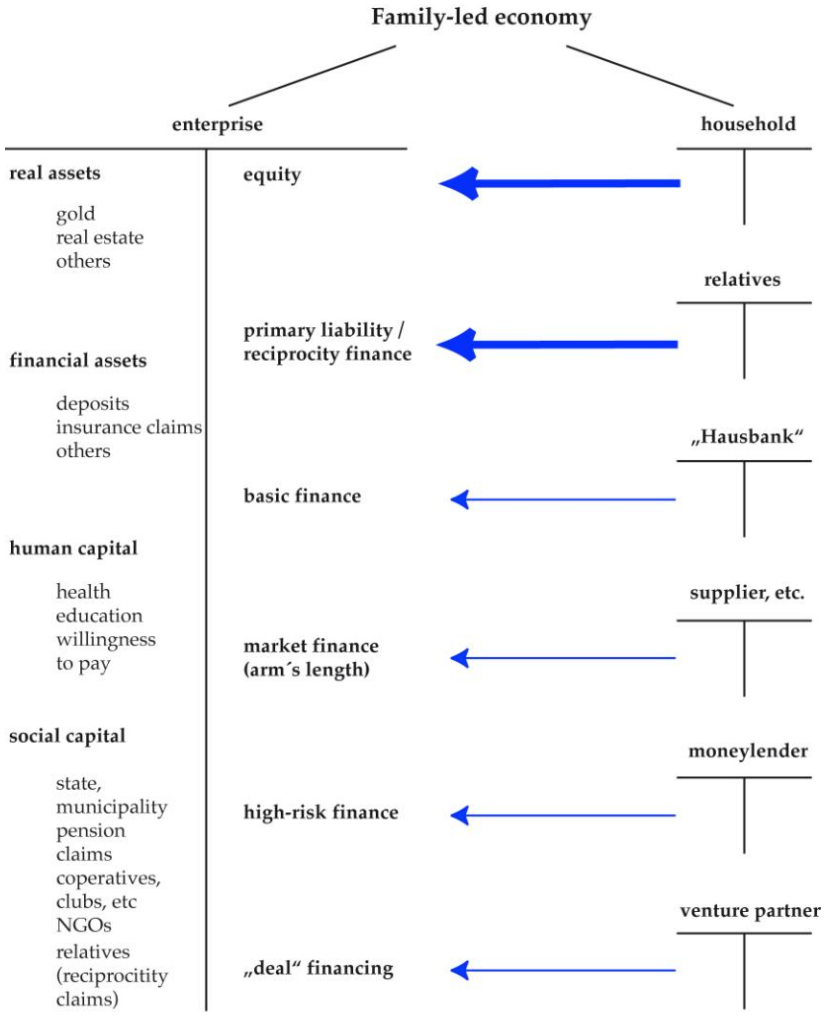
Even if the family-led enterprises are not or are only partly monetized, many of their business partners, clients, or relatives working in the formal sector are fully monetized. The financial communication with other economic actors is, hence, one of the central linkages to the markets in which microenterprises are working. Because many economic actors prefer other mediums of payment than cash (for security and other reasons), access to financial services can facilitate the communication with clients or suppliers: In most countries, an account is needed in order to be able to cash a cheque. For the family members, both in developing and industrialized countries, the access to an account or a debit card might also be necessary for accessing governmental social assistance programmes or receiving old-age pensions. Accordingly, financial services might be crucial for participation in economic activities that require more sophisticated means of financial communication, such as cheques, bank transfers, mobile transfers, money, debit and credit cards, instead of cash.

Besides financial communication, the economic actors in the family-led mode of production can profit greatly from access to other financial services, both in terms of their business and in

[68] Financial institutions working with microfinance technology generally evaluate and calculate the maximum debt capacity, considering both income and expenses of the business and the family members.

terms of the family itself. For defining a possible usage of loans in the family-led businesses, financing schemes for family-led businesses of different purposes and levels of risk are presented and discussed in the following (see Nitsch 2002b: 53f.; graph 3.2-B).[69]

Graph 3.2-B: Economic relationships of a family-led enterprise



Source: Unpublished manuscript by Manfred Nitsch; see analysis in Nitsch (2002b: 53f.) and Nitsch (2004: 33f.).

According to the scheme by Nitsch (graph 3.2-B), different kinds of financing are relevant for family-led economies. Most importantly, the family-led business is built on the equity of the family and reciprocity finance with relatives. Because they are linked to the family members and other relatives, these liabilities will be always served first. Even though access to this source of financing is privileged, it might not always satisfy the financing needs of the enterprise. A reciprocity-based credit always implies obligation in return, and the absence of trust in the quality of a relatives' business might lead to a denial of the loan (Zattler 1997: 121).

[69] See Schmidt (1981), whose neo-institutionalist analysis of different forms of financing shows the functionality of different and complex forms of financing (and of the mixes of different forms of financing) in general. Each financing scheme constitutes a specific arrangement between debtor and creditor to overcome the (credit rationing or denying) effects of asymmetrically distributed information in the respective case. He departs from four basic forms of financing: participation in a partnership and in a public company on the equity side, and short-term borrowing without collateral (*Pfandrechte*) and long-term borrowing secured by liens on the liability side.

Moreover, reciprocity-based financing might not be available in the amount and within the time frame in which the business financing needs to develop. This observation is especially true because family-led economies are often characterized by opportunity-led cash-based businesses. Such quick access to additional working capital might be difficult to deliver through reciprocity finance, as well as larger sums for investment. Hence, other sources of financing are very important to the growth and development of family-led businesses, and the quick availability of financial resources can compensate the higher cost of external financing (Zattler 1997: 122).

Besides the reciprocity-financed equity and base of the small enterprise, additional capital in the form of working capital (including short-term additional working capital for special campaigns, e.g., Christmas and special business opportunities) and eventually investment in fixed assets is important for its development. Generally, such capital is provided through relational finance based on the trustful relationship between the client and his microfinance house bank *(Hausbank)* or business partners. Thereby, house bank refers to a "family bank" which is closely related to the family as for instance a family doctor *(Hausarzt):* the house bank is well informed of the client's business and eventually advises her in business and finance decisions in the sense of giving sound financial advice (Nitsch 2002a: 118). This important financial advice of the house bank should not be mistaken for compulsory business development training, often of controversial usefulness to the borrower when development 'projects' require training courses or the adoption of certain technologies in order to obtain a loan. Permanence and long-term confidence, based on good information and mutual benefit from this kind of relationship are considered a path to successful client relationships, building a kind of relationship-based bond between the MFI and the client (Nitsch 2002a: 118).

Besides the basic financial services of the house bank, there is another important and partially relationship-based kind of finance: Business partners are another important source of finance, generally based on middle- or long-term business relationships or on a certain degree of mutual dependency. These business partners are usually suppliers or important clients, especially if the microenterprise produces intermediary products or has one central buyer for its products. This kind of finance can also be understood as arm's length market finance because it can be located between relational finance and spot-market finance. Thereby, it is based on the business relationship, but the financial contracts are largely market-based without relying on additional information or special trust among business partners (Nitsch 2002b: 54). Four main ways of financing through business partners with different degrees of relational and market finance can be distinguished, as proposed by Zattler (1997: 137f.):

- Small merchants often practice sale on credit inside the social network or *milieu.* These relationships are largely based on geographic proximity and personal contact between business partners, and the common social background constitutes an additional incentive for prompt payment, as peer pressure might be strong.

- Many microenterprises work as suppliers for larger enterprises. Thereby, raw materials or preliminary products are provided to the microenterprises and are charged for only after the completion of the work on commission. Being one supplier among many others, the dependency of the microenterprise on the contractor is high and guarantees the payment of the advanced goods.
- The practice of customer partial prepayments is another way of enterprise financing, which is generally used in cases in which a microenterprise produces a particular and tailor-made good on commission for the client. As the good cannot be sold easily on the market, the microenterprise has an incentive to produce the good in good quality, and the client is bound to his order.
- Another source of financing might be the suppliers of the microenterprise. The power distribution within these relationships depends on the substitutability of the respective business partner and can favour both the microenterprise and its supplier.

The advantage to such financing arrangements with business partners depends, therefore, on the market power of all business partners and the time frame of the business relationship. Even though monopoly-based power positions might be exploited, many merchants or business partners still prefer cash transactions but give loans for sustaining the business relationships (Adams 1992: 14ff.).

Additionally, there is high-risk financing relationship with a moneylender. These intermediaries constitute an important source for emergency finance, necessary primarily because of missing social security and business insurance. Fast, non-bureaucratic access and unsecured access around the clock are the decisive distinctions of the moneylender services, even though the cost might be higher (Adams 1992: 9; Wildenauer 1999). Additionally, it should be considered that in many contexts, moneylenders are still the principal source of financing, also supplying basic financing needs. This monopolistic position of moneylenders might increase the prices for the customers. Besides the monopolistic practice of abuse, microfinance institutions can and have learnt a lot from informal finance providers like moneylenders about adequate ways of providing financial services to the poor, such as the importance of lowering transaction costs for lenders and borrowers and having a personalized relationship with the client (Adams 1992: 18ff.). In financial markets with other providers of microfinance services, moneylenders would generally only be found among the emergency top-level financing.

The last type of financing for family-led businesses, according to Nitsch's scheme, is the 'deal' financing for taking advantage of a good business opportunity along with other venture partners. This kind of opportunity-driven business is quite typical for largely cash-operated family-led firms in markets with little transparency, for example, buying a whole truckload of raw materials or low-priced goods in a special offer being sold quickly (Nitsch 2004: 34). If financial institutions aim at offering this kind of deal finance, flexible products and fast procedures, but also a high level of risk-taking are necessary.

Considering the embeddedness of the family enterprise in the family and the joint management of assets, labour, and cash flows, the financial services provided to these enterprises should always take into account the household of the family as well. For example, for disbursing loans, it is important to consider both the enterprises' and the family's consumption monthly cash flows in order to determine their capacity for debt. Furthermore, family-led enterprises might be of different sizes and shapes, ranging from self-employment up to middle-sized enterprises. With growth, the structure of these enterprises and their type of integration into the local economy changes, more paid labour is used, and resources are increasingly separated. Financial needs and possibilities of the enterprises grow, and consequently, the kind and size of needed financial services must be changed. A differentiated offer is then important for enhancing further growth and development of small and medium-sized enterprises, and the differences need to be recognized when evaluating the range of financial services offered. The changing characteristics of family-led enterprises according to their size are presented in table 3.2-A, in which they are summarized and contrasted with the characteristics of capital-market-driven enterprises.

Table 3.2-A: Central types of private businesses and their characteristics in Latin America

	Micro and small family-led enterprise	**Small and medium family-led enterprise**	**Capital-market-driven enterprises**
Enterprise types in the urban/ rural areas	Very small-size family-led enterprise/farm	Small to medium-sized family-led enterprise/ ranch-based agriculture	Capital-driven enterprises and commercial agriculture
Category referring to Schumpeter	Business owner *(Wirt)*	Rich or big business owner *(Wirt)*	Innovative Entrepreneur *(Unternehmer)*
Central logic	Consumption-driven	Consumption-, profit- and family-status-driven	Capital market driven
Budget constraints	Family wealth	Family wealth	Profit, shareholder value
Management of resources	No separation between resources of household and enterprise, no separate accountability	Moderate separation of the resources of family and enterprise, but situation of enterprise still dominates family consumption patterns	Professional management of resources of enterprise, driven by interest of increasing shareholder value for owners
Human capital/ labour	Mainly family members, generally no paid labour	Not only family members, but owners still have a central position in business	Based on wage labour
Assets/capital	Mainly equity, external financing only sporadically for liquidity shortages, investment projects, etc.	Working increasingly with external capital, but still mainly with equity	Based on a mixture of equity complemented with an important share of outside capital
Calculation of financial viability/profits of business	Calculation of gross labour earnings, family labour is used within enterprise down to alternative uses	Calculation of labour cost of external workers, but financial perspective still shaped by family objectives	Profit is calculated considering gross earnings, material costs, interest on liabilities and labour

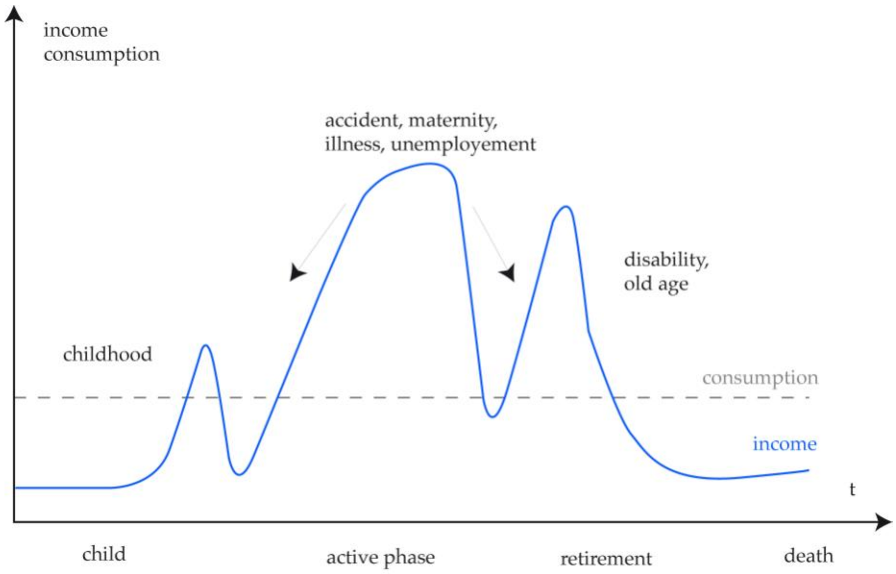
Source: Own design and compilation, based on Schumpeter (1911/1997), Čajanov (1923/1986), Nitsch (1993, 1995, 2002a), and Zattler (1997).

Note: Small family-led enterprises are included with both micro- and medium-sized enterprises because these firms might have characteristics of both types of businesses according to their size and function.

3.2.3 Life cycle and risk-related financial needs

The direct relevance of financial services for the family members is linked to their life cycle and the ability to cope with risk. There are different phases during the life of each individual regarding income and consumption streams. As visualized in graph 3.2-C, there exist moments of excess income and of lack of income for covering the individual's consumption needs during her life period. During childhood and old-age, as well as during maternity, illness, unemployment and accidents, people generally are not able to cover their consumption needs. Economically active individuals normally generate more income than they need to cover their own consumption needs, but because of accidents, diseases, unemployment, or underemployment, they also might not be able to do so for certain periods.[70]

Graph 3.2-C: Consumption and income during the life cycle: Periods of excess and lack of income for covering the consumption needs



Source: Nitsch (2004: 47).

Besides life-cycle-induced needs of financial management instruments, coping with risk and dealing with damage are considered important challenges for poor people and families. For both life-cycle-based and incident-caused periods of lack of income, there are traditional informal and formal coping mechanisms. Regarding the life cycle, the most important traditional one is family-based compensation, which works especially well for the childhood period and ceases to work well for the old-age period. Formalized systems are public or private old-age pension schemes and other forms of long-term savings and wealth creation, such as life insurance schemes. These formalized coping mechanisms are widely present in industrialized countries but rare among the low-income or poor populations of developing countries. Consequently, family-based coping mechanisms, linked to the implicit inter-generation con-

[70] That is why the pertinent ILO conventions cover exactly those situations and calamities.

tract, are very important. This mechanism is possible because the 'deficit phases' of the generation of the children and the elderly coincide with the 'surplus phase' of the middle generation (Zattler 1997: 132). Even though these inter-generational contracts help the elderly generation to avoid investing in tangible assets, which is the most common and risk-prone way of traditional saving in poor households, it carries important uncertainties. They consist in missing opportunities of the current middle generation to fulfil its 'liabilities' or changes in social and society structures that might lead to a changing perception about these responsibilities towards their parents (Zattler 1997: 133).

Furthermore, emergencies or incidents can also lead to lack of income during the active phase, generally characterized by a 'surplus of income'. If the income of the breadwinner of the family is suddenly missing, the situation tends to become more difficult for the whole family, even more so in the case of covariant risk hitting the entire social network (such as extreme weather situations). The results of the family's coping strategies further depend on how much 'surplus' other active family members can earn and how much savings and assets the family has accumulated or possibly reserved for emergency situations. Often, a considerable part of the family's assets is held in tangible assets like buildings and building material, cattle, durable consumption goods, and inventories: In family-led economies, these assets not only serve as a means of production and consumption, but also as insurance substitutes, and they exert money functions (Zattler 1997: 133). However, disadvantages of this coping strategy consist of the illiquidity, indivisibility, insecurity, and instability in the value of tangible assets.

Considering the need for financial management for both the firm and the household in family-led economies, the need for a wide range of differentiated financial services emerges from the theory of the family-led mode of production. The different usage purposes, traditional and formal coping strategies, are presented and commented on in the table 3.2-B. The financial management needs of family-led economies are summarized according to the financial functions elaborated in section 3.1.3.

Table 3.2-B: Financial functions and financial management needs in family-led mode of production

Financial functions (cf. table 3.1-A)	**Purpose in the family's business**	**Purpose in the family's household**	**Traditional coping mechanism**	**Possible limitations of traditional coping mechanisms**	**Formal financial product related**
Financial communication	- be able to deal with non-cash payments	- be able to receive electronic payment - send and receive remittances	- rely on help of others with account, etc. - hand carry for remittances	- depend on others - high risk related with hand carry	- current/basic savings accounts with wire transfer - remittances services
Financial leverage	- increase working capital - realize business opportunities	- deal with life cycle events - cope with emergencies	- reciprocity-based lending - informal lenders - business partners	Depending on provider and type of relationship: - limited amount - high cost - availability - reciprocity-return pending	- microenterprise loans - savings

Continuation of Table 3.2-B: Financial functions and financial management needs in family-led mode of production

Financial functions (cf. table 3.1-A)	**Purpose in the family's business**	**Purpose in the family's household**	**Traditional coping mechanism**	**Possible limitations of traditional coping mechanisms**	**Formal financial product related**
Capital preservation	- realize investments in business	- realize investment in human capital - prevention for life-cycle event and emergencies	- investment in the family's business, counting with returns	- increased dependency on the success of the family's business	- savings
Risk mitigation	- deal with idiosyncratic and covariant risk related to the firm	- cope with emergency (accidents, diseases, theft etc.) - deal with risks related to life cycle-events (maternity, death)	- emergency lending from informal lenders - investment in the family's business (sell it later) - reliance on a 'patron'	- high cost - risk of low price for emergency-based sale - risk of over-indebtedness if loan is used to cope with damage	- insurances - liquid savings - emergency and consumption loans - current accounts with overdraft facility
Long-term capital appreciation	- realized investment/ start-up based on savings	- prevention for old-age and other live cycle needs	- implicit generational contract - investment in the family's business	- dependency on income generating possibilities of the next generation - dependency on the success of the family's business	- fixed-term deposits - savings - pension schemes (also: hybrid savings schemes)

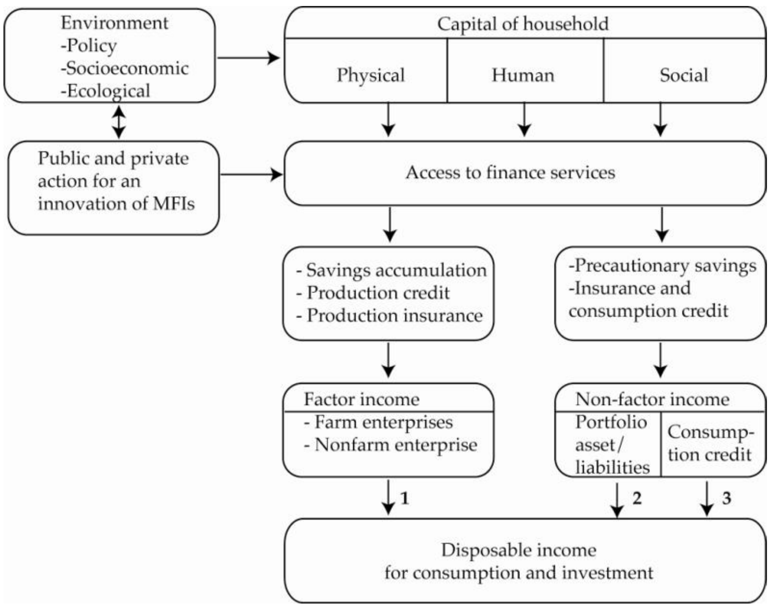
Source: Own compilation and design.

The table shows, first, the broad range of financial management needs, both for the family members and the enterprise, being interrelated and mutually dependent. Second, the table shows that traditional risk-coping mechanisms remain dependent on the success of the family's business and access to informal lenders. The access to financial products designed for these purposes helps the family members to mitigate risk and preserve and appreciate capital based on the family's business and the informal and reciprocity-based networks that might also be affected, especially in the case of covariant risk. Furthermore, the table shows the need for consumptive or emergency loans as one way of mitigating risk within the business and the family or of coping with life cycle events. The 'bridging' function of loans make it possible to realize consumption based on later payment instead of direct, savings-based, or insurance-based financing, which might not be viable. This observation merits special attention because, within the microfinance community, the 'productive use' of loans is generally set as a criterion for beneficial use of the same. This principle of microfinance provision has, however, fundamental shortcomings because the satisfaction of family needs is equally important and repayment can be accomplished based on business income or even from the return of the 'consumptive' use, such as a medical treatment of the business owner, a 'good marriage' of the daughter, or increased productivity of family labour due to a better diet (Zeller & Sharma 2000: 156f.). It might also be the case that a 'consumptive good' serves productive purposes, such as a refrigerator also serving the family's corner store to offer more and fresh products.

Still, among microfinance practitioners, donors, scholars, and specialists, consumption lending is often criticized sharply in a general manner for exploiting loan conditions and contracts, abusive prices, nontransparent pricing structures, and a lack of debt capacity among clients, thereby resulting in over-indebtedness (Epstein & Smith 2007; Zeitinger 2008). The striking point, however, is not the 'consumptive use' of the loans, but the way these are offered and the business model that might be behind them. The business model that stands behind high prices, nontransparent contracts, largely inflexible collection practices, and a generalized lack of assessing the borrowers' debt capacity often foresees late payments and default as considerable on the part of the borrowers (Rhyne 2001: 143f.). Accordingly, the pricing strategy and fees charged for late payment are structured in a specific way by such predatory consumer lenders. In the case of retail-chain-based financing services, the cost of a product advertised might already include the additional cost of a built-in financing option.

In the theory of development finance, most authors recognize the family-led socioeconomic context of microfinance clients and the embeddedness of the family-led economy within the kin and social network. Few theoretical approaches conceptualize family-led economies like the one presented by Nitsch and Zattler. Other frameworks often only implicitly refer to the family-led context without further delving into it. For instance Zeller and Sharma (2000: 146) do not discuss the theoretical foundations of family-led economies, but present a model for systemizing how financial services can lead to higher disposable incomes for 'consumption' and 'investment'.

Graph 3.2-D: Zeller's and Sharma's three income-increasing pathways of financial services



Source: Zeller & Sharma (2000: 146).

Graph 3.2-D shows different ways in which financial services can contribute, in combination with the physical, human, and social capital of the household, to increased disposable incomes. The following three pathways to more disposable income are indicated (marked with the numbers): The first pathway refers to enhanced disposable income through improved income generation possibilities. The second pathway expects the costs related to prevention and risk-management to decrease with access to financial services (especially as self-insurance is largely related to lower returns). The third pathway expects increase in disposable income through direct use of credit for covering immediate consumption needs. The scheme, inspired by evidence mainly from Asia and Africa, can also be seen as a bridge between the theoretical approach to finance in family-led economics and the empirical evidence. On the one hand, it stresses the important interconnections and relationships in family-led economics; on the other hand, it points to the different categories of uses important to low-income households.

Reflecting the scheme of Zeller and Sharma (2000: 146) and the financial management needs as conceptualized according to the family-led mode of production, it can thus be shown that different financial functions, as established by functional approaches of finance from a more general microeconomic perspective, also matter for the specific mode of production of the poor (see table 6.2-B). Within this specific societal-economic formation, financial services are used within the family-led enterprise and for personal use of the family member. Thereby, it is fundamental to take into account that joint cash management inhibits the separation of financial flows between the enterprise and the household, which is also characterized by this mode of production in which family labour and assets are used within the enterprise, ultimately serving the consumption purpose of the family. However, considering enterprise financing, loans do not have the same pivotal character as in the monetary mode of production, understanding the owners of family-led enterprises as *Wirte* or normal business owners instead of innovative entrepreneurs using other people's money, according to Schumpeter. This differentiation is important because many microfinance programmes have wrongly bet on the innovative entrepreneur instead of the *Wirt* – with disastrous results. When a business women is not aided by her family members, i.e. the ones who know her best, in their surplus phases of their life cycles and tries to work only based on bank loans, the banker is generally ill-advised.

Regarding financial management of the families, consumption for dealing with life cycle events and emergencies and coping with damage or even mitigating risk has emerged as other important categories of usage from the analysis of the family-led mode of production. These financial management needs can be seen as coherent with the vulnerability and lack of opportunities for living the life people want to live, as stressed by the poors' testimonies on their painful experiences of poverty and Sen's capability approach. Related to the dimension of economic facilities, Sen's distinction between income-generating and income-using abilities, in terms of a successful conversion of income into the final end usage, stresses the importance of considering the differentiated financial management needs of the family, including the family-led business. This approach differs fundamentally from the still-prevalent focus of microfinance not only on one type of financial service, namely lending, but also on a specific usage, a 'productive' use in microenterprises. Sen further points to the social dimension of group-based microfinance programmes. In the following Chapter 4, it will be further discussed on the basis of empirical analysis whether the wide range of financial services considered as relevant to the poor living and working in family-led economies from a theoretical point of view is coherent with the empirical findings. Therefore, it will be necessary to differentiate between different types of effects financial services can have on the lives of the poor, basing the analysis on the exploration of the usage patterns of financial instruments by the poor with the aim of ultimately synthesizing types and characteristics of financial products useful for poor populations.

4 Relevance of Financial Services for Poor Populations

> If we are clear about what we want to achieve and committed to achieving it, we will succeed. [...] That is why the Microcredit Summit Campaign is committed to ensuring that 100 million families rise above the US$1 a day threshold, lifting half a billion people out of extreme poverty.(Sam Daley-Harris (2007: 37), Microcredit Summit Campaign Director)

> […] the commercial microfinance model in B&H [Bosnia & Herzegovina] has absorbed significant international financial resources, high-level technical expertise, political commitment, valuable time and remaining accumulations of social capital, all in order to roll out a primitive 'bazaar economy' redolent of life in B&H 100 years ago. (Bateman 2007a: 220)

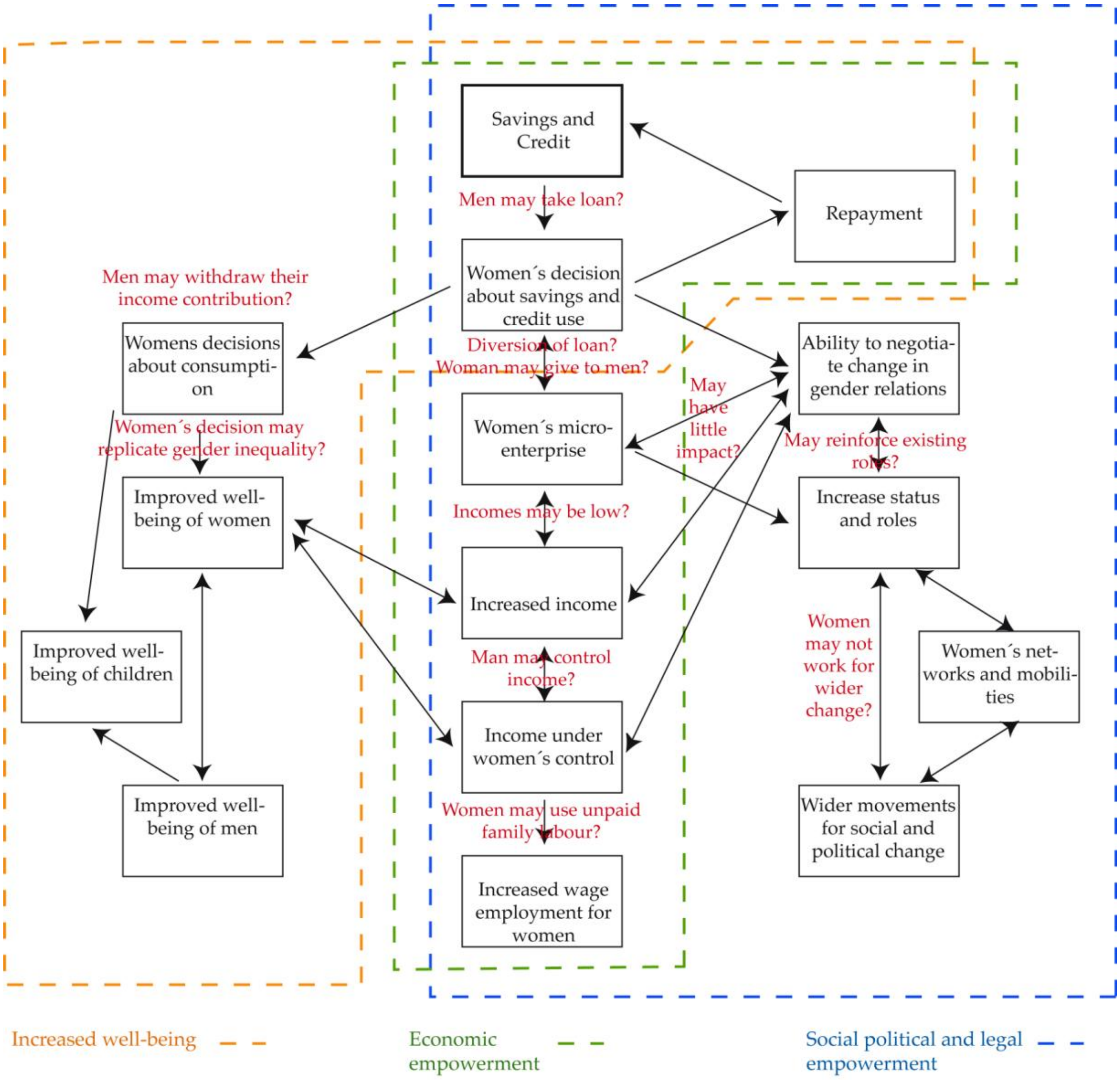
These introductory citations demonstrate the range of obviously contradictory statements about the relevance of microfinance for family-led economies and its contributions to pro-poor development. Although microfinance has gained world-wide importance in international and national development strategies and development cooperation, the impact on clients and, hence, its relevance for family-led economies is still strongly debated, and the number of rigorous studies is small (Sievers & Vandenberg 2007: 1346; Armendáriz de Aghion & Morduch 2005: 199). Assessing the impacts or effects[71] of microfinance on clients and their environment is difficult and expensive (Copestake 2007: 1722; Armendáriz de Aghion & Morduch 2005: 200f.), which partly explains the limited number of studies with often contradictory results. Hence, it is necessary to review how the respective research results have been produced.[72] Moreover, impact studies are often mixed with anecdotal evidence, assuming certain impacts and focussing largely on a specific type of impact without considering all related positive and negative changes. This confusing mixture of impacts—expected, hoped for, and shown—will be analysed first, before moving to an analysis of the different kinds of effects of microfinance on the poor.

In addition to being difficult to conduct, existing research on the impact of microfinance is often presented in combination with anecdotes on the 'way microfinance changes the lives of the poor'. Even Armendáriz de Aghion and Morduch (2005: 199), two recognized scholars who aim at formalizing microfinance in their 'economics of microfinance', use anecdotal evidence. They tell the story of Mrs. Braulia Parra, an illiterate poor Mexican woman with a family of seven, who managed to save the money she earned with the handicraft she started after taking a microloan of 150 USD from a local microlender during ten loan cycles in order to install a toilet and a shower in her house. It is, therefore, important to separate the many success stories and case studies that aim at showing the potential of microfinance—usually without pointing too much to the related risks—from the research on possible pro-poor effects related to microfinance. Thereby, it is crucial to assess both positive and negative changes occurring for all clients and not with only a few and relate the results to possible consequences for their

[71] The word *effects* is mainly used instead of *impacts* in the present study because the word *impact* is perceived to have a negative connotation in microfinance, due to the many somewhat frivolous impact studies.
[72] For the discussion of the methodological difficulties assessing impact, see section 1.3.

families, communities, enterprises, and the related local markets, considering the family-led mode of production and the important links to the social and business network.

Graph 4-A: Questioning assumed virtuous spirals from a gender perspective



Source: Adapted from Mayoux 2005: 5, 9.

Moreover, it should be recognized that the importance and support of microfinance is still often based on assumed 'cause-and-effect chains' that might be derived from 'systematizations of the success stories' widely reported from microfinance interventions.[73] These 'cause-and-effect chains' rely largely on strong assumptions drawn from very insecure causal linkages. Mayoux's (2000, 2005) analysis of assumed virtual spirals points to the underlying assumptions behind the impacts assumed. It can be shown that the virtuous spirals are constructed according to the paradigm chosen, thus influencing the assessment of observed effects as being linked 'automatically' to the provision of a microfinance, for example, in her

[73] See the presentation of many microfinance programmes and interventions, such as the microfinance activities of development NGOs, MFIs, (governmental) development agencies, and development banks.

example of savings and loans. Adherents of the financial self-sustainability paradigm generally expect economic empowerment as a result of savings and credit; in the case of the poverty-alleviation paradigm, increased family well-being is expected, and in the case of feminist empowerment, social, political, and legal empowerment of women is expected from access to savings and credit (see the virtuous spirals of different paradigms in graph 4-A).

However, analysing the basics of these cause-and-effect chains makes it clear that the linkages between the different elements have no solid base, 'either in theory' or in empirical evidence, but they are being clearly assumed—without these assumptions being made explicit, however. In graph 4-A, it can be seen that all realizations of the virtuous cause-and-effect chains can be questioned from a gender perspective. In the first instance, it can be questioned whether a women who receives access to a loan or savings account will be the one who controls this money or whether it is not her husband, brother, or mother–in-law who controls the spending. Mayoux's question marks indicate the many unsecure links between microfinance and the desired impact. Therefore, Mayoux uses the gender perspective, but a similar critical appraisal could be done from the perspective of local business or social capital development. Accordingly, it is essential to recognize indirect effects as 'indirect' and neither as direct nor as 'granted' effects of microfinance: Possible changes in incomes of clients, for instance, depend on many more factors than the simple allocation of a microloan or the access to microsavings and insurance. At the same time, possible changes in income for clients' households are only one variable in the development of the client households and their overall situations, which must still be situated within the context and relevant dynamics.

Moreover, most studies have been focusing on assessing the impact of microfinance only in terms of microfinance clients and their microenterprises (Johnson 2004). With such a research focus, only the changes for clients are reviewed in most impact assessments, thereby leading both to overestimations of the impact of microfinance and to omissions of important changes that microfinance can contribute to, e.g. on competitors loosing their markets. Both can be due to the missing contextualization of the intervention taking into account the positive or negative changes of the context (Zohir & Matin 2004: 204). The underestimation or overestimation of possible changes can also be due to the omission of other dimensions, besides the classic variables of change in client income or largely income-based official poverty status. Consequently, both the aggregated perspective situating clients in their context and a more holistic understanding of types of possible related changes are important to understanding possible effects of microfinance, elements that are, however, lacking in most studies.

Furthermore, there has been another important (partial) research focus in microfinance on the microfinance institutions themselves and their financial sustainability (see the intermediary school, Hulme 2000). In these studies, MFI sustainability and institutional development are in the centre of the analysis, not clients and to a lesser degree their communities. Although Von Pischke (1991) proposed a four-level research framework in his seminal 'Finance at the Frontier', including the impact on borrowers, the intermediary itself, financial market development, and the macroeconomic and macrofinancial situation, this approach has not been taken up within research on microfinance (Johnson 2004: 503). Only recently, an increasing number of authors and research programmes have adopted a broader perspective in their analysis in the field of 'finance at the frontier', even beyond the research dimensions proposed by Von Pischke, including, for example, wider effects on the societal situation or environment (see section 4.2.3).

However, an increasing number of publications point to the importance of an in-depth analysis of what microfinance does, what it possibly can and cannot change, separating expected from real impacts and looking beyond the direct changes in terms of microfinance clients only (see Chowdhury, Mosley et al. 2004; Mosley, Olejarava et al. 2004; Simanowitz 2003; Kabeer 2003).[74] Thereby, possible negative effects, for example, of group methodologies, are investigated, showing that the widely used term *solidarity groups* might be a euphemistic term for group methodologies (Marr 2006). The recent anthology *What's Wrong with Microfinance?* (Dichter & Harper 2008: 4) presents more sceptical and careful analysis of microfinance regarding its potential for contributing to pro-poor development and pointing to the risks of microfinance. An increasing number of academics and practitioners in microfinance (e.g., Dichter & Harper 2008) criticizes the often exaggerated expectations of increasing incomes, changes in the poverty status, or increased woman empowerment postulated by institutions and organizations lobbying for microfinance (development NGOs, development agencies, and microfinance investment companies). In this present chapter, effects related to microfinance will be categorized into different types in order to provide more conceptual clarity. The objective of the present chapter is not to assess the impact of a specific microfinance institution or programme but to deepen the understanding of the possible effects of microfinance on pro-poor development.

For analysing the relevance of financial services for family-led economies, the separation of direct and indirect economic and the wider social effects on clients, their household members, family-led businesses, and communities is proposed. The term *direct effects* refers to the possible changes directly linked to access to financial services, hence, to new means of financial management. These changes are usually linked to an enhanced or worsened income using a conversion capacity, such as modelled by Sen. *Indirect economic effects* refers to changes in income related to economic opportunities. Accordingly, they are linked to the income-generating capacities related to economic opportunities. *Wider effects* refer to possible social and societal changes that influence the freedoms of the poor. These effects might be enhanced, for instance, by increasing or decreasing social capital through local institution building or group approaches. All these different dimensions and aspects of change constitute dimensions of the possible contributions of microfinance to pro-poor development and poverty reduction—as poverty refers to all kind of deprivations in human development (see section 2.2).

[74] In the case of the cited research, largely elaborated related to the Imp-Act consortium, the aggregated perspective is called research on 'wider impacts', referring to economic, cultural, political, and social impacts assessed at an aggregated level, including that of non-clients (Mosley & Rock 2004).

This categorization will structure the following analysis and is presented in table 4-A. The shades of grey of the text indicate the weaker links between microfinance and indirect and wider effects, as other conditions to be further explored matter substantially.

Table 4-A: Categorizing different types of effects of financial services on family-led economies

Possible direct effects	**Possible indirect economic effects**	**Possible wider social effects**
		
Direct impact on the financial management in family-led economies ➢ Improved (or worsened) financial management enables coping with gaps between income and spending, creating assets, coping with risk, etc., in household and business finances ➢ Eventual access to additional services like training	**Indirect impact on client income and local economic dynamics** ➢ Increases (or decreases) of clients' income linked to economic opportunities in client or nonclient MSME ➢ Stimulation and revitalization (or decay) of local/ marginalized economies, etc.	**Wider impact on social capital and institution building in the community** ➢ Cultural changes related to the access to finance ➢ Creation (or destruction) of social capital in group schemes ➢ Creation (or destruction) of trust in local institutions, etc.

Source: Own conceptualization and elaboration.
Pictures: Own photographs or kindly provided by Timo Bandele Lassak.
Note: Lighter shades of grey indicate weaker links between the different types of effects and microfinance.

Throughout the analysis in the present chapter, it is important to be aware of the understanding of development and the objective of the present study. There is no such thing as a set of preconditions for development and poverty reduction because each development path is unique, with its own characteristics, structures, and mutually enforcing dynamics (see 'The Search for the Primum Mobile', Hirschman 1958: 1ff.). With the analysis of the relevance of microfinance to the clients, their families, and communities and possible related effects, the objective is to elaborate a comprehensive set of analytical categories for assessing possible pro-poor development opportunities and barriers that microfinance might cause, at least in part. Thus, the present chapter does not aim at a generalized review of the impact of microfinance, but at the identification of different areas in which microfinance can affect—positively or negatively—the lives of the clients and nonclients as well as the identification of the means.[75]

[75] Especially for a long-term perspective, an evaluation of the environmental effects would be important but has not been considered in microfinance until recently and will not be delved into in the present study (see discussion on the missing 'triple bottom line' in Hall, Collins et al. 2008).

For the subsequent analysis, it is important to stress that microfinance is one instrument among others for financial sector development.[76] The possible pro-poor changes related to microfinance are limited to the specific field of intervention and always need to be analysed within the local context. Moreover, financial sector development and its microfinance component are considered to be one among many possible development policy interventions focusing on structural changes. Naturally, but sometimes forgotten, microfinance cannot and should not be seen as an alternative to social security programmes, such as conditioned cash transfers, but as a possible additional means, which can contribute both to immediate temporary and long-term structural changes. Even though one of the central reasons for the attractiveness of microfinance is its possible long-term financial sustainability and related perspectives for outreach, the cost of institution building and the development of microfinance have to be considered. The use of development cooperation funds or national development budgets needs to be carefully pondered, both in terms of the institution-building strategy adopted and in considering alternative interventions.[77] Further, most (development) effects of microfinance depend on the economic and social environments, which are essentially built and changed by the state, other providers of infrastructure, and public goods.

In order to thoroughly analyse the possible effects of microfinance, it is also crucial to choose the adequate assessment perspective. Direct effects are the changes directly related to the access and usage of financial and additional services, hence, changes in the financial management of clients. They can be analysed at the micro and aggregated level. At the micro level, direct effects are realized as differentiated possibilities of financial management and related opportunities, as well as possible problems related, for instance, to over-indebtedness. At an aggregated level, the relative degree of financial inclusion of poor households and small enterprises and the changes in money circulating in the community can be directly linked to an increased or more differentiated access to financial services, as well as to such direct effects as increased structural indebtedness.

Microfinance can also contribute to increasing income levels of microfinance clients and their families. This increase might be related directly to better financial management opportunities and to new economic opportunities. Thereby, it is crucial to assess the income effects caused by increased economic opportunities separately and recognize their indirect relation with microfinance. Indirect economic effects depend on the growth and development of local enterprises and local economic dynamics. Hence, the related income effects are only indirectly linked to microfinance and need to be analysed at the aggregate local or regional levels, including the effects on nonclients, such as increased or even ruinous competition in the local microenterprise sector and the resulting changes in income levels at the community level. Fur-

[76] Inflation control at adequate levels might, e.g., also be considered as pro-poor financial sector development because it helps to reduce the inflation-caused losses of income and assets of poor people, for they generally do not own many fixed assets and do not have access to foreign currency accounts.

[77] Other measures aiming at poverty reduction and social and economic development, such as local employment programmes or Business Development Services, might be more effective for reaching specific development targets, depending on the context and budget available.

thermore, an assessment of individual indirect effects at the client level is virtually impossible because of the fungibility of money. Thus, the arrow in table 4-B points towards the analysis of indirect effects at an aggregate level.

Wider social effects are changes that occur with and among people, generally in interaction with others, be it in the group, the staff of the financial institution, or the family. Therefore, it is fundamental to analyse the social dynamics in relation to the social context, such as at the family, village, *barrio* or hamlet level. From an aggregated perspective, changes in the status and prestige of the clients and their families, as well as the changes in the social positions of nonclients and drop-out clients, can be acknowledged. In the case of the group lending methodology, for instance, the tracking of the status of the excluded members is important to understanding the wider social effects of microfinance in a holistic way (see the discussion on social exclusion of excluded group members due to payment difficulties because of health problems in Harper 2008: 257). Effects regarding the creation or destruction of social capital and solidarity need to be analysed beyond the client or microfinance clients' group context in order to capture the dynamics of social change or secondary effects beyond the clients.

Table 4-B: Assessment perspectives for effects of financial services on family-led economies and examples of possible effects

	Possible direct effects	**Possible indirect economic effects**	**Possible wider social effects**
Micro/household level (family and family-led enterprise)	+ Easier and more comprehensive financial management - Individual (over)indebtedness *(analysed in 4.1.2)*	+ More income due to economic opportunities - Less income due to economic opportunities ⇩	+ Empowerment of the individual - Exclusion of the individual from groups ⇩
Aggregated local or regional level	+ Generalized access + More money circulating in the local economy - Structural (over)indebtedness *(analysed in 4.2.1)*	+ Local economic development - Unsustainable microenterprises - Displacement effects, fierce competition in local markets (analysed in 4.2.2)	+ Social capital in the community - Groups break - Social tensions through increasing competition (analysed in 4.2.3)

Source: Own conceptualization and elaboration.
Note: Lighter shades of grey point to increasing difficulty to assess the respective types of effects of microfinance.

In the following, the direct, indirect, and wider effects of microfinance will be analysed, first, from a micro and, then, from an aggregate perspective in order to identify analytical categories for the proposed framework (see table 4.B). The colours in the graph underscore the difficulty of assessing indirect economic and wider social change. Both types of effects will be further explored, but they cannot be analysed in-depth due to the extreme complexity of analysing both related fields of local economic development and social change and due to the lack of related evidence, which is especially true in the case of wider social effects[78]. Accordingly, the present study analyses the direct effects of microfinance in a comprehensive way and explores indirect economic and wider effects, elaborating categories of analysis that will need to be further researched.

Different areas and types of effects of microfinance will be defined by analysing both empirical evidence and results from practitioners' studies. However, the latter often present the problem of lacking sound methodology and being partially biased by underlying assumptions, as discussed previously. However, some of these studies still have to be used for analysis because they constitute some of the slim information available on the effects of microfinance in a field in which practically no scientific research has been conducted. This is also the reason for analysing evidence from many different countries without being able to do a purposeful selection. By using only the evidence revised to identify possible categories of effect and not using the results for analysing the impact of microfinance, the weaknesses of these studies and their selection will be mitigated. Accordingly, the studies reviewed that lack sound methodology provide only inspiration for possible types of effects of microfinance in defining fields of analysis. The results of these studies are used only if the methodology has been evaluated as being sound, such as RCT-based studies (see section 1.2.2).

For identifying possible areas of effects of microfinance on pro-poor (economic) development, first, a clear concept of how poor populations use financial services is necessary. Therefore, evidence of usage patterns will be explored first. This analysis builds on the theoretical base of the relevance of financial services for poor populations, especially in a family-led mode of production (see section 3.2). The analytical focus is on analysing empirical evidence that explores the way financial services are used by low-income households and their family-led businesses and the extent to which the services can be useful to them and their communities. A deeper understanding of the relevance of financial services in family-led economies and of the types of services used and valued in terms of additional freedoms (see chapter 2) helps to set the analytical criteria for assessing to what degree the offered financial services, the methods of institution building, and the distribution channel used can be seen as 'adequate'. These criteria, then, build the proposed pro-poor financial sector development framework further, as presented in the Chapter 5.

4.1 The relevance of financial services for poor populations from a micro perspective

The direct effects of microfinance are related to the direct consequences of improved financial management possibilities, such as being able to cope with damage because of having insur-

[78] Studies that take into consideration wider impacts of microfinance often base their analyses on anecdotal 'evidence' and few sound reports, often assessing the impact at the micro level (Dichter 2007).

ance. For analysing and understanding this type of effect, it is necessary, first of all, to know how financial services and which kinds are used by poor populations. Accordingly, usage patterns will be explored in a first step, and direct effects at the micro level in a second step.

4.1.1 Usage patterns of financial instruments and strategies by low-income households and family-led businesses

> Financial transactions (lending) are an important part of life but they can be bothersome. (Barek, household 22, Rutherford 2002: 49)

In the present section, recent empirical evidence about the types, frequency, amounts, and purpose of financial transactions made by family-led economies is explored, including both financial services provided by a third party and group or mutual financial devices. In assessing the different forms of 'financial' transactions, it should be taken into account that these might also be in-kind, in the form of reciprocal gifts, or in other substitutes for payment or repayment of money. Accordingly, the exact definition of financial instruments needs always to be adapted to local methods and understandings of financial transactions. The insights into the methods and preferences for financial management constitute the foundation for assessing whether the financial services offered to poor people fit the financial management needs identified by the people themselves and stressed by the studies cited. Therefore, the present section provides fundamental insights into financial service classes and product characteristics important for low-income households and MSME from a micro level perspective. The findings cited are taken from different kinds of in-depth studies and specialized surveys on financial management in low-income households (see section 1.2.3 for an introduction to the evidence reviewed).[79] Although the cited methodologies, as well as the regional and cultural backgrounds, differ widely, basic patterns of financial management by low-income households emerge. (See Appendix 4.1.1-A for an overview on the location, database and methodology of the evidence reviewed.) These patterns appear to be quite consistent with the main conclusions about financial management that have been drawn from the theoretical approaches already reviewed (see Chapter 2 and 3).

Throughout the different studies, elements of the same basic categories of financial purposes were stressed by the respondents (see Appendix 4.1.1-B for a systematization of the research findings discuss below). These purpose categories were used as a first set of categories for further analysis of the evidence. At the same time, the main categories of purposes, which evolved from the empirical data, are consistent with the categories used in the theoretical analysis of the relevance of financial services in family-led economies in the previous section. They consist of the following:

[79] The following studies were reviewed: Saavedra & Valdivia 2003; Rutherford 2000, 2001, 2002, 2003; Rutherford, Mutesasira et al. 1999; Ruthven 2002; Ruthven & Kumar 2002; Ahmed, Mbaisi et al. 2005; Eversole 2003; Brusky & Fortuna 2002; Collins 2004; Financial Diaries n.d. and other Focus Notes (http://www.financialdiaries.com); Collins 2005; Collins & Morduch 2008; Porteous, Collins et al. 2008; Porteous 2007; Johnston & Morduch 2007; Zeller & Sharma 2000.

1. **Sustaining and tapping (business) opportunities:** The family-led business is generally the central or one of the main income-generating sources of low-income and poor households in the context of developing countries. Besides improving financing for the family's business by increasing the working capital or providing investment opportunities, financing for family-member-related opportunities is important. Empirical evidence shows that payments often considered as 'consumption' (such as education, house repair, marrying the daughter to a wealthier family) can be 'investments' with larger pay-offs in the long run than investment in the family's business (which might also fail) or, for example, in cattle (which might die) (Ruthven & Kumar 2002: 8ff.).

2. **Provision and prevention for life-cycle events:** Primary life-cycle events are birth, education, marriage, birth-giving, maternity/paternity, homemaking, old age, and death. However, general household maintenance expenditures might sometimes also enter into that category when they reflect increased financial management needs due to taking care of family-members in their respective life-cycle situations.

3. **Mitigating risk and managing emergencies:** Emergencies can be linked both to idiosyncratic risks like health-problems, accidents, fire, or theft and covariant risks, such as natural or man-made calamities, extreme weather conditions, societal problems, riots, and so on.

4. **Financial communication:** *Financial communication* refers to the different transactions of transferring or receiving money. It includes bank transfers, sending money home to the family in another region or country (remittances), receiving money, realizing payments, and so on. Besides referring to transferring financial resources, financial communication can also refer to converting money into another currency.

5. **Coping with seasonality and seasonal events:** This category refers to special periods of the year, which regularly make necessary the use of money management arrangements in order to cope with the season-specific gaps between expenditure and income streams. Seasonal events can be important religious and cultural events and celebrations people participate in or can be linked to nature, such as draught periods.

The last two categories are referred to less frequently than the others, partly due to their being subsumed under other categories; for example, financial communication may be listed under a category that represents the final use of the money transferred. The case of remittances sent to the home village for building up a business there could be included both in the opportunity category and the category of financial communication. Regarding the fifth category of seasonal events, the main elements refer to regular sociocultural and religious events and ceremonies. In addition, there are also seasonal financing needs for microentrepreneurs (e.g., loans for the Christmas business or for the beginning of the school year) as well as in agriculture (e.g., pre-harvest or pre-planting loans), which could be included in this category. However, because these events are characterized more specifically by their final purpose than their seasonality, they are attributed to the category of opportunities. Analysing the detailed findings on usage patterns of financial services revealed that multiple combinations of methods and purposes of financial management can be distinguished (see Appendix 4.1.1-A). The multiple combinations of different types of financial management (saving, lending, borrowing, and insuring) and the established purpose categories (opportunities, life-cycle events, emergencies, financial communication, and seasonal events) are referenced in detail in Appendix 4.1.1-B. One of the most striking results of the analysis of the presented evidence is that, even though there are big differences regarding the ways that financial services are assessed and by whom they are provided, there is a comprehensive set of generalized patterns observable within a wide range of the studies analysed. These more generalized patterns can be identified according to their thematic focus:

General findings on financial management and communication

- Respondents reported a vast usage of different financial arrangements, including formal and informal, one-to-one, and mutual financial services and devices.

- A large number of frequent and small financial management transactions are conducted by low-income and poor households.

- Poor households have complex financial lives and use multiple devices of 'saving up, saving down, and saving through'[80] from informal and formal sources. Generally, they use both devices for short- and long-term 'saving up' (savings) and 'saving down' (borrowing) instruments. 'Saving through' arrangements are strong in only some cases, such as ROSCAs in East Africa and insurance schemes among better-off clients in some cases.

Findings regarding the purpose categories and different uses

- The three main purpose categories of life-cycle, emergency, and opportunity uses were apparent in all contexts.

- Life-cycle uses appeared to be the most important usage category in terms of frequency of using financial management devices. At the same time, the amounts used were often smaller compared to the other purpose categories.

- Being able to cope with emergencies is another of the three most important uses. It deals in a special way with health issues, which was the most important use among other emergencies and had a frequent and strong effect on the households' budgets.

[80] This concept will be introduced in the following section and is explained in graph 4.1.1-B.

- Taking advantage of different opportunities was another important category, largely characterized by less frequency and higher values of the financial arrangements compared to other uses, especially life-cycle uses. Thereby, the different 'opportunity uses' reported by the respondents often referred to non-business uses related to the household itself or to the family members, such as house repair or education. Accordingly, it is important to consider the 'opportunity uses' in the context of both the family-led business and the family itself (and not only the explicitly family-member-related categories of life-cycle and emergency uses). Hence, besides more evident business-related opportunities, there are other opportunities related directly to family members.

Findings regarding the method of financial management

- Regarding savings, both current account-like savings opportunities with instant access and long-term savings opportunities with restricted access were used and sometimes even created through various arrangements by the respondents themselves.

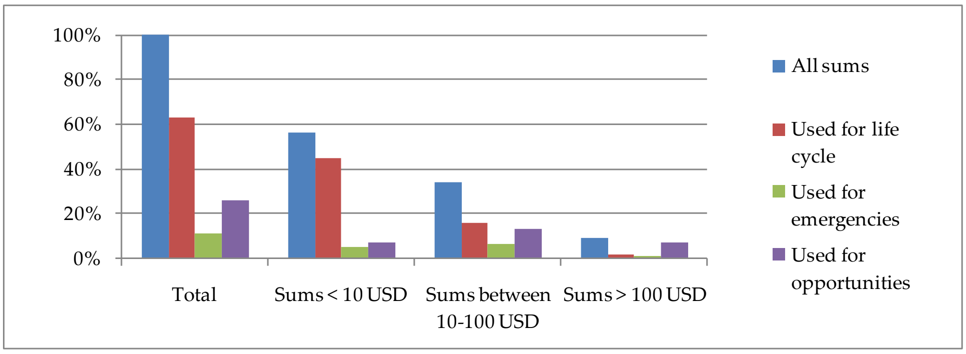
- Borrowing included a wide range of reciprocity-based and relationship-based transactions besides the price-based ones with commercial or professional providers. Thus, access to a differentiated range of loans in two main categories is assured: (i) small frequent loans for daily consumption smoothing and smaller life-cycle related purposes (loans often made within the kin and social network) and (ii) larger and less frequent loans for tapping opportunities or managing larger life-cycle-related needs or emergencies (loans generally made by intermittent and professional lenders).

- Loans were widely realized in terms of both money and goods on credit. This finding was true primarily for life-cycle and opportunity uses. Life-cycle uses and consumption smoothing were often resolved by shopping on credit at the corner store. In order to take advantage of opportunities, goods were often bought on credit, especially for business uses from suppliers.

- Insuring is widely practiced in terms of the risk managing financial function of insuring against emergencies and prevention of life-cycle related expenditures. It is achieved largely through reciprocity-based and relationship-based arrangements, like giving reciprocal gifts or interest-free loans that can be called back and using saving and credit devices. The use of insurance in terms of financial products was not as prevalent among the respondents, although it was generally desired (especially in the case of health insurance).

Accordingly, the evidence shows that households use a wide range of different financial instruments, with the most frequent transactions being reciprocity- or relationship-based. Households with family-led businesses of different sizes use the kin and social network-based financial instruments, a finding consistent with the definition of MSME according to the mode of production being family-led. Furthermore, the findings challenge the mainstream focus on 'microenterprise loans': First, loans are taken for a multitude of important purposes, and second, other methods of financial management might be even more important to the customer than loans. Regarding the frequency of financial management instruments used, life-cycle events appeared to be the most frequently mentioned category. Life-cycle uses were followed by opportunities and emergencies, consisting largely of health-related expenditures. Regarding the size of the expenditures in the different categories, the sums used for opportunities tended to be the largest in the different studies. Even though there might be small changes in some cases, these general tendencies emerge from the whole set of empirical evidence from different regions and countries. This finding is illustrated in graph 4.1.1-A in the case of Bangladesh: The 515 'sums' in the graph refer to small lump sums gathered, accumulated, or borrowed with the help of financial services and devices.

Graph 4.1.1-A: Financial diaries in Bangladesh: Analysis of 515 reported sums by usage category and value, reported from 42 households

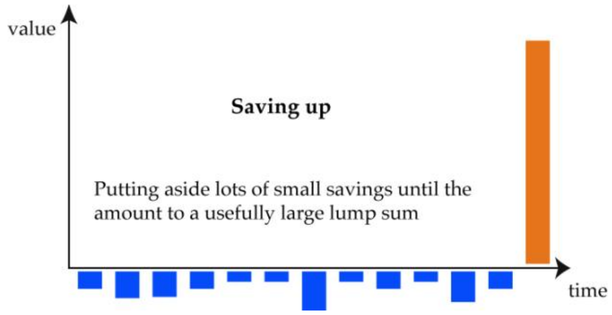


Source: Rutherford 2003: 65.

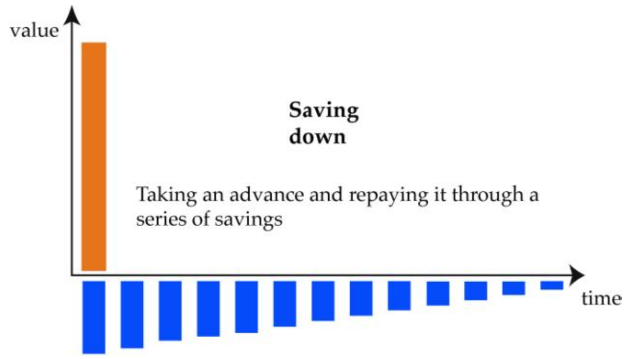
Building lump sums, as shown in the graph below, enables family-led economies to manage the little money they have for dealing with different kinds of expenses that cannot be met from the regular or daily cash-flow or income. For coping with life-cycle events and emergencies and making use of opportunities, the central challenge is how to build larger lump sums to meet larger expenditures. These expenditures generally cannot be met directly out of the small and often irregular and fluctuating incomes, which often barely cover the basic needs and current consumption (see Appendix 4.1.1-B). Hence, financial services and devices constitute important methods for managing meagre income streams in a way that allows bigger expenditures to be met and undertaken. Rutherford (1999: 11f., 2003: 63f.) stresses the central importance of financial services and devices for building larger lump sums out of small contributions. Based on the evidence from financial diaries, he differentiates the following financial instruments according to their respective ways of building usefully large lump sums (see graph 4.1.1-B).

Graph 4.1.1-B: Ways of building up 'usefully large lump sums' according to Rutherford

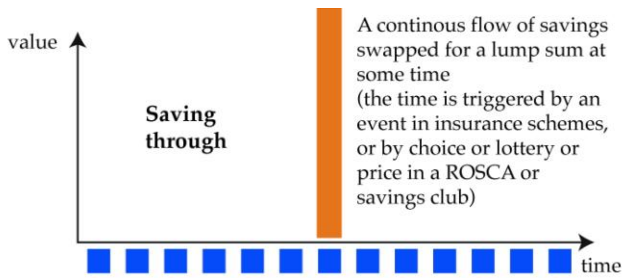
- 'Saving up' – building a usefully large lump sum through small payments into savings beforehand; corresponds with the general understanding of savings services.



- 'Saving down' – 'repaying' through small payments (drawn from the savings ability of the household) a usefully large lump sum after having received it; corresponds with the general understanding of credit and loan services.



- 'Saving through' – receiving a usefully large lump sum in the course of saving for it, as in a ROSCA; corresponds with the general understanding of an insurance or a savings or current-account product with access to emergency loan or overdraft.



Source: Adapted from Rutherford, Mutesasira et al. 1999: 11f.

These categories introduced by Rutherford help in considering the financial management of low-income households in terms of the transactions, flows, and arrangements made in a way that differs from the general categorization into types of products. These categories can be used as an additional tool for describing and analysing the financial services and devices used by low-income populations. At the same time, it has to be noted that the advantage to saving up, down, or through depends on the respective cost of and conditions[81] for constructing the lump-sum and on the urgency of the expenditure need. Considering the potentially high cost of microcredits, the (dis)advantages of loans over other financial services like savings should always be assessed thoroughly. In the case of savings, where the saver takes the risk of getting her money back in a future moment (or not), basic conditions like security and accessibility of savings matter fundamentally. Still, local customs might turn theoretically advantageous financial instruments, such as secure savings being cheaper than a loan, into nonviable financial instruments, for instance, due to the lack of a 'culture of savings' (Bauer, Chytilová et al. 2008).

[81] For example, active and passive interest rates, inflation, flexibility, and method or ease of payments, etc.

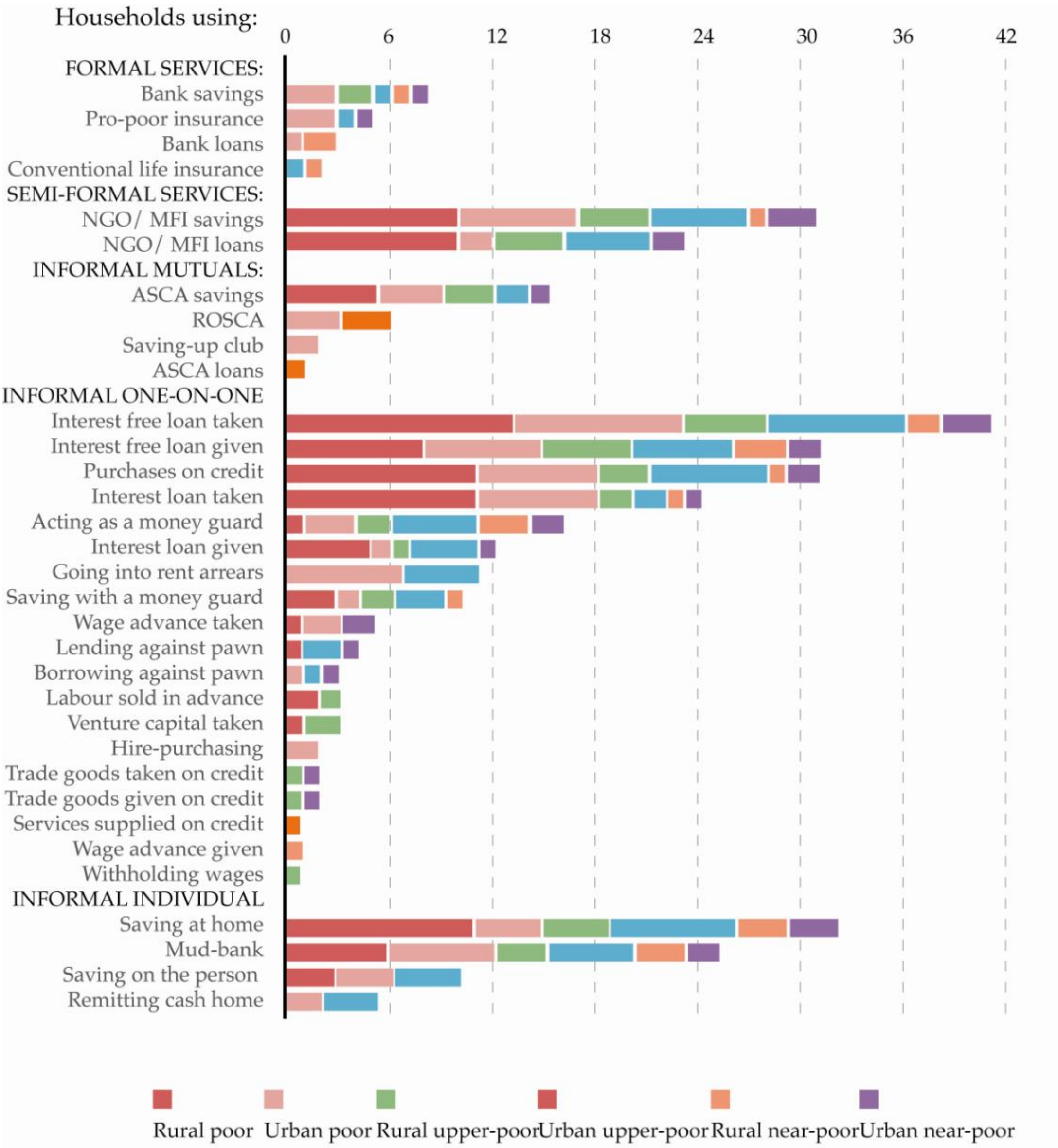
In a more general way, the vast usage of a wide range of informal and formal financial instruments and devices by poor women, men, and their families shows the relevance of these small-scale money-managing services, even if many times at high monetary prices, opportunity costs, or social commitments. At the same time, the conditions of the financial management services determine how useful they can be to the users, considering that inadequate conditions[82] might, in the end, even harm the users and decrease their ability to cope with life-cycle events and emergencies instead of increasing their opportunities. *In-kind financial services* is, thus, understood as referring to alternative forms of managing the families' financial transactions, which strongly interact and often substitute for money-based financial services (see discussion on family-arrangements for old-age pension influencing the long-term savings behaviour of the elderly family members, Saavedra & Valdivia 2003: 42). Thereby, people do not only use a large variety of formal, semiformal, and especially informal financial services and arrangements (see graph 4.1.1-C), but also combine these services. Poor populations take informal loans through their kin network to pay back more formal loans, save money formally and informally, deposit money with shopkeepers to acquire a more expensive good in the future, or help family members to meet important expenses (Ruthven 2002: 259).

Another finding from the evidence is the relevance to poor populations of being able to cope with risk, which emerges both from the purpose categories mentioned and the types of financial arrangements used. Thereby, it is important to acknowledge the difference between the financial function of insuring, which refers to mitigating and coping with risk, and the financial product class of insurances. A large variety of strategies are widely employed by low-income people for coping with risk. Thus, risk mitigation can take place at two different stages. The first stage refers to ex-ante arrangements of protection from income shortfalls before they occur. Through conservative production or employment decisions and the diversification of the household's economic activities, people plan to reduce risk (Morduch 1995: 104). Examples of this strategy are mixed cropping or the use of multiple seed varieties in agriculture or strongly diversified livelihoods in the poorest households (Ruthven & Kumar 2002: 14). At the same time, the high level of poverty can also be seen as a result of a risk mitigation mechanism because production choices with lower risk are typically related to lower returns (Morduch 1995: 105). The second stage refers to ex-ante and ex-post mechanisms of dealing with an income shock. Households can level consumption with ex-ante arrangements of saving, lending, and insuring and ex-post arrangements of borrowing, decreasing consumption, and increasing labour (see Morduch 1995: 104). Regarding the financial arrangements for meeting expenditures related to shocks, emergencies, or unexpected life-cycle events, low-income households use a variety of different informal and formal money management services and devices (see Appendix 4.1.1-B). The expenditures related to life-cycle events and emergencies (most prominently health-related issues) often consume large parts of the households' budgets during the year. In the case of Financial Diary respondents in rural Northern India, the expenditures added up to one-third for life-cycle and 20% for emergency-related

[82] Conditions include too short or too long terms, very high prices, rigid payment schedules, insecure repayment, etc.

expenditures (Ruthven & Kumar 2002: 16). In comparison to other financial products, such as savings and loans as insuring mechanisms, microinsurance might be advantageous in the case of larger risks because pooling risk is a more efficient mechanism for large-sized risks difficult to cope with at the household level itself (Churchill 2006b: 14). In addition, covariant risks might affect microfinance institutions and reciprocal lending and borrowing streams of the whole locality (Zeller & Sharma 2000: 162). However, having the money 'locked in' so that it cannot be used for other purposes and an additional uncertainty about the payment in case of damage, constitute an additional risk inherent to insurance.

Graph 4.1.1-C: Financial instruments used by numbers of households, reported from 42 Bangladeshi households



Source: Rutherford 2002:16.
Note: ASCA refers to Accumulating Savings and Credit Associations.

In order to systemize these insights further, table 4.1.1-A presents a compilation and systematization of different usage categories and the respective kinds of financial services used and valued by the respondents.

Table 4.1.1-A: General patterns of the evidence: Usage and financial service categories

Category of financial service	Purpose category	Category of financial instruments	Important characteristics of financial products
Savings/current account	Consumption smoothing; coping with life-cycle events, emergencies and seasonal events (both household- and business-related);	Liquid or instant savings account with easy access; current account with savings and emergency loan function (emergency loans possibly provided based on the savings accumulated)	- easy access - accumulating and withdrawing small sums on a daily basis - flexible payouts, eventually in the form of emergency/season-specific loans or providing access to such loans
	Taking advantage of opportunities, meeting life-cycle needs	Structured long-term savings options with restricted access, possibly linked to insurance schemes	- different terms and time horizons - incentives for long-term saving
Insurance	Insuring idiosyncratic risk: life-cycle events and emergencies (both household- and business-related)	Insurance for important life-cycle events and emergencies: health, accident, death, theft, etc.	- small contributions - flexible premium payment schedules - affordable price - service provision guaranteed - innovative way of overcoming information asymmetry (member-owned schemes, incentives, etc.)
	Insuring covariant risks	Insurance against covariant risk: natural or man-made calamities	- same as above - large enough risk pooling (not insurable within the community or micro region)
Credit	Short-term opportunities (working capital, consumer durables purchased at a good price, etc.)	Short-term credit with flexible repayment schedule	- small and frequent instalments possible repayment schedule flexible; also for short-term business campaigns (e.g., Christmas) - credit assessment on the base of the debt capacity of the household (both for household- and business-related uses)
	Long-term opportunities (investment in business, education, etc.)	Long-term credit adapted to the respective usage	- flexible repayment schedule, adaptable to the respective use - due to longer duration, adequate cost matters strongly - credit assessment on the base of the debt capacity of the household (both for household- and business-related uses)
	Business -and household-related emergencies/ season-specific needs	Flexible credit for emergencies and seasonal gaps	- easy and fast access
Transaction banking	Consumption smoothing; transferring, storing, taking money to cope with life-cycle events, emergencies, and seasonal events (both household- and business-related)	Liquid or instant savings account with easy access; current account with savings and emergency loan function (emergency loans possibly based on the savings accumulated)	- easy access - accumulating and withdrawing small sums on a daily basis - flexible payouts, eventually in the form of emergency/season-specific loans or providing access to such loans
	Sending remittances, transferring money	Savings/current account with remittances/separate remittances or money transfer options	- open for international and national money transfers/remittances (especially to receive internationally or send and receive nationally) - transfers with and without account

Source: Own design and concept.
Note: The colours indicate the same or similar categories of financial instruments used.

In order to generalize beyond the specific local socioeconomic and cultural context, the next step of this analysis addresses kinds of financial services or financial product classes and their main characteristics. The financial products within these product classes will vary across countries and regions, for example, in product design, provider, and delivery channels. Table 4.1.1-A shows the use of different kinds of financial services for a purpose category and the different purposes of a financial product class. In the first case, savings and loans for making use of business-related opportunities (appearing more than once in the second row) is an example; in the second case are loans for tapping business opportunities and household related emergency loans (due to different purpose categories for each financial product class). Related to the different possible uses, different financial instruments and characteristics of these financial services are presented. Identical and similar kinds of financial services are marked with colours. The next step of the analysis, shown in table 4.1.4-B, builds on table 4.1.1-A by merging similar financial service categories (e.g., the liquid short-term savings account appears twice).

Table 4.1.1-B: Financial product categories relevant to low-income populations: Approaching scope

Categories of financial instruments used in family-led economies	**Key characteristics**
Liquid or instant savings account with easy access/current account with savings function	- easy access - accumulating and withdrawing small sums on a daily basis - flexible payouts, eventually in the form of emergency/season-specific loans or providing access to such loans
Current/savings account with remittances/ money transfer option	- open for international and national money transfers/ remittances (most importantly receive internationally, send and receive nationally) - transfers with and without account
Structured long-term savings options with restricted access, possibly linked to insurance schemes	- different terms and time horizons - incentives for long-term saving
Insurance especially for larger life-cycle events and emergencies and covariant risk and/or hybrid savings products with an insurance function/linked to an insurance	- small contributions - flexible premium payment schedules - affordable price - service provision guaranteed
Short-term credit with flexible repayment schedule	- small and frequent instalments possible, repayment schedule flexible, also for short-term business campaigns/needs - credit assessment on the base of the debt capacity of the family (both for household- and business-related uses)
Long-term credit adapted to the respective usage	- flexible repayment schedule, adaptable to the respective use - due to longer duration, adequate cost matters strongly - credit assessment on the base of the debt capacity of the family (both for household- and business-related uses)
Emergency loan facility (possibly based on the savings/current account and the savings accumulated)	- easy and fast access for emergencies and season-specific needs

Source: Own design and concept.

Table 4.1.1-B shows a general synthesis of the main financial product classes previously mentioned and used by low-income respondents to the various empirical studies and surveys cited above. This list of product categories is also consistent with the theoretical background of a family-led mode of production discussed in section 3.2. Thus, this final systematization in table 4.1.1-B constitutes the base for assessing how far the scope of financial services and products offered corresponds to the categories of financial services used and valued by low-income populations and small enterprises.

4.1.2 Direct effects of financial services for family-led economies from a micro perspective

> Kupopa harusi kulipap matanga!
> It's merry to borrow money but paying back is a sad affair—more like milking a stone!
> (Swahili proverb, Dichter 2008: 9)

The category with the most evident effects of pro-poor financial sector development is that of direct effects at the micro level: As shown in the last section, poor households use complex mixes of small and partly informal reciprocity and relationship-based financial services and devices for managing their money; bridging income and expenditure gaps; coping with risk; transferring money; and lending, saving, and borrowing money. Access to adapted formal financial services can help them to cover their money management needs in an easier and more comprehensive, more secure and reliable, more efficient and inclusive, and more diversified way. At the same time, related risks, like losing savings, over-indebtedness and the related registration of the client's name in the national debt register[83], have to be considered. The present section explores further consequences and possible direct effects of the usage of formal financial services, including a comparison to informal financial instruments. This analysis departs from the usage patterns discussed in the last section. First, it further explores what the usage of a complex mix of financial instruments can mean to family members and business owners of family-led economies (4.1.2.1). Second, possible direct effects of the widespread use of informal financial services are discussed (4.1.2.2). Third, possible direct effects of the observed focus on borrowing as financial management strategy are analysed, leading to the subjects of credit cost and family debt management and the importance of regulation and consumer protection (4.1.2.3). Finally, the direct effect of eventual access to additional services through microfinance is discussed (4.1.2.4).

4.1.2.1 Consequences of the complex financial lives of the poor

Even though poor families use a variety of informal financial services and devices as described and analysed in the previous section, administering their complex financial arrangements is a difficult task, usually perceived and experienced as a pressing burden by low-income households and within family-led enterprises (see Appendix 4.1.1-A). While recording the financial

[83] In some countries (e.g., in Brazil), national credit registers are extremely efficient, leading to a situation in which a person with her name on the 'black list' is virtually incapable of conducting any kind of business, even signing a mobile phone contract.

diaries in urban slums in Bangladesh, households also indicated how they feel about all their money managing transactions. The remarkably consistent perception of financial management as a burden emerges from their opinions: 'money management is a necessary evil that causes considerable stress and absorbs much time and energy. Or, [as it was paraphrased by the respondents:] "we don't like doing it, but we have to"'(Rutherford 2002: 49). The following box gives examples of how the respondents felt about financial services, taking into account that their complex and largely informal arrangements with small and frequent transactions meant new money management arrangements every two weeks, on average (Rutherford 2002: 49).

Box 4.1.2-A: Money management needs perceived in Bangladesh

'Unfortunately, you can't get by without borrowing, even though it's unpleasant' (Hamida, household 10). 'Managing money is a problematic matter—if I didn't have to I'd prefer not to get involved in financial services' (Minara, household 15). 'I feel proud when I give *howlats* (interest free loans), and shameful when I have to take them. Still, sometime I have to take them, there's no other way of managing' (Ranu, household 18). 'I feel a lot of pain when lending or borrowing goes wrong, but I have to do it because I can't manage without' (Renu, household 19). 'When I really need cash, then I have to engage in lending—otherwise, it's just a bother. I feel great shame if people remind me of my debts in public' (Chan Miah, household 27). 'Without a way of getting money, a household wouldn't run' (Sobhan, household 31). 'I don't like lending and borrowing—it's a mental burden' (Akkabar, household 39). 'Lending and borrowing are embarrassing. But I borrow because I need to' (Tufani, household 41).

Source: Rutherford 2002: 49.

This difficulty in managing their financial arrangements also must be seen in the context of the Bangladeshi respondents: Most are illiterate and develop strategies in order not to forget where they stored, borrowed, and lent money. Many reported that their liabilities would be always present in their thinking, and wondering about how to manage all the transactions and the repayment of the debts would cause them sleepless nights (Rutherford 2002: 51). Without access to a formal financial institution to provide a comprehensive range of services, the managing of numerous informal money management relationships is generally necessary in order to meet the different needs. The management of many different financial relationships is difficult not only for the low-income families but also for those who might want to assess their borrowing capacity or give advice for future financial transactions. In the case of a house bank relationship, this kind of financial counselling then becomes much easier if the house bank financial institution constitutes the main provider of a comprehensive and balanced set of financial services. However, only some of the providers of formal financial services build such a house bank relationship with their clients and offer the relevant scope of services. A long-lasting and close relationship between the client and the financial institution might also help to decrease negative consequences of a generalized lack of financial literacy.[84] First, the financial institution might have fewer incentives to exploit the client if the client-relationships were set with a long-term perspective considering the growth of the clients. Second, it might be

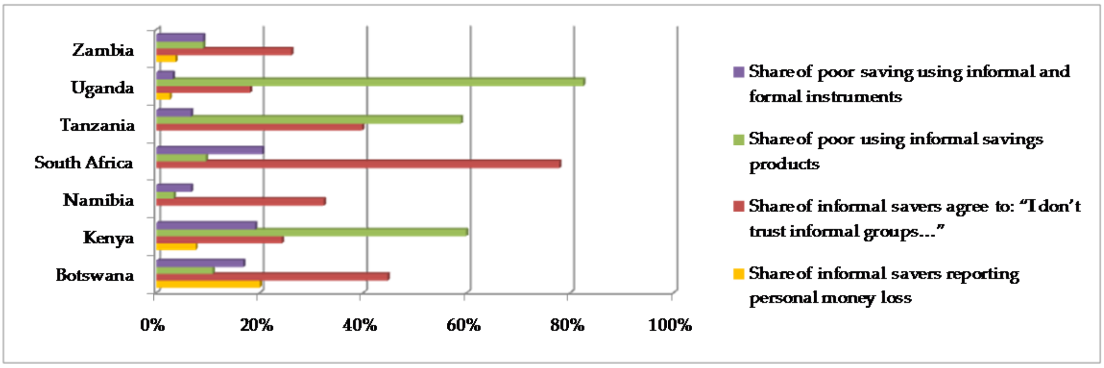
[84] Insufficient levels of financial literacy are also a challenge in industrialized countries (cf. Davydoff, Naacke et al. 2008: 23ff.); for its importance in developing countries, see Sebstad & Cohen 2003: 8ff.

more feasible for the financial institution to give high quality financial advice because the client and her economic and social environment are well known to the bank. The financial institution might even invest in financial education, which is practiced by many local savings banks and financial cooperatives (see discussions of bylaws of local savings banks and cooperatives or the European savings banks, ESBG 2008).

4.1.2.2 Direct effects related to the use of informal financial services

The widely used traditional and often very convenient informal financial arrangements also pose important challenges to the users. First, there is the risk of not being able to recover money informally stored or lent (or, at least, not at the moment it is needed). Furthermore, relatives could begin to draw on the connections frequently or at difficult times. Thus, the respondents suffer from a lack of reliability in their financial arrangements, and most of them have faced losses (see table 4.1.1-B; also, Wright & Mutesasira 2001). In the case of small interest-free loans to neighbours, it is often hard to get the money back when needed (or even at all if it is lent to family members), ROSCAs or ASCAs can break, money guards disappear, and money can be stolen from home or be spent by other family members.[85] In the case of the Bangladeshi respondents, formal financial institutions were not perceived to be as reliable because banks were difficult to approach (because of bribes, delays, long distance, minimum balances required) and the agents of the local pro-poor insurance company did not comply with their promises (see Rutherford 2002: 51f.). Regarding both losses and lack of trust in informal financial services, the representative FinScope surveys showed that reliability is a big issue for low-income families. According to the FinScope data from Southern and Eastern Africa (see graph 4.1.2-A), a considerable proportion of the families that saved used informal savings instruments, either in combination with formal savings instruments or, in most cases, as their only savings arrangement. Furthermore, it can be seen that, even though using informal savings arrangements, a high proportion of the respondents did not trust the informal groups or had even faced personal losses already.

Graph 4.1.2-A: Usage of informal savings mechanism and lack of reliability (Finscope data)



Source: Porteous, Collins et al. 2008: 9.

Note: Some statements were expressed in the opposite form, and in Tanzania, this question was answered by only 735 of the 4962 respondents. Information on informal savers reporting losses was not available for Namibia, South Africa, and Tanzania.

[85] Money stored at home might also cause conflicts among the family member storing the money and others with the desire to use it, especially in situations in which decision-taking is not done jointly in the household.

The only country that showed considerably higher percentages of a mixed usage than of informal savings instruments only was South Africa, and the difference might be partly due to the introduction of the *Mzansi* account.[86] The acceptance of the *Mzansi* account in South Africa and its fast growth also indicate the strong desire for formal financial products by unbanked people: After 2 years, almost 2 million clients had opened a bank account, most being people who had never had a bank account before. Two-thirds of these clients opened their first account in order to save (Porteous, Collins et al. 2008: 4f.). Still, it should be considered that drop-out rates were also very high (at 23%) for all clients (Porteous, Collins et al. 2008: 4f.), possibly indicating that, although the new clients expressed a desire for formal financial services, the results of using the services were different from their expectations or that the product proved not to be adequate.

Other dimensions to the lack of reliability of informal financial services are the generally limited amounts of reciprocity-based borrowing and the lack of permanent access to informal services, especially in the case of relationship-based financial services. Moreover, in the case of very poor or destitute families, access to these relationship-based services might be further limited: They often lack a network of employers, suppliers and well-off family members to draw on because their social network might be small and the members of the kin network might live in similar conditions. Thus, they often have to use private lending services at interest or the moneylender. Although moneylenders should not be associated with extreme usury practices in a generalized way, their interest rates are often considerably above the interest taken by microfinance institutions or formal lenders.[87] In the case of kin or social network-based borrowing, the interest rate is rather hidden in reciprocal transactions or charged in indirect ways (e.g., through higher prices from suppliers). However, specialized microfinance institutions and other formal financial institutions often take high prices for their small loans.[88]

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[86] *Mzansi* is a brand name of a category of basic bank accounts with similar features: low or no minimum balance, no monthly service charge, at least one free monthly deposit, nominal interest of up to 3.25%, and various other transactions introduced by a consortium of private and public banks in South Africa in 2004.

[87] Even though borrowing from the moneylender is usually considered as a last attempt at getting the lump sum needed, their services should not be condemned in a general way. In their study on moneylenders in Delhi's squatter settlements, Patole and Ruthven (2001) take a deeper look into the business models, portfolios, and results of different moneylenders' operations in the settlement. Besides the evidence on their business models, the reasons behind them and the way they conduct business, their study shows various facts about the nature of their business. First, moneylenders should be recognized for being, in general, the only professional services offered in adverse conditions (such as new or unstable squatter settlements). Second, most moneylenders realize only medium margins in their business (also due to the high risk and other adverse business conditions) and, generally, are far from taking advantage of their market power for making monopolist or oligopolistic gains. Third, their interest rates as stated seem to be very high (e.g., 400%, 700%), but in practice, interest rates are reduced during the repayment phase or if frequent difficulties for borrowers repaying occur (Patole & Ruthven 2001). Based on a small survey, Patole and Ruthven (2001: 6) estimate the effective interest rate paid by the client at the end at about 70% p.a. Such interest rates are still above those of most microfinance institutions, but close to the rates of many institutions; however, they still constitute a considerable cost to poor clients.

[88] See 'Microfinance Transparency' (http://www.mftransparency.org/data/countries, accessed 12 December 2009) for updated annualized interest and total cost rates in microfinance.

4.1.2.3 Direct effects of the widespread focus on borrowing and the importance of regulation and consumer protection

The widespread usage of borrowing for the most diverse purposes (see Appendix 4.1.1-B) and sometimes even a generalized preference for specific ways of borrowing (e.g., in Brazil; Brusky & Fortuna 2002: 30f.) might have controversial effects on the borrowers. Credit can offer access to diverse opportunities, but at the same time it is fundamental to think of credit as a debt that has to be paid back. Especially in the case of high cost and unclear disclosure, credit can mean an increasing burden of debt, which might lead to over-indebtedness. In general terms, individuals or families are considered over-indebted if they are having difficulties meeting (or are falling behind with) their household commitments, whether these relate to servicing secured or unsecured borrowing or to payment of rent, utility or other household bills' (Davydoff, Naacke et al. 2008: 7). Accordingly, over-indebtedness is a relative concept that should be assessed with different and locally adapted indicators (see Davydoff, Naacke et al. 2008: 47).[89] The reasons behind over-indebtedness—of individuals, families, or family-led enterprises—can be of an external nature or related to financial management practices. In family-led economies, external reasons might be shocks such as natural disasters or the death of the breadwinner; internal reasons might lie in financial mismanagement patterns of the head of the family or in the consumption patterns of the family (Schulz-Nieswandt & Kurscheid 2007: 23; 29).[90] The context also creates the conditions for over-indebtedness (see sections 4.2.1.2 and 4.2.1.3). At the same time, over-indebtedness is not only an individual problem because it has consequences to others. Hence, structural and increasing over-indebtedness becomes a societal problem (Schulz-Nieswandt & Kurscheid 2007: 20; see the discussion on the actual global financial crisis since 2008, section 4.1.2).

In the case of the financial respondents in South Africa, debt service and high debts are an important issue: Considering both formal and informal incomes and expenditures, most of the families of the sample were not indebted, although nearly all of them (95%) paid some form of debt service every month. However, a considerable 24% of the families were highly indebted, defined in this case as spending more than 20% of their total monthly income on debt payments (Financial Diaries n.d.b: 2). Regarding the type of financial instruments used, urban debt tended to be greater from formal sources and rural debt came largely from informal ones (Collins forthcoming). Regarding the income segments most indebted, different patterns emerged for rural and urban households, with the wealthier families being more indebted in urban areas, an occurrence not observed in rural areas (Financial Diaries n.d.b: 2).

Thus, what might the access to formal financial services mean to the customers? Besides the fundamental changes of increased reliability and security of formal financial services, a more comprehensive and universally accessible offer of financial services simply diversifies the fi-

[89] For different measurement approaches in Europe, see Davydoff, Naacke et al. 2008: 48ff.

[90] In the European countries, loss of income, low income, poor money management, over-commitment and overspending, as well as different combinations of these factors are the main causes of over-indebtedness. Therefore, financial mismanagement plays a much larger role than admitted by the respondents (Davydoff, Naacke et al. 2008: 23ff).

nancial services open to low-income households and family-led economies. Hence, it constitutes an additional option besides the existing informal services, which means at least an additional degree of freedom besides the direct effects linked to the different characteristics of the respective formal financial services, such as increased security and lower cost (see the discussion of Sen's understanding of development, section 2.2). Thereby, *real opportunities* are only those that enable people to enhance their freedoms, hence adapted financial services. The additional offer might also contribute to changing prices and conditions with existing providers, such as moneylenders. An additional offer might also not be adequate, instead turning into a burden rather than an opportunity. This double-edged perspective applies especially to loans, which always carry the risk of indebtedness and can generally be considered as rather high-cost solutions. Still, loans might be a viable financial management solution, but only if they fit into the family's budget. In the case of the aggressively promoted or easily accessible loans assigned without an in-depth analysis of the debt capacity of the client, increasing indebtedness can reduce rather than enhance the freedoms of a household or a small enterprise when allocated without the necessary and crucial precautions and prudence.

In order to assess which credit conditions can be opportunity providing to a client, it is important to deepen the understanding about interest rates and fees and the ways the credit cost is communicated to the borrower. Of course, the final impact on the client's life will always depend on the usage of the loans and the conditions for realizing the intended investment or consumption, but a deeper understanding of the credit itself is important for comparing it to other loans or other financial management arrangements. Interest rate is one of the central subjects in microlending and microfinance; according to explanations on financial exclusion (Stiglitz & Weiss 1981; McKinnon 1986), the level of interest rate charged defines different paradigms (see section 1.1) and is one of the decisive factors for determining the advantage of a microloan for the client. Due to fixed costs related to loan disbursal, interest rates are generally higher for smaller loans than for bigger loans. This cost to the client is often increased by the requirement of cash collateral or so-called compulsory saving, which increase the cost of the loan because this money cannot be used and reduces the lump sum the client can use (Waterfield 2008: 10). Often, the total cost of a loan is difficult to assess for the client, being communicated in monthly quotas or flat interest rates[91] instead of comparable annualized total cost rates or effective annual percentage rates (APRs). Even if perfectly comparable, the latter might not be intuitive for customers working with loans of shorter durations than a year and trying to calculate whether the quotas fit into the family's budget.

The advantage of a loan depends, furthermore, on the time frame in which the money is needed. If borrowed only for a very short time, for example, one month for a Christmas campaign loan, the interest rate might be high, and the loan might still be paid back before the break-even point (Waterfield 2008: 11). The break-even point is the moment when the client

[91] With flat interest rates, the interest is calculated over the entire loan cycle relative to the total loan sum and not the outstanding loan sum, leading to increased costs for the customer. The latter is the common practice, also called *declining balance* (Waterfield 2008).

would have paid the loan amount in interest rate payments and could also have saved the money. Still, the individual purpose and the urgency of borrowing determine the final advantage to the borrower: If used for a high-risk/high-yield and short-term business, even a very expensive loan might be very beneficial; the same may be true in a desperate urgency. Therefore, it must be taken into account that family-led enterprises tend to complement their own resources (including the ones of the kin network) with external finance only for additional business opportunities (see section 3.2; Nitsch 2004: 34). The lack of transparency for the real costs of a loan might, however, contribute to an ill-informed choice and cause increasing indebtedness. The lack of awareness of the break-even point or the lack of saving opportunities might lead to unnecessarily expensive financial arrangements or even catch people in debt-traps, when they could have amassed the lump sum through saving.

Loans beyond the debt capacity of the client might lead into short-term over-indebtedness or even a debt trap in the long run. A high degree of indebtedness constitutes a strong constraint on a low-income family. Due to the characteristics of the family-led mode of production, the consequences of over-indebtedness can be much stronger for the respective household than in a monetary economy in which enterprises normally have limited reliability. In family-led businesses, the main source of the business assets are generally the assets of the family and of the kin network and generally are only complemented by external financing (see section 3.2, graph 3.2-A). Consequently, not only the income and the assets of the family-led business but also those of the household and even extended family members will answer for the family's debt. Furthermore, in the case of a business failure and high debt on the small family-led enterprise, not only the family assets, but also those of the kin network and the related social capital might be affected. According to evidence from Northwest Bangladesh, the increasing debt burden or over-indebtedness often reflects the high vulnerability of households. Households manage their debt in different ways, including cross-borrowing and reborrowing, restricting consumption, reallocating household labour, selling household assets, and migrating. In the case of downward socioeconomic mobility associated with unsustainable levels of debt, households reported negative livelihood impacts, such as decreased food and health security, having to sell household labour, land, and livestock (Livelihoods Monitoring Unit [LMU] 2005).

After the importance of savings for the small clients as the 'forgotten half' had been stressed in the 1980s (Vogel 1984), the focus in the 1990s changed from microenterprise lending to the provision of comprehensive small-scale financial services to low-income populations (Churchill 2002: 381). Still, microinsurance can be considered to be the 'forgotten third' during the 1990s (Zeller 1995). During the last years, many actors in the development and microfinance community have stressed the importance of poor people being able to deal with risks and shocks, thereby reducing their vulnerability, and its relevance for poverty reduction. Still, microinsurance is provided by a small number of institutions, insurance beyond credit and life insurance are still at the experimental stage (CGAP 2009), and awareness concerning the importance of using precaution with the allocation of microcredits is rising only slowly (see

Dichter & Harper 2008: chaps. 1, 2, 5 & 17). For a number of reasons, often linked to institutional capacity, profitability of lending, regulation, or lack of knowledge about other types of services, the majority of institutions (especially the smaller NGOs or specialized MFIs, often with donor support) offer 'credit only' and promote credit actively. Thus, their clients do not have a choice but must necessarily make use of the 'lump sum' available through a loan, without being able to choose between different financial products. Some microfinance institutions even push or press their clients into new credit contracts and do not accept 'savers only' (Hulme 2000: 20). However, the issues of consumer protection and financial education for an informed choice have been finally incorporated into the agenda of the microfinance community (CGAP 2005).[92] Still, the advances for protecting consumers and allowing their informed choice are at very different stages in the different countries (CGAP 2005: 2ff.). Elements of systems for consumer protection are regulations—like disclosure requirements, lender practice prohibitions and requirements, databases, and regulations regarding the debt levels and classification of clients—and consumer protection measures or financial education initiatives. Therefore, the respective governmental regulating agency plays a key role (Warren 2008), but self-regulations and initiatives of the industry itself are also crucial for long-term sustainable development of the whole industry (CGAP 2005: 7). Certainly, consumer protection and governmental regulations matter fundamentally for other types of financial services in order to guarantee the reliability of the financial services that are central to microfinance clients. In the case of savings, coverage by a deposit guarantee fund is fundamental; in the case of remittances, transparency regulations can protect remittance receivers from predatory fees; and in the case of insurance, regulations on exclusions and transparency on claim denial and pre-established periods for attending claims can contribute to pro-poor financial sector development and protect clients from abuse if these regulations are implemented and supervised accordingly. As in the case of loans, transparency on prices and conditions enables the clients to make well-informed decisions, which is critical with all types of financial services and not easy to realize because financial products are often difficult to compare, considering different product characteristics, and even more so in the case of limited (financial) literacy on the part of microfinance clients.

4.1.2.4 Direct effects in terms of access to additional services

Another direct effect on clients might be that they can access additional services offered by an MFI. Training courses may be such services. A client with a certain training need could consequently obtain access to a course if offered by an MFI when purchasing the MFI's services. Improvements in access to health-related services might also be directly linked to the access to microfinance services. Health-related services might be provided directly, such as in the case of the NGO ProMujer, which offers health insurance in cooperation with an insurance company to its Peruvian clients. They might also be provided indirectly through health-related

[92] Microfinance Transparency (http://www.mftransparency.org) is an important initiative for a sustainable development of the industry, persuading microfinance industries by country for publishing comparable information on pricing. Although the initiative is not from inside the industry, but by the microfinance expert Chuck Waterfield, the proceedings are based on cooperation with the industry for being able to publish the sensitive data based on country-wide agreements.

training. The Indian NGO Covenant Centre for Agreement (CCD), for instance, trains its self-help group members in herbal medicine and kitchen gardening in order to improve loan repayment, which was suffering from clients' or their families' costly health treatments (Ströh 2005a). The advantage of such additional services depends, however, on the cost of the services for the client, the access conditions to the additional services, and the importance of the services to the client. In the case of compulsory participation in programmes of which the cost is included in the cost of financial services, these might constitute an additional burden, especially for clients who are not interested in additional services.

Summarizing the patterns and related opportunities and risks, table 4.2.1-A provides an overview of the main issues that emerge from the discussion of usage patterns and the related direct positive and negative effects for clients. Related to the mentioned topics, analytical criteria for assessing the possible direct effects and whether financial services are adapted to the needs and possibilities of family-led economies are proposed. These will be addressed in constructing the pro-poor financial sector development framework in Chapter 5.

Table 4.1.2-A: Usage patterns of poor populations, related opportunities and risks, and analytical categories

Important patterns observed	Important characteristics	Related direct effects in terms of opportunities and challenges	Related analytical criteria
Multitude of informal and formal financial arrangements used for multiple purposes	Complex mix of financial arrangements difficult for clients to manage	Close relationship to one financial institution providing a comprehensive range of financial services eases financial management for the client (control of over-indebtedness for bank)	- Type of client relationship - Range of products and services offered (see table 4.1.1-B)
Widespread usage of informal financial services	Lack of reliability and of universal access	Advantages of formal financial services, especially in the case of secure savings and universalized access, not depending on personal relationships	- Protection of savings/deposit guarantee fund - Non-discriminatory conditions/ restrictions of access to finance
Focus on borrowing for building up larger lump sums	High cost of small-scale borrowing consumes important parts of the income of families	Opportunities of 'saving up and through' for building lump sums often not used, giving preference to expensive 'saving down' solution (also promoted by providers); focus on borrowing with high cost, possibly increasing debt burdens/ over-indebtedness, with negative effects on development perspectives of clients, their families and communities.	- Type of loan evaluation (analysis of debt capacity of the client and her family) - Prevention of over-indebtedness by regulator and providers - Transparency of total cost and levels of cost (related regulation?) - Choice of strategies for building lump sums, advertising strategies of financial institutions
Demand for additional services	Depending on the context and type of client	Access to additional services through microfinance provider	- Adapted additional services - Intelligent links, no compulsory packages (see section 4.2.2)

Source: Own design and concept.

Access to formal financial services can, therefore, be a way of improving the financial management of low-income households and small family-led enterprises, enhancing their income conversion capacity and opening new opportunities to the families and their enterprises, depending on the adequacy of the financial services and the type of use, because the use of financial services can also lead to deteriorated financial management and reduced opportunities.

4.2 The relevance of financial services for low-income population from an aggregated perspective

For understanding possible effects of microfinance in terms of pro-poor financial sector development, assessing changes at an aggregate level is crucial: It allows assessing indirect and wider effects in a sound manner (even though such assessment remains a methodological challenge) and provides an additional perspective on direct effects. Furthermore, the aggregated perspective enables consideration of long-term effects, structural changes, and impacts on the environment. As was suggested in the introduction of the present chapter, sound empirical evidence and specific theories on the effects of microfinance, especially separating the different kind and levels of effects, are scarce. This scarcity is especially true for analyses from the aggregated perspective and the areas of indirect economic and wider social effects. Although recent RCT-based research and research from the Imp-Act consortium have delivered very interesting results on direct, indirect, and wider effects from an aggregate perspective, the insights are largely limited to one point in time and focussing on a specific subject and appear to be – although sometimes brightly shining – parts of an incomplete mosaic of effects. Furthermore, most research (still) does not separate direct from indirect and wider effects, and only some studies include an aggregated perspective of the effects. That is, most studies do not consider the effects on non-clients and the local social and economic environment. Moreover, it must be recognized that most research and related insights tend to be focused on very particular experiences and cannot be generalized. Allowing for their limited external validity beyond the context studied as well as their methodological problems, they can still help to deepen the understanding of the possible effects of microfinance beyond and behind the assumed cause-and-effect chains. The lack of sound methodology and representative material is addressed by using the evidence available only for elaborating analytical categories for the proposed pro-poor financial sector development framework. These categories need to be analysed in every case in a sound manner so that they do not suggest an expected generalized impact or result. Hence, in order to determine relevant dimensions and aspects of effects based on existing evidence, the elaborations on the direct, indirect, and wider effects from an aggregate perspective need to be recognized for having an explorative character, but cannot yet provide a comprehensive modelling of the numerous related subjects, many of them little researched.

In the following section, the available evidence will be analysed by topic in order to structure the diverse findings. First, direct effects from an aggregate perspective are explored, building on the micro perspective of direct effects. Then, indirect economic and wider social effects are analysed. It is important to note that these different dimensions of effects are mutually dependent,[93] but for analytical reasons, they will be discussed separately.

[93] *Mutually dependent* means that there is no predetermined hierarchical relationship among the different types of effects, but they all might influence other dimensions either positively or negatively. For instance in the case of strong social relationships within the group, financial management or income increases through economic opportunities might be improved due to mutual consultation. Improved financial management might contribute to increas-

4.2.1 Direct effects of financial services for family-led economies

In the present section, direct effects of microfinance are explored from an aggregated perspective, which might be at the village, regional, or national level, according to the aim of the analysis. Thus, two main categories of analysis emerge. The first refers to examining an aggregated perspective in terms of the changes in financial management that have been explored from a micro level. This analysis leads to the issues of access (4.2.1.1) and usage of financial and related services (4.2.1.2) among different groups and parts of the population and patterns of indebtedness and scope of financial services provided as well as ways of service delivery (4.2.1.3). The second category consists of direct effects that can be conceptualized only at an aggregated level, such as changes regarding money circulating in a local economy (4.2.1.4) or direct effects on local financial sector development (4.2.1.5).

4.2.1.1 Access from an aggregated perspective: Availability of financial services across different groups and locations

The scope of financial services used by and useful to family-led economies can also be assessed from an aggregated perspective. In terms of the range of financial services used by and useful to family-led economies (see table 4.1.1-B), it is important to determine whether they are available to different groups or segments of the population—identified socially, ethnically, and geographically. Therefore, it is important to assess, first, the range and conditions of services at the community level, but also within the community. For the analysis, it is crucial to consider both the usage patterns as well as conditions of supply such as the MFIs' requirements[94] because both might point to excluded groups.

4.2.1.2 Usage patterns and aggregated tendencies: Changing opportunities and risks

Not only in terms of access to specific kinds of financial services, but also in terms of usage patterns and direct consequences, the aggregate perspective provides an important complementing point of view. It applies, in particular, to the subject of indebtedness. Although due to individually contracted debts, over-indebtedness is also enhanced by specific external conditions while having, at the same time, effects on the context. As has been mentioned, over-indebtedness can have its roots in external or structural reasons—such as a bad harvest, unemployment, or treacherous loan offers—besides personal reasons. Often, the reasons lie in a combination of factors (like external economic pressure and limited financial education) (Schulz-Nieswandt & Kurscheid 2007; Davydoff, Naacke et al. 2008). The aggregate level is thus important for analysing both external reasons of increasing indebtedness (like natural disasters) and the aggregated view of individual indebtedness as part of an increasing structural indebtedness. Increasing levels of indebtedness at an aggregate level can have severe

ing income, which might also have been accomplished with an expensive and intransparent loan, which, in turn, still might be found to a good deal due to the excellent business opportunity addressed. But increases in income with some group members might also contribute toward splitting up groups if others do not achieve these results.

[94] For example, specific requirements of financial services, like an official document proving a permanent residence, can structurally exclude certain groups of potential clients, who are often otherwise marginalized groups.

consequences for the individual, her family, and the community, especially when coinciding with economic downturns.

For instance the case of the debt crisis in Bolivia at the end of the 1990s shows how structural over-indebtedness can be pushed by new commercial financial services providers, with severe consequences for the clients and their communities. The entrance of consumer lenders with poorly adapted loan products and procedures contributed to increasing over-indebtedness, which coincided with an economic downturn in Bolivia and finally led to a severe debt crisis, affecting clients, MFIs, and the local economy and society (see Rhyne 2001: 135ff.). A comprehensive database on individual debt existed, but the information on multiple clients was not updated fast enough to prevent cross-borrowing. In addition, the fact that the database showed the outstanding indebtedness as well as the delinquency of clients had even been misused initially by the new consumer lenders for lending more to the 'good clients' of other institutions (Rhyne 2001: 149). Hence, having an up-to-date and adapted database, with an adequate privacy policy and strict rules for controlling indebtedness, is a fundamental condition for turning additional loan facilities into possible opportunities rather than burdens for the individual and for the development perspective of the local economy and community, which might be affected by lack of confidence and mistrust related to increasing levels of debt. A prevalence of lending instead of savings institutions and the active promotion of loans without providing access to other types of financial management instruments can be another reason behind increasing structural indebtedness (see Institute for American Values 2008; Dichter & Harper 2008: 1ff., 49ff., 257ff.)

4.2.1.3 Scope and focus in services delivery

During the Bolivian debt crisis, new methods of promoting microcredit (targeting the best clients of the existing MFIs) as well as aggressive promotion strategies of the newly launched financial institutions ('offering loans like hot bread') have contributed to increasing levels of indebtedness and increases in multiple clientship in order to pay one loan with another ('bicycling' loans) (Rhyne 2001: 144f.). Hence, it is interesting—and possibly even revealing—to study the promotion strategies of financial institutions by assessing which financial services are being promoted actively. Therefore, the aggregate perspective helps to identify advertisement patterns beyond the level of client relationship. In terms of promotion strategies, it can be observed that microfinance institutions often promote their loans very actively. Only rarely do they have specific strategies for promoting savings or insurance. In several East African MFIs, clients who stop taking out loans and only wish to save even have to leave the institution (Hulme 2008: 20). A loan-biased or otherwise biased promotion practice increases the risk of overlooking the clients' preferences or might even be seen as being in opposition to clients' general preferences. Thus, loans are often pushed, at the disadvantage of other products, or as Hulme (2008: 20) states, 'Whereas most banking services aimed at individuals find that demand for savings accounts is much greater than for loan accounts, the microfinance industry tries to force every saver to be a borrower'.[95] Hence, the first critical point is that promotion aims at selling a certain service that might not be the best adapted for the client and, second, that the advertising strategy largely reflects the (short-term) interest of the MFI and, only in special cases, the long-term interests of an MFI investing in its clients' growth. Such an advertising strategy might be due to the fact that financial viability of an MFI depends on a growing loan portfolio, whereas savings products often are rarely or barely profitable (Hulme 2008: 20). In this regard, advertising strategies; types of services promoted by sales personnel; and the performance-bound incentives of managers, branch managers, credit officers, and other staff can be studied at the level of the respective financial institution in order to gain deeper understanding of the orientation of their work.

4.2.1.4 Financial resources circulating and the local economy

The financial resources circulation dimension differs from the previous ones because it does not assess effects on individual clients from an aggregated perspective, but on the financial flows underlying the dimension. Because savings might be channelled by financial institutions for investing in other parts of the country (or other countries), access to financial services is not necessarily related to more financial resources circulating within the community. Thus, observation of the financial flows is crucial because they partially determine possible indirect economic effects at the local level. Therefore, financial flows are observed at different levels of aggregation, depending on the respective country context and the prevailing disparities.

- *Region-wise analysis:* Especially in centralised countries, the concentration of financial resources in the economic capital of the country can frequently be observed. This phenomenon is called financial centralization (see the analysis of the Peruvian case of financial centralization in section 6.3.4).
- *City- or community-wise analysis:* Another important level of analysing financial flows is the one between cities or towns. Especially in rural areas, the existence of a financial institution can change the perspectives for local development. It enables elderly people to withdraw their pension in their hometown and spend most of it there instead of spending it in the next big city. Shopkeepers and other business people avoid travelling to the next city to conduct their financial transactions because doing so may lead to increasing levels of business transactions conducted in that location. The savings of the people can be invested in the development of their hometown, as long as the financial institution also allocates them in their hometown (see the case of the financial cooperative Saromcredi, rural Minas Gerais, Brazil; Carvalho & Leite 2004).
- *District-wise analysis:* Financial centralization might also occur inside cities or communities, transferring resources towards the 'good neighbourhoods' or the centre of the city. Thus, savings might be transferred from branches in poor districts to richer neighbourhoods and allocated there as loans. Microfinance institutions might reverse this tendency by taking

[95] Recent research results with behavioural economics show, however, that loans might be an adequate financial strategy for the poor given the difficulty of saving for them (Anath, Karlan et al. 2007, Mullainathan & Krishnan 2008).

savings from the middle-class population and lending the money to a lower income public (e.g., Peruvian savings banks taking savings in Lima and practising lending in the province, see section 6.3.5).

The case of Banco Palmas, a microfinance NGO providing financial services in a shanty town of Recife, Brazil, shows, however, that changing the financial centralization might not be enough to have the money circulating in the local economy. The institution aims at fostering local economic development and channels its loans to local entrepreneurs. The institution could observe that, in a context in which the local population prefers to spend their money in the shopping centres in the city centre, microenterprises faced difficulties with their sales, given that most MSMEs sell their products locally. Banco Palmas then introduced a programme for sensitizing consumers to the importance of buying locally, which included the introduction of a local credit card and the local currency, Palmas (de Melo Neto Segundo & Magalhães 2003: D-16ff.). The circulation of money in local communities and related effects, therefore, must be separated from the additional inflow, especially if there is no 'natural frontier' such as a large geographical distance to the next city or village.

At financial institution level, the channelling of the financial flows depends on the structure of the financial intermediaries and on their interest in local development and long-term targets for the local institutions or branches. In the case of locally based financial institutions, like savings or cooperative banks, their interest in local development should be vital because their own development is locally bound and depends largely on that local development. Both in developing and developed countries, it can be observed that, particularly in the long-run, institutions with some kind of local ownership and roots, such as savings and credit cooperatives (owned by the members) and local savings banks (usually partly owned by local governments and other actors), have stayed in their regions and contributed to local saving-investment cycles, supporting local economic development (McIntyre 2006: 5ff., Bateman 2007b).

4.2.1.5 Changes in local financial markets

The impact of MFIs on local financial market structures and dynamics is another dimension of direct effects at an aggregated level. Both competition and demonstration effects affect and influence other financial providers, which then affect both MFI clients and non-clients through changes in supply. The *demonstration effect* refers to changes in products or lending methodology by other financial institutions. Competition effects might happen at the financial institution level in the form of decreasing prices and changing target groups, but they also affect clients and non-clients directly (e.g., non-clients like MFI clients withdraw from the joint ROSCA, which might then collapse) (Johnson 2004: 501ff.). For a local financial market in central Kenya, Johnson (2004: 513ff.) finds little evidence for demonstration and competition effects because of new MFIs. It is, rather, the changing macroeconomic and regulatory environment that the most important changes can be related to. Furthermore, the case for demonstration effects was found only—if at all—at a national level because most other players except local

MFIs were banks with products and services managed from headquarters (Johnson 2004: 514). The lack of significant demonstration effects might be further due to the very limited outreach of the MFIs, which could perhaps influence headquarter policies of banks if they were sufficiently strong at the local or regional level. In Peru, for instance, the regional strength of the savings banks not only contributed to an increased interest in banks in microfinance, but it even caused some of them to absorb their financial technology by poaching credit officers, branch managers, and other staff from savings banks and other MFIs (see interviews Peru 2006). Table 4.2.1-B presents the different dimensions of direct effects from an aggregated analytical perspective, linking them to related analytical criteria for further exploration.

Table 4.2.1-B: Analytical dimensions and criteria for direct effects of microfinance

Dimensions of direct effects at an aggregated level	**Related analytical criteria**
(4.2.1.1) Access: Availability of financial services across different groups and locations	
Access to the relevant scope in different regions and communities	• Regional and local distribution of MFIs and other FIs providing microfinance, considering their respective range of services offered
Universalized access within the community, targeting or marginalizing specific groups	• Access conditions and patterns of usage for assessing whether some groups of the population are excluded
(4.2.1.2) Usage patterns and aggregated tendencies: Changing opportunities and risks	
Structural indebtedness and over-indebtedness at local and regional level	• Specific usage patterns regarding the whole range of financial services used • Levels of indebtedness have to be followed carefully, also by financial service provider and, especially, for multiple clients
Regulation and supervision on prevention of structural indebtedness	• Importance of prudential measures, also reporting rules, rules for credit evaluation and multiple clients, credit register information, etc.
(4.2.1.3) Scope and focus in services delivery	
Financial mix offered and promotion focus of financial institutions	• Scope of financial services offered • Promotion strategies and campaigns regarding specific financial products or services • Staff and manager incentives regarding their targets (incentivising quality or quantity of financial services sold, especially for loans, and type of financial services included) • Profitability of different financial products and related interests of providers
(4.2.1.4) Financial flows: Circulating within the local economy	
Financial flows at local level (district/community or city/region)	• Financial flows at district, community, city, or regional level • Incentives or policies of enhancing the local circulation of financial flows, such as local origins of financial institutions • Local ownership of financial institutions and the way it is executed • Possible 'frontiers' enabling local circulation of money • Additional measures implemented, such as local currencies
(4.2.1.5) Local financial sector development: Competition, demonstration, and market dynamics	
Effects on local/regional/national financial markets	• Demonstration and competition effects • Market dynamics and consequences for clients and non-clients

Source: Own concept and design.

4.2.2 Indirect economic effects of financial services for family-led economies

> Our earnings have gone up with the loans. Now we are more independent.
> (Clara Hernández, grocery store owner, Mexico, International Year of Microcredit)

Indirect economic effects are the ones most broadly and controversially discussed among practitioners and academics in the field of microfinance, however, without modelling these effects as indirect and generally without looking beyond the client level. Analysing empirical evidence for indirect economic impact, it is crucial to keep in mind that increases in income based on a favourable development of the family-led enterprise (or other economic improvements of the client and her family) are indirect effects of microfinance. Thus, they depend on much more than the provision of microfinance because the income gains are produced in the family's business, possibly facilitated by increased working or investment capital, but not produced directly by financial services. Accordingly, it is essential to take a closer look at the enterprises and the local economy in which the increased economic well-being is or should be produced. The aggregate perspective is conceptually essential in order to assess effects both on clients and non-clients, to capture market dynamics, and to situate MSME development in the respective market context. Methodologically, the aggregate perspective shows a way out of the 'fungibility trap' that makes the assessment of indirect changes even at the household level virtually infeasible (see section 1.2.3). Analysing indirect economic effects from an aggregate perspective means assessing the effects in terms of changes of the economic situation of clients and non-clients, not at the individual level but at the level of the local market or industry. This approach 'liberates' the researcher from the impossible mission of trying to track money that is fungible anyway.

The existing quantitative evidence on indirect effects has fundamental methodological shortcomings (see section 1.3; Meyer 2008; Armendáriz de Aghion & Morduch 2005: 199ff.), which are even so fundamental that the positive impacts found can turn into negative ones after correction for methodological shortcomings, like selection bias (Armendáriz de Aghion & Morduch 2005: 201; for a detailed discussion of the methodological problems of impact assessments, see section 1.2.3). A short overview of the results of the studies considered t be methodologically sounder (Meyer 2008: 231ff.; Armendáriz de Aghion & Morduch 2005: 224) shows very modest indirect economic effects. Assessing the impact of newly introduced village banks in Northern Thailand, Coleman (1999, 2005) found that many women had joined the programme for social reasons, partly for lending the borrowed money on, and that there was no evidence of the expected positive returns from the productive investments realized with the money borrowed, except for the village bank committee members. These results showing little impact compared to 'naive' estimates not taking into account self-selection and endogenous programme placement showed that the latter significantly overestimated impact. The World Bank conducted an impact study in Bangladesh (Khandker 1998) and showed only very modest impact results that are still controversially discussed (Meyer 2008: 233ff.). These results turned out to be even smaller after retesting, with a modest 1% decrease in monetary poverty over a year and 1.3% decrease in extreme monetary poverty (Khandker 2003). A comprehensive set of studies (also methodologically criticized) on the effects of loans for productive purposes and used as insurance substitutes reviewed by Sharma and Buchenrieder (2002) also shows very modest results. Especially, microloans for investment purposes showed mixed results because the access to complementary production inputs crucially affected the returns of the credit. The studies focusing on possible insurance benefits showed consistently positive impacts (Sharma & Buchenrieder 2002). Thereby, it is important to consider that methodological shortcomings like selection bias tend to contribute to an overestimation of the minimal impact measured (Armendáriz de Aghion & Morduch 2005: 201). For a deeper understanding of the indirect economic effects of microfinance, the analysis of related qualitative studies and theories will discuss and identify different types of possible indirect economic effects.

The following analysis is structured according to the different identified ways by which increasing (or decreasing) income linked to economic opportunities can be enhanced by microfinance. In the case of positive changes, the first and most obvious way is through income gains for clients and other members of the family-led enterprises generated in their MSME (4.2.2.1). Furthermore, income gains can emerge from increases in local employment with increasing incomes of non-client employees (4.2.2.2) and from additional (non-client and client) MSME returns, wages, and incomes related to new local economic dynamics (4.2.2.3).[96] The related income effects are, thus, intrinsically related to the development dynamics and profitability of local MSMEs of clients and non-clients, to relevant market dynamics, and to the conditions[97] of MSME development. These conditions consist of the characteristics of the respective MSMEs deciding on their competitive advantage, profit and growth potential, and the market situation and context, which can enable or hinder the development of local MSMEs. Market characteristics such as limited access to markets or an unstable macroeconomic environment might build up severe constraints to MSME development and growth. However, both MSME and market characteristics might also be influenced by additional programmes. Accordingly, possible programme approaches for strengthening MSMEs at enterprise level (4.2.2.4) and for enhancing market enablement (4.2.2.5) will be reviewed briefly, referring to services that can be linked to financial services. In the first case, Business Development Services (BDS) refer to many kinds of additional services. Local market development can be enhanced in the context of microfinance, for instance, by value chain or cluster development. Thereby, the respective local market development analysed also needs to be contextualized within the broader socioeconomic context.

[96] The possible income effects directly linked to improved financial management are not assessed here; these are part of the direct effects discussed in section 2.3.1 and the section before.

[97] Therefore, conditions are not understood in the sense of preconditions that may or may not enable a certain development path, but they have a strong influence on the results of the processes, framing the way local economic development can unfold.

4.2.2.1 *The situation and development of local MSMEs*

The assessment of the development and failures of local family-led businesses is a first basic step to developing a deeper understanding of possible indirect effects of microfinance. Therefore, an overview of MSME development, enterprise lifetimes, and business failures of local MSMEs, in general, and a disaggregated analysis of these developments among clients, multiple clients, and non-clients are important. Thereby, it is crucial not to assume causal relationships from the patterns observed but to analyse them critically, determining a relationship from the analysis of the financial services. Observed client patterns can, for example, be situated in relation to minimum requirements (analysing the possible exclusion of clients at the lower end) or the scope of services offered (analysing the possible exclusion of clients at the upper end). How far the observed developments can be related to the access and the usage of specific financial services can be further explored with in-depth assessments, for example, of client exit rates. A drop-out analysis can help to deepen the understanding of the clients' reasons for leaving the microfinance institution—whether due to business failure, having no further need of financial services, or the search for more sophisticated financial services not available at the MFI. Furthermore, lifelines, the kind of MSME present in the market and their development, can shed light on the potential of local MSMEs to contribute to sustained local economic development and growth. From the literature on local economic development, enterprise development, and related policy approaches, the following topics emerge. Although important to analyse in their own right, they have to be seen also in the context of related market dynamics, as analysed in the next section.

Regarding the development potential and the growth of the local economy, the distribution of MSMEs to the economic sectors is important. Specific sectors, such as agriculture, manufacturing, or certain types of services, bear different kinds of economic risks and opportunities, which also depend on the specific context. In their studies of the Balkan economies, Bateman and Ellerman (2005: 10ff.; 2006: 11ff.) show that large shares of microfinance clients work in trade with little possibilities of fostering local economic growth and very limited long-term business perspectives. The limited future prosperity of these small-scale trade businesses in urban areas is particularly due to the expansion of large retail infrastructures like supermarket chains and shopping malls expanding into the urban centres of Balkan countries (and other developing countries). Studying the sector decomposition of local MSMEs' clients and non-clients, it is important to relate this analysis to the specific local market dynamics because they might change the economic opportunities and risks considerably.

In microfinance, the discussion on financing microenterprises generally focuses on how to include still smaller clients or how to serve clients in an adequate way. In the literature on economic growth, firm size is seen as a variable that helps to determine the potential of a firm for contributing to economic growth. Very small firms managed in the family-led mode of production without an enabling market environment are, from this perspective, often seen as hindering growth (Naudé 2008: 14), a view that can be changed through external support and implementation of a supportive environment (Meyer-Stamer 1999: 411; issue no.9, 1999, of

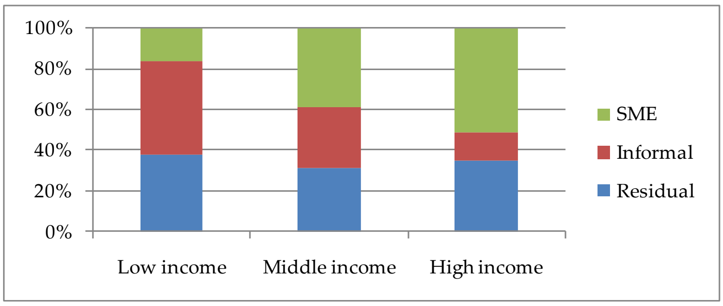
World Development, see Schmitz & Nadvi 1999). The very small size of such enterprises itself might also be a limitation, considering the possible minimum efficient scale of production, which can be crucial for the development potential of the respective enterprises and their competitiveness. Analysing the case of microfinance in Croatia, Bateman (2007: 13ff.) reports that the size of microenterprises served with small and short-term loans—usually very small-scale dairy farming—was too small for a sustained development of the dairy sector because the farming units were too small and expensive for the Croatian dairy market conditions. In the case of Bosnia and Herzegovina, Bateman (2007a: 214f) points to the fact that the availability of little varied finance in a post-conflict setting contributed to the promotion of a single business model—the small and simple microenterprise—, thus 'downgrading' more sophisticated business ideas that did not fit into the precast microenterprise finance opportunities. Although family-led enterprises present different conditions for production and loans are usually used for additional financing (see section 3.2), investigating sizes and sectoral distributions of clients, non-clients, and multiple clients can give insights into the kinds of firms that are or are not being served with microfinance, as well as their perspectives.

The degree of formality of an MSME can be another factor for analysing the business itself, the related working conditions, and the development perspective of other businesses. For the business itself, formality might, on the one hand, provide access to bigger, more formalized business deals, but on the other hand, an increasing tax burden might endanger the profitability of the business conceptualized without these additional costs, even though informality also carries specific costs.[98] Working conditions and workers' rights in the MSME might change with the formalization, but not automatically. In Latin American labour markets, for instance, the proportion of worker benefiting from more extensive labour rights and social benefits is very limited (ILO 2007: table 8A). Regarding the market position, informal enterprises might affect the profitability and growth of formalized ones, both negatively, due to unfair competition, and positively, due to increased demand for specific products. Thereby, a self-enforcing barrier to formalization and enterprise growth can persist, causing losses in tax and social contributions (Bateman 2007a: 211ff.).

Concerning both enterprise size and informality, it can be observed that the bigger formalized SMEs are responsible for an important part of the GDP in high-income countries. Assessing enterprise size in terms of participation in GDP, the share of SMEs is the highest in high-income countries, and the share of informal economy is the smallest. In the case of low-income countries, the share of SME is the smallest and that of the informal economy the largest (Ayyagari, Demirgüç-Kunt et al. 2003: 30; see graph 4.2.2-A). However, this relation does not indicate causation or a generally preferred development path, but shows existing structural differences.

[98] Examples of such specific costs are value added tax (VAT) paid for inputs from formal enterprises, which cannot be recovered from the tax authority, or lost business opportunities related to operating informally.

Graph 4.2.2-A: Cross-country evidence on firm size, degree of formality, and GDP share (1990s)



Source: Ayyagari, Demirgüç-Kunt et al. 2003: 30.
Note: SMEs are defined across the different countries as enterprises with less than 250 employees. The income group refers to the World Bank classification of the different countries.

Reviewing the profile of dynamic entrepreneurs in Latin America shows that most of these entrepreneurs were highly educated (in Peru as many as 70% with university degrees) and most of them had been working in another company in a similar sector before starting their enterprises (Kantis 2005: 33). In the case of very small family-led enterprises, the level of formal qualification and technical as well as commercial knowledge are, in most cases, low although most microentrepreneurs are very skilful in running their businesses (Meyer-Stamer 1999: 499). Considering also that most business owners can be understood as *Wirte* (see section 3.2), the lack of entrepreneurial skills might affect both the individual client and the development potential of local economies if the focus of development programmes remains bound to giving loans to a large number of micro 'entrepreneurs,' who should rather be called micro '*Wirte*' (e.g., Kilby 2003).[99] In the case of unskilled self-employed, a quantitative study of self-employment shows persisting and increasing poverty among the unskilled self-employed in urban Mexico between 1984 and 2002 (Popli 2008: 18).

Besides the level of formation, there is a wide range of factors and elements for assessing the potential of local MSMEs. Innovation, labour productivity, and competitiveness are elements of development strategies not only in developing countries. Hence, the degree of innovation and related qualitative aspects of entrepreneurship or self-employment are criteria for assessing the competitiveness and development potential of MSMEs (IADB 2005: 9ff., Lazonick 2008; Naudé 2008: 35). Other characteristics, such as firm exit rates, provide relevant information only if the reason behind the exit is assessed, given that exits may occur due to many reasons other than firm failure. Assessing client exit might also help the individual MFI to improve its success because client exit might strongly affect its economic and social performance (Imp-Act 2004: 1; see also Imp-Act 2004: 6, for further bibliography). Besides the characteristics of the enterprise itself influencing its competitiveness, the market environment and the market relationships are further crucial elements for assessing the potential of local MSMEs (see section 4.2.2.3).

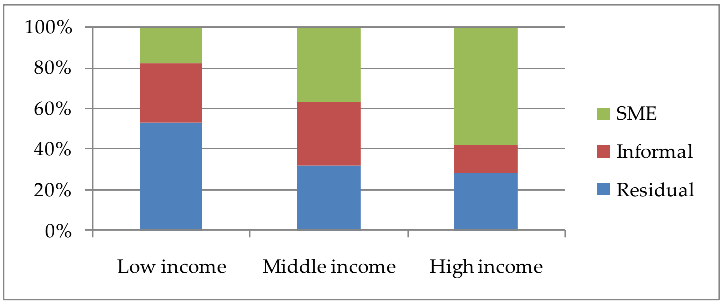
[99] Kilby (2003) finds that managerial coordination and control especially would constitute an entrepreneurial bottleneck in developing countries, a finding consistent with the understanding of most MSME owners as *Wirte*.

4.2.2.2 Labour market effects

Generally, labour effects of microfinance and related changes in income are conceptualized focusing on the self-employment of microentrepreneurs who have built their enterprises supported by microfinance services. However, employment generated by the labour hired by growing SMEs of MFI clients can also decrease local unemployment and related income-poverty, besides other market-related changes. Mosley and Jock (2004) show such an effect, based on repeated quantitative surveys of seven microfinance programmes or institutions in five African countries, including control groups formed by approved new clients and qualitative follow-up surveys: microcredit to non-poor people can draw poor people into the labour market as employees of microfinance clients (especially in South Africa, Uganda, and Kenya; Mosley & Rock 2004). Examining the poverty level of the targeted clients and the related size of the MSME, they show that the advantage of targeting the very poor depends on the specific local labour market. They find that very small enterprises are unlikely to hire labour, benefiting directly from the MFIs services. Hence, under specific conditions, targeting microcredit at the non-poor or larger microfinance clients might help to maximize labour and poverty reduction effects (Mosley & Rock 2004: 476ff.). Although the results are very specific, the authors point to the importance that targeting different segments of the financial market can have on impacts on labour, both through the 'entrepreneurship channel' and the 'labour market channel' (Mosley & Rock 2004: 481), with the relative advantage being context-specific. Hence, it is crucial to consider the importance of SME finance without presuming that targeting the poorest delivers the best outcomes in terms of reducing income poverty. The case of BRI Indonesia shows, for example, that only savers are very small clients and that the labour related impact of microcredit to non-poor clients with larger firms can contribute to poverty reduction (Sutoro 1990, cited in Mosley & Rock 2004: 481). The low incidence of hiring labour, observed in very small enterprises (Mosley & Rock 2004: 477ff.), is also consistent with the theoretical foundation of family-led economics, in which, initially, the tendency is to include only the family's workforce in the enterprise without hiring from outside. The importance that serving larger family-led enterprises might have for the poor does not, however, mean that smaller enterprises or households should be excluded from access to credit and other financial products.

Graph 4.2.2-B delineates the importance of SMEs for employment. In terms of enterprise size and informality, it can be observed that they provide an important part of employment in high-income countries. When assessing enterprise size in terms of contributions to employment, the contribution of SMEs is the highest in high-income countries, and the contribution of informal economy is the smallest. In low-income countries, the contribution of SMEs to employment is much lower than in both middle and higher income countries, whereas the share of informal labour is similar in middle income countries (Ayyagari, Demirgüç-Kunt et al. 2003: 29). Again, this observation does not indicate any causality or generally preferred development path but shows structural differences between different types of economies.

Graph 4.2.2-B: Cross-country evidence on firm size, degree of formality and employment share (1990s)



Source: Ayyagari, Demirgüç-Kunt et al. 2003: 29.
Note: SMEs are defined across the different countries as enterprises with less than 250 employees. The income group refers to the World Bank classification of the different countries.

4.2.2.3 Market dynamics, competition and cooperation in local markets

Besides a detailed look at MSMEs, it is crucial to analyse related market dynamics because they influence income gains or losses for both client and non-client MSMEs and their owners, workers, or contributing family members. Market dynamics evolve from the local economic structure, the kind of integration in the relevant local, national, or international markets and the development of the local enterprises, influencing at the same time development at the enterprise level. Market dynamics can be influenced by the local financial environment, through its impact on local MSMEs and the local economy, and through direct measures in terms of competition and cooperation among MSMEs in local markets. For analysing related market dynamics and the potential for spill-overs in the local economy, Hirschman's linkage approach is useful to structure the related analysis. Hirschman (1986: 56ff., 1981b: 65ff.) distinguishes between different kinds of linkages that structure his analysis of mechanisms that might lead to additional investment as fundamental forces of economic development. The latter is understood as a circular movement or rather an upward or downward spiral in which 'one thing leads to another' (Hirschman 1981b: 75). *Production-related linkages* comprise backward linkages, referring to new investments on the supplier side, and forward linkages, referring to investment on the side of the output-using industries. *Consumption linkages* refers to new investments as a result of increased consumption of the domestically produced goods, and *fiscal linkage* refers to the ability of the state to tax and invest productively (Hirschman 1986: 57ff.; 1981b: 65ff.). Thus, the higher investment is not seen as an automatic result of linkages.[100]

Forward and backward linkages can be considered to be limited due to the kinds of products widely produced and the kind of market integration of many MSMEs. At the least, micro and small enterprises in developing countries are usually seen as being involved in producing or delivering simple consumption goods or simple services for local markets, often producing

[100] For instance, in the case of consumption linkages, the consumption of imported goods might lead to the contrary effect, and in the case of forward linkages, a high level of required forward linkages might even constitute a development obstacle (Hirschman 1981b: 65, 73f.; 1986: 57).

similar products and allocating the entire process inside the enterprise, hence with little specialization and low degrees of division of labour among different enterprises (Hein 1999: 411; Meyer-Stamer 1999: 499). There are also enterprises that produce inputs or deliver services for multinational companies, eventually with little profit for the enterprise or the self-employed person and the related economy.[101] This kind of production and service delivery often involves little backward or forward linkage.

Another central obstacle for local development through microenterprise development is bound to the type of market integration of these enterprises. Hein (1999: 411) and Meyer-Stamer (1999: 449) use the term *survival cluster* to describe the segment of informal small and microenterprises that are the 'means for subsistence' of their owners.[102] Because these enterprises are usually the only possibility of income generation for the owners, the type of market integration reflects this necessity. In case of an increasing offer of goods or services at local markets with relatively inelastic demand or even a reduction in aggregate demand for the goods or services provided by the microenterprises, exit is generally no option for the microenterprises. Situations of excess supply in such a setting can lead to ruinous competition because most microenterprises go on undercutting each other (Meyer-Stamer 1999: 449; see the discussion of experiences of entrepreneurs with high levels of competition in Felloni, Seibel et al. 2005: 9). Thereby, the family-led mode of production tends to enforce self-exploiting tendencies as the specific way of calculating cost and profit (see section 3.2). Displacement effects among MSMEs and the related redistribution of income (Bateman & Sinkovic 2007: 9ff.) describe possible effects for the individual entrepreneur, which are, however, part of changes in markets and competition. Possible negative market-level effects related to increasing competition of family-led firms in local markets with inelastic demand should, however, be considered and need to be further analysed. Strategies that allow these enterprises to cooperate and grow for producing and delivering more sophisticated products and services other than for the limited local markets can open new opportunities for MSME growth and local development in the described setting.

In the case of possible consumption linkages due to increased access to finance for MSMEs, the first question is whether the clients manage to increase their income in a significant manner, which also depends on their access to markets for selling their products or services. Second, the consumption linkage occurs only if additional income is at some point spent with domestic—or even better—local enterprises. In times of an increasing presence and popularity of big supermarket chains, department stores and wholesale services, consumption linkages might also be negative from the point of view of a certain region or sector.[103]

[101] For example, the new distribution channel of Hindustan Lever for cleaning products uses self-employed women within their Shakti programme with questionable benefits for the self-employed sellers and negative implications for the local cleaning product fabrication industry (Prystay 2005).
[102] Although the analytical focus of 'survival entrepreneurs' is different from the one of family-led economies, both concepts refer primarily to a similar group of households and businesses.
[103] Hirschman (1981b: 66) also points to the possibility of negative consumption linkages, in this case explained by the example of staples.

Considering possible fiscal linkages related to MSME growth and development, the widespread practice of micro and small enterprises working in the informal sector or of declaring only a small part of the revenue that should be subject to tax, reduces the tax income for the state. Still, generally high value added tax (VAT) is paid by informal firms with acquisitions from formal businesses, a cost they cannot recover from the tax authority. The ability of the state to invest tax incomes productively is then even more complicated to assess and has to be investigated in each case. In many Latin American countries, for instance, the share in national budgets available for investment is often small because large shares of the budgets are already predetermined for public aministration, national debt service, balancing deficits in the social security, and paying other fixed expenses in the budget.[104]

Furthermore, microfinance can also contribute to increasing stability in economic development: microfinance institutions might have a counter-cyclical influence on the economy. During the Bolivian debt crisis in the late 1990s, two MFIs (CRECER and ProMujer) showed increasing loan portfolios and stable high repayment rates in an environment of strongly declining repayment rates and portfolios. This fundamental difference can be attributed to the loyalty of the clients to these institutions due to their integrated approach and the broader changes aimed at assisting their clients, families, and communities (Velasco & Marconi 2004: 526f.). Accordingly, wider social effects might also contribute to indirect economic effects, in addition to the positive effects on the financial performance of the MFI. In Indonesia, the large BRI also grew throughout the recession of the Asian crisis in 1997-99 and was, due to its enormous size, able to pull up the entire national economy (Patten, Rosengard et al. 2001) and its many MSMEs.

In the following section, different types of measures for enhancing MSME and market development related to microfinance will be discussed. Even though analysed separately, the potential of additional income generation within MSMEs always depends on the interplay between the enterprise and market level characteristics. For instance, a study of the microenterprise clients of the Producers Bank in the Philippines found a very limited potential for the enterprises to become small or medium sized due to a very high degree of competition faced in local markets. At the same time, their low equity base constituted a challenge to the development of these firms (Felloni, Seibel et al. 2005: 9).

4.2.2.4 Strengthening individual MSMEs

Business Development Services (BDS) can be understood as the 'second half' of enterprise support services besides financial services. They comprise a broad range of non-financial services such as management training, vocational skills training, marketing assistance, access to technology, technical assistance, productivity development, product design, accounting, legal services, and the provision of relevant information in order to enhance the competitiveness of

[104] See, for example, the case of Brazil (Ströh 2005b: 41ff.).

enterprises (Sievers & Vandenberg 2007: 1341ff.). Even though the lack of business relevant knowledge and skills in family-led enterprises or MSE is widely recognised (see section 4.2.2.1), many microfinance practitioners and academics are not convinced that BDS and other training are needed, or some are even against built-in training measures due to the failures of such programmes in the past. A first group of sceptics is convinced that the poor are already well equipped with (entrepreneurial) skills, or as Muhammad Yunus (1999: 140) indicates, 'I firmly believe that all human beings have an innate skill. I call it the survival skill. The fact that the poor are alive is a clear proof of their ability. They do not need us to teach them how to survive; they already know how to do this. So rather than waste our time teaching them new skills, we try to make maximum use of their existing skills. Giving the poor access to credit allows them to immediately put into practice the skills they already know'.

The second group of sceptics concerning skill development and training still disapproves of these services due to expensive and extensive failures of a combination of credit and BDS in the past: From the late 1960s on, BDS were delivered together with directed credit by development banks in order to enhance industrialization. The BDS delivered were generally of poor quality, not designed according to demand, while at the same time highly subsidized (as were the loans) (Merton & Bodie 2005: 1344). With the shift towards the commercial approach in the 1990s, BDS had to become cost-covering, but were often still mandatory and finally phased out by most financial institutions working with a commercial approach (Goldmark 2006:194). Since the 2000s, BDS have been developed as a demand-led service, gaining cost-effectiveness and being offered to clients independently from microfinance services. Reviewing thirty linked programmes, Sievers and Vandenberg (2007: 1354ff.) show that linking BDS and microfinance in intelligent ways can provide important synergies in terms of both impact and financial sustainability of the services.[105] They formulate that 'the pendulum thus may be swinging back in the direction of linked services and broader development goals [moving beyond 'credit alone']—but with a difference. There is greater emphasis on local demand on markets and sub-sectors, on cost recovery, quality and sustainability, and on substantially improving the lives of the poor' (Sievers & Vandenberg 2007: 1346). For the effectiveness and sustainability of the programmes, they stress that BDS should be provided on a voluntary base and designed according to the clients' needs, addressing the specific core competency of the MFI. The linkage should be assessed regularly for its benefits, should be client-driven, and should be adapted to different sectors. Thus, credit can be used as an entry point for offering BDS because the demand might need to be 'cultivated' (Sievers & Vandenberg 2007: 1354ff.).[106]

[105] Therefore, they refer to linkages that enable clients to choose the type of service they want to purchase, except for low-intensity training of inexperienced clients, which might be offered in loan repayment meetings, and linkages that respect the capacity of the institution to provide additional services and make use of existing providers, based on the assessment of the concrete training needs of the clients and the available services in the market (Sievers/Vandenberg 2007: 1354f.).

[106] This is especially true for 'boring' basic skills such as basic accounting skills, which help to separate turnover, cost, and earning. Many microentrepreneurs reported that they felt the difference even though they first perceived the accounting as difficult (client interviews by the author, Peru 2006 and Mongolia 2009). This result applies not only to low-income households but to the entire population. Accordingly, financial literacy should be part of school curriculums because it addresses an important basic task for everybody.

Regarding the effects of BDS offered in addition to financial services, there are—as in the case of the impact of microfinance on poverty—numerous methodologically questionable studies (e.g., 2007: 11f.). A very interesting study on the importance of BDS for microfinance clients and MFIs is the study by Karlan and Valdivia (2008). Although implemented with only one microfinance and BDS provider, in one setting and with a specific type of client, the methodological soundness of the study makes the results particularly interesting. Selecting village banks at random in different locations of FINCA's operations in Peru as mandatory BDS training groups, voluntary BDS training groups and control groups with the same staff were implemented over a period of 1-2 years. Treatment groups improved business knowledge and business practices like keeping records of their business and could achieve higher sales (especially during the difficult months of little economic activity) and higher revenues. For the MFI, the improved repayment records and increasing client retention rates offered further promising results (Karlan & Valdivia 2008: 15ff., 24). Furthermore, it could be shown, that the effects of the implemented BDS training were larger for the clients who had expressed less interest in training before the training started. Thus, in the case of voluntary training programmes and/or market-based solutions, it is important to think in terms of innovative provision schemes (such as free trials, etc.), which might attract the clientele with little interest in BDS but who might profit most from them (Karlan & Valdivia 2008: 24). Shantana Halder (2003a) shows that, for a large number of participants of BRAC, a large Bangladeshi development NGO and MFI, in a random selection from household survey data, that the incomes of the programme participants who received skills training and other BDS along with credit were significantly higher than the incomes of the participants who received microcredit only. Regarding the cost-effectiveness of the additional BDS, the additional gains of the BRAC clients exceeded by many times the amount paid to BRAC, which covered 47% of its cost. Consequently, BDS clients could even pay the full costs of the service and still benefit from it (Halder 2003a: 33f.).[107]

4.2.2.5 Measures enhancing joint MSMEs' performance and local economic development

Articulation and cooperation between enterprises can be seen as important elements for further development of MSMEs in general (see IADB 2005: 54ff.), and especially for the smaller and simpler ones among them (Hein 1999: 411ff.; Meyer-Stamer 1999: 448ff.). The kind of cooperation might be vertical or horizontal integration, participation in productive chains or in local productive clusters, or even participation in terms of subcontracting to a large enterprise, enhancing different kind of linkages depending on the local context and the underlying development strategy. Networking and cooperation can foster the competitiveness of MSMEs, possibly leading to a stimulation or revitalization of local and domestic markets (Wattanaprut-tipaisan 2002). Connecting local (M)SMEs within clusters or supporting value-chains with a

[107] The case of specific products such as solar panels or technical innovations such as new types of seeds linked to in a compulsory way to a loan, this kind of additional service does not provide the client with new skills, but force them to purchase a specific product being of questionable utility for the same client if she needs to be obliged to acquire it.

moderator are, therefore, part of many approaches to fostering local economic development, both in developing and developed countries.[108]

Thus, it can be observed that both in developing and developed countries, local governments, together with locally owned and established institutions, have been involved in fostering SME development and growth (Bateman 2003). In the long run, savings and credit cooperatives (owned by the members) and local savings banks (usually partly owned by local governments and other actors) have generally been the institutions that stayed in their regions and contributed to local saving-investment cycles, supporting local economic development during long periods (consider the cases of Germany, Spain, and Québec and their savings and cooperative bank movements). For the case of Emilia Romagna in Italy and the Basque region in Spain, Bateman (2007b) shows how local cooperative financial systems in cooperation with and supported by local governments contributed to local economic development based on local savings and investment cycles. Besides financial services, the financial cooperatives offered, together with local governments, BDS for entrepreneurial ventures and facilitated linking and cooperation among local SMEs. Putnam (1993) stresses the importance of networking of local cooperatives and other civic institutions for creating of social capital and contributing to local economic development. Changes in capacities at enterprise level can furthermore affect the type of market integration, which may then lead to different market dynamics. Depending on the specific situation and objectives, a case can be made for linking microfinance to other programmes or policies that aim at fostering local economic growth, employment, and MSME development (see Qualmann & Meyer-Stamer 2000; Llorens, Alburquerque et al. 2002; Sievers & Vandenberg 2007). In Peru, for instance, different MFIs work with value chain moderators for professionalizing and supporting the value chains they finance (see Peru interviews, e.g., CRAC Norperú). Like the microfinance services, these additional services also have to be assessed critically to determine whether they can contribute to local economic development and whether the cost-benefit analysis shows that they can open additional opportunities for the poor. Furthermore, the conditions of provision of additional services need always to be analysed, especially if compulsory.

Successful development at the local market level depends in a fundamental way on the surrounding economic and societal context. The debate about what can be considered an enabling environment in general and the related adequate development strategy is, however, highly contradictory and context-specific and cannot be addressed in the present study. Even though the criteria in Table 4.2.2-A span a wide range of analytical categories beyond the enterprise level, including market dynamics, the kind of financial services delivered, and possible additional programmes, the degree and direction of indirect effects have to be assessed very care-

[108] There are extensive discussions and literature about ways small enterprises can be connected to foster their competitiveness and potential for growth and development, especially through industrial clusters and value chains. In Brazil, SEBRAE promotes, for example, local productive clusters (arranjos produtivos locais – APLs); in Germany clusters are promoted in specific industries, such as in medical engineering (in Bavaria); and the Swiss Agency for Development and Cooperation (SDC) works with both cluster and value-chain approaches for fostering local economic development (IETS 2002: 7; SDC 2008).

fully. Economic development can occur in an infinite number of varying paths. In the long run, changes that appear to be positive at first glance, like increasing start-ups of local MSMEs, might lead to unsustainable levels of possibly ruinous competition in specific segments of the market later and, eventually, the development of new obstacles to local economic development. Still, the subjects and the analytical criteria addressed above can help to deepen the understanding of the potential indirect economic effects of a specific set of financial services or financial institutions.

Table 4.2.2-A: Analytical dimensions and criteria for indirect effects of microfinance

Dimensions of indirect effects at an aggregated level	**Related analytical criteria**
(4.2.2.1) Situation and development of local MSMEs	
Types of microfinance services for businesses offered	• (Declared) target group • Scope and conditions of financial services, compared to financial management needs of different types and sizes of business
Characteristics of MSME clients and potential of businesses	• Type of enterprises served (economic sectors, degree of formality, level of formation of owner, level of innovation, etc.) • Client exit rates and reasons for exit (drop-out analysis) • MSME development, enterprise lifelines, and business failure
(4.2.2.2) Labour market effects	
Entrepreneurship channel	• Type of target group: self-employed, microenterprises • Adapted scope and conditions of financial services for new and very small business
Labour market channel	• Type of target group: larger family-led enterprises, SMEs • Adapted scope and conditions of financial services for SMEs
Labour market context	• Assessment of labour market effects on different types of enterprises
(4.2.2.3) Market dynamics, competition, and cooperation in local markets	
MSME market structure and dynamics	• MSME market structures, considering positions of clients and non-clients, access to suppliers and clients, etc. • Levels and changes in competition and cooperation in local markets of MSMEs • Social capital as business context (see section 4.2.3)
Position of MFI regarding local development	• Size, location, mission, and ownership of MFI and related incentives for strengthening local economic development
(4.2.2.4) Strengthening individual MSMEs	
Linked/integrated approaches for MSME development	• Additional services (BDS) and types of services offered by MFIs • Conditions of additional services by microfinance providers • Type of linkage to microfinance services • Availability of additional services in the market and conditions
Position of MFI regarding BDS development	• Position of MFI regarding BDS • Institutional incentives behind BDS
(4.2.2.5) Measures enhancing joint MSMEs' performance and local economic development	
Linked/integrated approaches aiming for market development	• Additional services by microfinance providers for MSME market development, promoting cooperation (promotion of clusters, value chains, etc.), opening new markets, etc. • Conditions of additional services by microfinance providers • Type of linkage to microfinance services • Availability of additional services in the market and conditions
Position of MFI regarding market development	• Position of MFI regarding market enabling services • Institutional incentives behind market enabling services

Source: Own concept and design.

4.2.3 Wider social effects of financial services for family-led economies

> Now, my present living condition is quite different from my earlier stage. My social status has improved a lot. I can talk freely with anybody and I am able to move freely wherever I want to go. I could overcome all the problems that a normal Muslim woman encounters because I could increase my self-confidence. (Hasmathjan, leader of a self-help group in Andhra Pradesh, India, cited in Gohl 2007: 84)

Besides the previously discussed direct and indirect economic effects of microfinance, wider social effects of microfinance are often associated with empowerment of women, according to the current debate on microfinance impact. Thereby, the empowerment impacts expected are largely based on assumed cause-and-effects chains, illustrated with success stories of 'empowered women', increased school enrolment, or increased local social capital (see the recent *Microcredit Summit Report*, Daley-Harris 2007). As discussed in the introduction to Chapter 4, Mayoux (2000: 8ff.; 2005: 8ff.) shows that changes regarding empowerment of women are generally directly linked to the access of women to microfinance, without questioning the causal linkages assumed between access to finance and empowerment of women. Furthermore, women empowerment is only one perspective on the effects that microfinance can have besides the economic effects or improved money managing possibilities. The wider effects are the broad range of social effects of microfinance allowing changes in personal and community life and in social capabilities or political participation of clients, their families, and communities in education, health, and culture.

For analysing these wider effects, the aggregated perspective is conceptually meaningful and methodologically essential, as has been shown for the case of indirect effects (see section 4.2.2): On the one hand, wider effects of all kinds of social changes occur among people and are, thus, intrinsically related to more people than the individual client. Furthermore, 'social displacement effects' or discrimination make it necessary to assess individual changes from an aggregated perspective: Non-clients might not be able to join the groups at a later stage, or specific groups of the population—like destitute villagers—could be excluded from the beginning. Not being able or allowed to participate in the local savings and credit groups or local cooperatives might affect the capability of non-clients to participate in village social life. But even when participating in microfinance groups, clients might be discriminated against. A client with serious payment difficulties or who is not capable of following the saving pattern of the other members might be expelled from the group, probably with strong effects on her participation in social or village life. Thereby, different kinds of wider effects are always situated in the local culture, society, and socio-political life, making the assessment especially complicated. At the same time, wider effects might signify strong and important changes for microfinance clients, such as the changes in personal liberty and self-confidence of women in specific cultural contexts when joining microfinance groups, simply because of being able to go out of the house alone to meet with other women without the accompaniment of a male member of the family. Depending on the sociocultural and economic context, wider effects might thus enhance freedoms of microfinance clients, their families, and communities in a way that might be even more important to them than changes in income or improved opportunities for financial management.

Because research has been primarily focussing on economic effects regarding clients and only lately on financial management of the poor, there is little evidence on the social effects in general and even less from an aggregate perspective considering changes for non-clients and the local context (Chowdhury, Mosley et al. 2004). Hence, the following discussion of wider effects can be considered only as an initial exploration to open relevant categories and show the variety of wider effects of microfinance and not as an overview on types and patterns of wider effects. Furthermore, wider effects depend fundamentally on their cultural and sociosocietal context, leading to the effect that common characteristics can be assessed only at a very abstract level. For an in-depth analysis, longitudinal anthropological analyses are necessary. In the following section, categories of wider effects and relevant changes are conceptualized in a first step (4.2.3.1). These categories are then explored in sections 4.2.3.2 and 4.2.3.3 and finally summarized (4.2.3.4).

4.2.3.1 Dimensions and dynamics in social change

Wider effects of microfinance refer to the sociosocietal dimensions of development, thus to increasing freedoms linked to changes in human society or social change (see section 2.2; de Franco 2002: 212f.). In the present study, freedom-enhancing social change is seen both as a development aim in itself and as means to enhance other types of freedoms, according to Sen's (1999) understanding of development. Social opportunities, as conceptualized by Sen (1999: 11, 143), refer more to state-provided education and health facilities and social security and less to processes of social change, which need to be conceptualized further. For assessing social change and the 'social space' of different agents, Bourdieu proposed the concepts of social, symbolic, and cultural capital to conceptualize social action and analyse the related position of the individual within the environment and respective class society. *Social capital* is, thus, defined as social relations and networks, *symbolic capital* as prestige and honour, and *cultural capital* as the books possessed, culture lived *(habitus)*, and degrees held (e.g., Bourdieu & Passeron 1970/2000; Bourdieu 1979/1984; Müller 1985/2009: 72). The notion of agency of the individual, her contextualization within the surrounding society, and the possible 'reconversion' of social, symbolic, and cultural capital into economic capital connect Bourdieu's conceptualization of social space and social change to the underlying understanding of development, which stresses the importance of individual agency and the interdependence among different types of freedoms, like the social and economic freedoms (see section 2.2). The concepts help to structure the diffuse mix of very different kinds of wider sociosocietal effects associated with microfinance.

Social capital refers to the 'capabilities' between individuals and, hence, to the resources – and also the related 'liabilities' – that are bound to a durable net of relationships. The level of social capital an individual disposes of depends, therefore, on both the scope of the relationship net and amount of other types of capital the members of these networks own (Bourdieu 2005: 263). Besides Bourdieu's understanding of social capital contextualized in the respective society, Coleman's (1990) understanding of social capital focussing on its importance for the individual[109] has gained importance in the discussions on social capital. The different notions by Bourdieu and Coleman can be conceptualized within different levels of social capital in the family, the community, and beyond (Mladovsky & Mossialos 2007: 592ff.; see also Martínez Valle 2005: 308f.). The different categorizations proposed by Woolcock and Narayan (2000), Mladovsky and Mossialos (2007: 592ff.), and Cleaver (2005: 893) are as follows:

- Bonding capital—social relations among family members, neighbours, close friends and within the community;
- Bridging capital—relations across or between groups and communities;
- Linking capital –political articulation and linkages to local governments etc.

Symbolic capital and *cultural capital* refer to a societal or social perspective on characteristics and capabilities of the individual, which are bound to specific characteristics of the individual, like her level of education and status in society. From an economic perspective, the acquired skills and knowledge are evaluated according to the related earning power and denominated human capital (see, e.g., Cowell 1985/2009: 461). *Human capital* refers to the individual capabilities of the human being. Central dimensions of human capital—besides the education level and the person's abilities and experiences—include the health situation of the individual.[110]

Throughout the different dimensions of social change, for whom the situation changes and the position of that person in society matter. Accordingly, gender equity and the distribution of power within society can be understood as cross-cutting issues. Changes in gender relations and empowerment refer to different kinds of changes in power within or between individuals. Different power relations can also apply to different ethnic, social, or economic groups within a society and be distinguished as follows:

- *Power within,* which refers to self-esteem and self-confidence;
- *Power to,* which increases the capabilities of an person without necessarily diminishing the ones of another person (like learning to read);
- *Power over,* which is related to power losses of other actors;
- *Power with,* which is related to the capability of collective action of a certain group (Mosedale 2005: 250).

Consequently, empowerment encompasses perspectives of changes related to the individual and changes related to the relationships as well as the communication between individuals.

[109] Social capital is defined by Coleman (1990: 300) as 'the set of resources that inhere in family relations and in community social organization and that are useful for the cognitive or social development of a child or young person'.
[110] See Baldacci, Clements et al. 2008: 1317 and Mayer-Foulkes 2008: 776 for a short literature review on human capital.

This understanding is also consistent with the notion of the importance of individual agency as conceived by Sen (1999) and the fact of being embedded in the social, political, and economic context (see section 2.2.). The first categories will be discussed in the section on cultural, human, and symbolic capital (4.2.3.2) and the latter in the section addressing different types of social capital respectively (4.2.3.3).

If (feminist) microfinance institutions aim at changing gender relations and contributing to women empowerment, it is crucial to analyse whether the disadvantaged gender[111] is in the position to take advantage of the financial services offered in terms of power relations in the household, self-confidence, skills, and access to resources. Considering that gender relations are unequal in most societies worldwide to a greater or lesser degree, microfinance services need to target less powerful groups in order to contribute to empowerment. If men and women are just treated equally, the prevailing inequalities might remain or be even reinforced by microfinance (Mayoux 2000: 17). Access to microcredit might, for instance, contribute to worsening the economic situation and lead to more dependency of women on men because the men might spend the loan and the women would be still responsible for repaying it (Johnson 2008b: 3f.). Accordingly, gender-related changes need to be analysed with detailed qualitative information focussing on the issue of power changes for the person and in her social relations (Mosedale 2005: 252ff.)

Hence, specifically targeted products or approaches can be decisive for contributing to empowerment. An individually held commitment savings product introduced in the Philippines was shown to contribute to increasing female decision-making power within the household and more 'female-oriented' durable goods purchased in the household when assessed with the Randomized Control Trial (RCT) method (Ashraf, Karlan et al. 2007). After the introduction of a participatory method for M&E routines by the Indian NGO Pradan, gender-related changes were reported: Working with the pictorial diaries of the Internal Learning System,[112] individual and group behaviour changed after reflecting on the data entries made, causing improvements in loan utilization, political participation, health practices, and access to local markets (Noponen 2003b: 72). Regarding gender-specific risks for sustaining changes related to microfinance programmes, survey results from South Africa and Zimbabwe show that female borrowers had to leave their savings and credit groups and abandon their business activities in order to take care of babies or sick family members (Mosley & Rock 2004: 484).

[111] It is generally supposed that the disadvantaged gender is the female one, which is, however, not true for all societies and groups (e.g., in most areas of life in contemporary Mongolia). In the following discussion, the most frequent case of women having less 'power over', 'within', 'to', and 'with' will be considered and used as an example.

[112] The Internal Learning System is a profoundly participatory method of M&E routines. The pictorial diaries for the clients or group members are designed to be used by them independently (even by illiterate people) and enhance processes of reflection on their own and their group's situation and experienced changes. The feedback at the client level and from field staff is very positive and interesting (see Noponen 2003a).

4.2.3.2 Human, cultural, and symbolic capital

In terms of the individual capabilities of microfinance clients, it can be assessed whether microfinance leads to an enhanced capacity of dealing with money and knowledge in basic household finance or increased entanglement in financial services. Considering generally very low financial literacy, training on basic household finance management and financial literacy programmes has been shown to be important for achieving such a change (Sebstad & Cohen 2003; also in the EU, ESBG 2008). In the context of group approaches, mutual learning is possible, but also the more skilled members might take on most responsibility, leading to little knowledge improvement among the others.

Regarding personal changes, anecdotal evidence from Indian self-help groups (SHGs) indicates a variety of changes experienced by the women group members, from increased personal mobility to self-confidence that manifests in the new ability of the women to go out of the house alone, take part in family decision-making, or go to the police station or local government offices (Gohl 2007: 86). At the same time, these changes in personal capabilities depend largely on the specific cultural context and microfinance approach of self-help group linkage banking, which involves close NGO accompaniment and training of the groups during their formation and graduation period. The contribution of the training and awareness building to the changes in personal capabilities is also acknowledged by the SHG members themselves (Gohl 2007: 79) and is recognized for successful group-based microfinance (Marr 2006).

Similar experiences of cultural change linked to the participation of women in groups, meeting with others and moving more freely in local public life, have also been observed in the case of clients of microfinance groups in Bangladesh (Zohir & Matin 2004: 315f.). Regarding SHG members in India, however, changes have also been negative for a number of group members due to despair linked to repayment problems, which led to a number of suicides of desperate women and farmers, for example, in 2006 and 2010 in rural Andhra Pradesh (Reddy 2006; Kumar 2006; Priya 2010). Interviews from a survey in different African countries report that microloans increased the value of assets controlled by women. Married women felt greater independence from their husbands in terms of making more of their own decisions concerning the household and personal expenses without having to ask the husband (Mosley & Rock 2004. 483f.).

Regarding education, changes for clients largely occur if trainings are provided or promoted by the MFI (see the discussion of direct effects in section 4.1.2), whereas there might be wider positive and negative effects for children. School enrolment might increase due to income gains of the family or decrease in the case of the growing labour needs of the family-led enterprise. In Indian self-help groups, related internal group rules are reported having contributed to higher school enrolment, first, among children of members and, later, for children of nonmembers due to social pressure (Ströh 2005a; see also Dash 2003: 141).[113] The approach of the Grameen Bank, for instance, also targets explicitly at behavioural changes through its 'Sixteen Decisions' which constitute a given set commandments for family and village life.

Regarding child survival and nutrition as well as child education, a study on changes in human well-being of BRAC clients and villages shows related changes produced by the integrated poverty alleviation programme (Chowdhury & Bhuiya 2004: 383f.). However, these changes might not be related to the microfinance services because BRAC also trains local health workers and provides schools. Microfinance can be seen in this case as a platform that enables further social work of local NGOs. The formation of savings as well as credit groups can help these programmes to work continuously with a stable number of participants who can assess the financial services by joining the groups. In some contexts, access to financial services might also be the reason for women being allowed to join the groups with their husbands' permission. Using microfinance as a platform to offer additional services can also increase economies of scope for organizations serving the same clientele (Magner 2007: 21).

4.2.3.3 Social capital: Bonding, bridging, and linking

New dynamics within the client's families—part of the individual's bonding social capital and central to the family-led mode of production—are often described in terms of increased participation of women in family decision-making. However, changes in access to financial assets might also be one of the reasons for increased conflicts in families. A study of development of human well-being in villages with BRAC's poverty alleviation programme reports higher levels of physical violence against women among BRAC clients. However, the prevalence tended to decrease with increasing membership length, and the peak of violence related to the introduction of microloans decreased with the introduction of human development and skills training. Still, the changes assessed could also have been merely due to an increased openness of BRAC members to talk about marital problems (Chowdhury & Bhuiya 2004: 380ff.).

In a southern Indian village with an increasing presence of SHGs, sometimes these groups work on joint initiatives for improving local living conditions. They gather for joint lobbying with local authorities and companies for improving the services and facilities in the villages. Examples of joint initiatives are chasing away illicit alcohol sellers, fencing the village's drinking water pond, or petition local authorities or companies for better service provision (Ströh 2005a; Gohl 2007: 88f.). Social fencing has also been observed with local SHGs in Orissa in order to protect social forestry fields or joint improvements of local roads, water canals, and the community well (Dash 2003: 141). Another example of increased 'bridging' is the negotiations of Indian SHGs with buyers and contractors for better prices and conditions for their products and joint initiatives with neighbouring villages for regenerating degraded forest areas (Dash 2003: 140f.). However, the final results of joint action might not always be positive

[113] Families tend to use children's support in the family-led enterprise only when absolutely necessary. A loan might both reduce this pressure due to increasing economic opportunities but also increase it if difficulties with repaying the loan arise.

for the individual client. In Borisoglebsk, Russia, where even very small microentrepreneurs suffer from corruption by local government officers, different savings and credit groups formed a joint initiative to oppose local corruption practices. Due to strong opposition by government officials, who rescinded the trading licence of the leader of the protesting group, the movement did not succeed, affecting negatively their togetherness as a group (Mosley, Olejarava et al. 2004: 423f.).

There are many examples of common action of consolidated savings and credit groups towards authorities; however, many of these initiatives are encouraged by NGOs working with the local groups. In Indian SHGs, it has been observed that the SHG members begin to approach jointly local government officers for claiming their benefits, such as subsidized rice cards or old-age pensions for their older members (Gohl 2007: 86). Other experiences of increased interaction with local public authorities is the rising number of demands and proposals concerning legal rights to their land and their resources and forest protection by villagers in communities with SHGs. Dash (2003: 139f.) considers this an important cultural change compared to the 'culture of silence' regarding the neglect of the villagers' rights before the NGO started to organize SHGs.

Local institutions like cooperatives or savings banks sometimes also link up with local governments in order to initiate joint local development programmes or are approached by the latter to join them in public initiatives. In the case of the Cuzco municipal savings bank, the savings bank financed the construction of a new market hall to provide a new market for the street vendors working in unhealthy and risky conditions (see CMAC interviews in Cuzco 2006). In many industrialized countries, there is a long history of regional or local savings and cooperative banks cooperating with governmental agencies to foster the development of the local economy, especially SME development (McIntyre 2006: 3ff.). Such initiatives may contribute to wider effects due to the measures realised, but only through the existence of MFIs and their different way of doing business. The existence of stable locally rooted financial institutions can, for instance, bring the perspective of local microenterprise business associations and owners into local governments. In terms of the wider effects of microfinance NGOs in Russia and Eastern Europe, the most important wider effect of microfinance appears to be inducing greater trust of the microfinance clients in government officials, even though the latter are known as very corrupt in general (Mosley, Olejarava et al. 2004: 419ff.).

Among SHGs in Southern India, local NGOs observe increasing political commitment that is manifested both in passive and active political participation. The increasing numbers of women from SHGs elected members and president of the local city councils (*pachayat*) and the leadership taken by them indicate their active participation in local politics (Gohl 2007: 96f.). The increasing presence of SHG women in public has also led to an increasing interest in SHGs as voters, as well as to attempts to use them as 'vote banks'. However, where NGOs actively promote the political representation of SHGs, this tendency might be changed. The joint representation of their members by the South-Indian Self-Help Promoting Institutions'

Network (SPIN) and their contacts with local banks, governments, and other actors give them important political 'weight' (Boschmann, Gilde et al. 2008: 40). In addition, indirect participation of savings and credit groups has been observed in Eastern Europe and Russia, usually through their groups or federations. One client even converted the federation into a trade association in order to be able to link up with the government while other groups tried to oppose jointly local governmental corruption but did not succeed (see the discussion of bridging in Mosley, Olejarava et al. 2004: 417ff.).

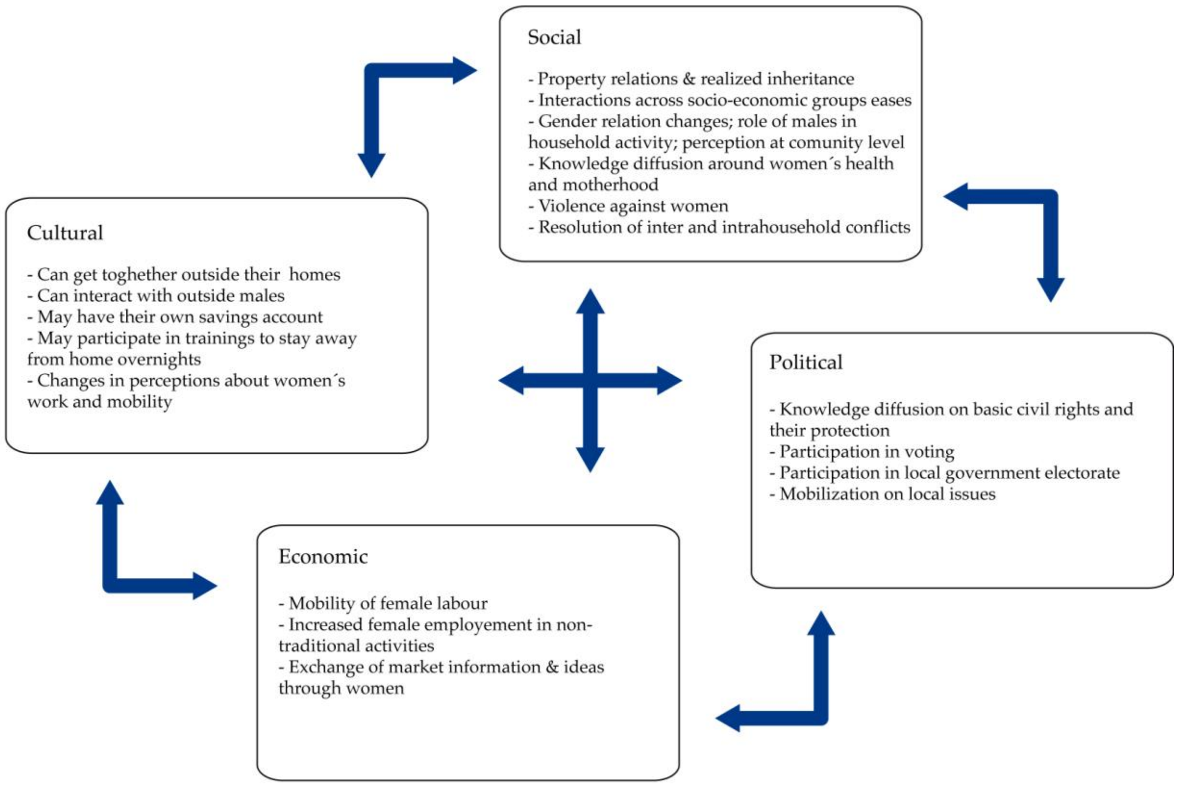
4.2.3.4 Some underlying factors

> […] in relation to nearly all major causes and indicators of development—education, health, population control, women's well-being and solidarity, community-building, democratic participation, technical change, expansion of labour markets, even HIV/AIDS—there exists evidence that microfinance is capable of improving matters. […] Despite this evidence, there is growing recognition and evidence from the work of the Imp-Act programme that these impacts are not automatic and are dependent on the precise objectives, design and wider operating environment of individual organizations. (Chowdhury, Mosley et al. 2004: 292)

Addressing the research experiences of the Imp-Act Consortium, Chowdhuri et al. (2004: 292) stress in their introduction to a special issue of the *International Journal of Development* on the social impact of microfinance that they depend on the specific aims and design as well as the environment of MFIs. In addition, in terms of the research on women empowerment, the fundamental importance of tailor-made products and services, taking into account the prevalent inequalities for microfinance contributing to women empowerment, is stressed (Mayoux 2000: 17, Johnson 2008b: 3f.). The preceding analysis has shown that for wider social effects which are not related to secondary effects of increased income, additional measures and specific approaches to microfinance are generally essential. According to the reviewed evidence and anecdotal insights, group approaches can contribute to wider social effects, promoting social intermediation among clients. Furthermore, local institution building in savings and cooperative banks or other locally rooted institutions might matter for wider effects. Linked or integrated approaches like SHGs or MFIs providing clients with NGO training and awareness building might be another institutional setting or programme approach leading to important wider changes, in addition to tailor-made financial services according to the needs of specific groups.

In the case of group approaches, these can contribute to the creation of cooperation and trust, which not only facilitate lending without formal collateral but also might increase trust, cooperation, information sharing, and other positive social practices, thereby strengthening social capital in the community (Szabo 1999). Zohir and Matin (2004: 315f.) identify different ways how social intermediation or interaction in microfinance groups can have important implications for clients, their families, and their communities (see graph 4.2.3-A). Thereby, their understanding of wider changes includes cultural changes as the base for economic and social change, which can enhance further political change. Such change, however, is strongly based on Asian experiences and patterns of cultural change. Accordingly, it cannot be considered to be a generalized approach for modelling wider effects of group-induced social intermediation but still provides an interesting overview of possible effects linked to group approaches. Because the understanding of poverty and development in the present study underlines the interrelations between different types of freedoms and dimensions of development without a fixed hierarchy, the leading position of the cultural dimension was changed to a mutual interdependence of all effects mentioned.

Graph 4.2.3-A: Possible wider effects of group formation through social intermediation by Zohir and Matin (2004), based on Asian experiences



Source: Adapted from Zohir & Matin 2004: 327.
Note: The different dimensions are visualized as interdependent, without the leading position of the cultural sphere.

Cohesion among members can be seen as crucial to the performance of the groups (Marr 2006). In the case of groups showing a lack of transparency and cohesion, often the poorest group members can be worse off than before participating in the microfinance programme (Marr 2003). In the case of MFIs actively fostering group cohesiveness—for instance, setting mixed targets for their staff, having transparent eligibility criteria, promoting cooperation in the group and supporting weaker group members—the positive social and financial changes with clients can be observed (Marr 2006: 37ff.). Within the South African organization Slum Dwellers International, the trust among group members is promoted through trainings and workshops but is essentially developed through daily meetings between the members of the savings groups who are visited daily for savings collection by their leader (SDI 2008). Thereby, the provision of other services than microfinance often not only aims at deepening impact but also might enable increasing the outreach towards poorer clients (see Halder & Mosley 2004; Halder 2003b).

Still, it is essential not to take positive changes for granted with 'microfinance plus' approaches in the same way as with other microfinance approaches. The results for the clients, their families, and their communities fundamentally depend on how adapted their programmes and services are to local socioeconomic and cultural conditions and how they are managed and implemented. A large impact assessment study of different Bangladeshi MFIs and NGOs implementing minimalist and integrated microfinance approaches shows mixed results for both kinds of approaches. At the same time, the study underscores the difficulty of comparing results of different organizations in a meaningful way, due to significant differences in orientation, size, and professionalism of the NGOs and MFIs (Brüntrup 2000). Accordingly, it would be advantageous to compare the impact of additional services offered within one organization. However, many impact assessments of integrated approaches focus on the impact of these programmes as such, without aiming at separating the impact of different programme components (e.g. Halder 2003a, 2003b), which can be assessed with the help of RCTs. RCT-based assessments of additional measures have shown that BDS can contribute to changing the economic performance of microfinance clients, but it can also be the tailor-made design of well-adapted financial services that makes the difference for the client (Karlan & Valdivia 2008; Ashraf, Karlan et al. 2006; Ashraf, Karlan et al. 2007). Summarizing the explorative insights into wider social effects, table 4.2.3-A displays possible channels of wider effects and related analytical criteria for assessing possible contributions to wider effects. The information is complemented by the perspective of gender analysis.

Table 4.2.3-A: Explorative analytical dimensions and criteria for wider social effects of microfinance

Potential channels for wider effects	**Related analytical criteria**
Group approaches	• Mechanisms giving inherent value to the group, such as group sustainability included in staff's targets • Transparency and method of group formation and selection • Training on group formation and basic accounting • Additional training and awareness building (e.g., women's rights) • Strategies for phasing out (e.g., federated structures)
Linked or integrated approaches	• Additional services and products offered • Type of linkage to microfinance services
Tailor-made financial services	• Financial services designed according to the specific needs of clients • Type of analysis of clients' needs
Local institution building	• Mission and ownership of MFIs • Cooperation agreements with local actors • Additional local development initiatives • Ethical business practices
Cross-cutting issue	**Related analytical criteria**
Gender perspective/power relations within the society	• Identification of marginalized groups in society needing particularly adapted financial services and approaches

Source: Own concept and design.

Still, many changes and contributions to local human development cannot be attributed, in a general way, to a specific methodology because they depend on particular situations or persons, such as exceptional leaders and managers with a strong interest in improving local living conditions. This is the case of the rural cooperative bank Saromcredi in Minas Gerais, Brazil, where the leader, Joaquim Leite, not only initiated the local cooperative bank but also began to introduce improved seeds and seedlings and founded an educational cooperative (Carvalho & Leite 2004) or the joint campaigns of local Indian SHGs with strong leaders, who engaged in providing access to the local transportation system, fencing village drinking water ponds, and shutting down local development obstacles like illegal alcohol sellers (Ströh 2005a). Still, it might also be *hominis* and *feminae heroici*[114] who achieve and whose commitment leads to extraordinary results within the structures of local microfinance groups and institutions.

[114] As Manfred Nitsch formulates, referring to individuals committed more than the average to serving their neighbours, suggesting that the *homo oeconomicus* concept should be restricted to the 'normal' individual and her behaviour. Otherwise, the *homo oeconomicus* would be inflated into a tautology covering all human behaviour where for instance, Mother Teresa, would be interpreted as an individual maximizing her utility according to her preferences.

5 The Comprehensive Pro-Poor Financial Sector Development Framework

Pro-poor financial sector development can also be seen as financial market development or enablement in the sense of offering broad adequate access to all kinds of customers and subsequent freedom-enhancing results for them. Thereby, the focus of the present study is market development in terms of access that means accessible and valuable opportunities to poor populations. The previous chapters constitute the basis of the elaboration of the proposed framework, presented in the following sections. The understanding of poverty (see Chapter 2) indicates that a 'pro-poor' development should, at the end, always enhance the freedoms of the people, which will be assessed through increasing freedom-enhancing opportunities for the poor. The context people live in—especially in developing as well as in transition countries—is created by the coexistence of different modes of production, the family-led mode being especially important for low-income segments of societies. Finance has an important role in the different modes of production, although in different ways (see Chapter 3). How far microfinance can make a difference for family-led economies and low-income households was explored in Chapter 4, based on evidence of usage patterns and impact studies. The factors that are important to the related effects will be included in the analytical framework.

The purpose of developing the elaborated framework is to assess opportunities that are valuable to the poor without creating more risk, but helping them to level income, mitigate risk, cope with emergencies, and take advantage of opportunities they judge as most important for themselves. This study is not meant to conduct impact assessment or assess concrete effects or functionings, but to evaluate whether the respective financial sector development can be considered as pro-poor in terms of providing freedom-enhancing opportunities to the poor. Accordingly, the framework provides analytical dimensions, categories, and indicators, which together form a comprehensive framework for assessing whether a specific financial sector development can be understood as pro-poor in terms of providing the poor with real opportunities. Thus, it is important to consider the trade-offs and interrelations among the different dimensions of outreach to the poor.

The elaboration of the framework in the present chapter is realized in two steps. In the first part, relevant approaches are discussed in detail, and in the second section, the final categories of the framework are elaborated and presented, as related to the results of previous chapters.

5.1 The proposed pro-poor financial sector development approach: Framing relevant dimensions and categories

The proposed framework of pro-poor financial sector development is based on a freedom-centred understanding of development that underscores the worth of financial services to poor clients in terms of additional degrees of freedom, thus leading to increased opportunities and, possibly, enhanced functionings. In the following sections, the link of freedom-enhancing opportunities to pro-poor financial sector development will be supported based on Sen's (1999) capability approach. Then, the approaches of Porteous (2004) and Schreiner (2002) attempting to assess access are reviewed, including a pro-poor or social orientation of the financial services offered, in addition to mere physical access to financial services focused on in most studies (see section 1.2.1). The above works provide further elements for elaborating the proposed framework.

5.1.1 Sen's capability approach and opportunities in pro-poor financial sector development

> The market mechanism which arouses passion in favour as well as against, is a basic arrangement through which people can interact with each other and undertake mutually advantageous activities. In this light, it is very hard to see how any reasonable critic could be against the market mechanism as such. The problems that arise, spring typically from other sources and include such concerns as the adequate preparedness to make use of market transactions, unconstrained concealment of information of unregulated use of activities that allow the powerful to capitalize on their asymmetrical advantage. *These have to be dealt with not by suppressing markets, but by allowing them to function better and with greater fairness, and with adequate supplementation.* The overall achievements of markets are deeply contingent on political and social arrangements. (Sen 1999: 142; italics added)

As shown in the above quote, Sen perceives markets to be legitimate means of development in the sense of enabling people to undertake mutually advantageous activities. He specifies that the latter might be restricted due to demand and supply-side barriers and calls for making the markets to work better and fairer while providing an adequate supply. Financial markets can be taken as one of these markets that may offer advantageous activities to the clients if the services and products offered suit their needs and clients are treated in a fair way. Sen's capability approach proposes two dimensions of freedoms that consist of the 'real opportunities' and the 'realized functions,' which can be used alone or in combination for assessing changes in poverty and development (Sen 1999: 75). The real opportunities or possibilities of alternatives a person has are used for understanding and assessing pro-poor financial sector development in the present study.

Hence, pro-poor market development is conceptualized largely as adequate opportunities or access, free from supply- and demand-side barriers, for the poor (Sen 1999: 142; see above). Accordingly, it is not a specific type of usage, but the fact that they could use certain services in a beneficial way if they want. Usage itself remains at the poor's discretion. The additional opportunities mean additional alternatives and freedoms for how to manage and live the lives people want to live. Second, the review of frameworks and results of impact assessments has shown that it is very complicated and expensive to assess impacts in reliable ways. Furthermore, the recently developed sound approaches are able to assess only very small and concrete topics bound to specific cases (see the discussion of RCTs and SPA/SPM in section 1.2.2). Impact assessment in a sound way at the financial system level has been hitherto not feasible. This situation is especially true because effects related to microfinance refer to different dimensions of life and can be both direct and indirect (see Chapter 4). An assessment of realized functionings would, consequently, neither be desirable, because the usage of financial services should be self-determined, nor feasible, because effects are multi-dimensional, contextual, and interdependent and can be assessed only in the case of microfinance in very specific and small settings.

Consequently, the proposed framework can be situated within the research line of access, but with a different focus on assessing, in a comprehensive way, real opportunities for the poor. Real opportunities, in the case of financial sector development, are thought to be non-discriminatory access to products and services that constitute *de facto* valuable options, in terms of helping the poor to live the lives they want instead of hindering them. Thus, not only the physical access conditions in terms of reachable banking outlets and accessible products for microfinance clients but also the adequacy of these products for the clients must be assessed. This adequacy has to be analysed based on the preferences of poor populations in terms of financial management, as well as the *de facto* usage of the offered services and usage patterns and related consequences, such as over-indebtedness. This approach will be explained in detail in section 5.2, taking into considerations insights from poverty-oriented access research discussed in the following section.

5.1.2 Porteous' categories for grasping accessibility and appropriateness

Real opportunities and increases in choices that are valuable for the poor are difficult to measure. According to the access literature discussed in section 1.2.1, Porteous' (2004: 10ff.) operationalization of accessibility and appropriateness of services in the context of pro-poor market development emerge as interesting concepts, even though the framework itself, which aims at measuring 'effective access', remains vague about some of the dimensions proposed for analysis.

Operationalizing the concepts of accessibility and appropriateness in the question of whether (financial) markets work for the poor, Porteous (2004: 10f.) introduces the two indicators of increasing usage and existing alternatives. If usage of a product by poor people increases over time, it would imply both accessibility and appropriateness, without the need for specifying further. Porteous (2004: 10) suggests, 'Rather the market is judged by its fruits—who is using it?—on an ongoing basis'. The advantage of this first indicator of increasing usage is that usage can be measured relatively easily, that it is a very clear indicator that can be applied without the necessity of interpreting and judging or creating subjective categories, and that it can be used for quantitative research (e.g., determining the proportion of small enterprises using a certain product increasing X% in one year) as well as for qualitative research (e.g., determining the reasons for not using a certain product or service). However, without considering the second indicator of existing alternatives, the first one alone might lead to wrong conclusions because customers might use a certain service only because of missing alternatives, even if doing so were not appropriate as assumed with usage. The consideration of the second indicator of the availability of alternative products within a market or of functional substitutes in other markets is, therefore, a necessary condition along with increasing usage (Porteous 2004: 11). This indicator of existing alternatives is also easier to measure as the subjective choice because it is not necessary to consider personal preferences. If the analysis of a particular market shows the existence of competitive products, increasing usage generally reflects the real choices of the costumers: 'With this [second] condition, usage patterns do reveal preferences accurately' (Porteous 2004: 11). According to Porteous (2004: 11), this conclusion qualifies increasing usage by poor people over time and the availability of alternatives as two necessary conditions for showing that a market is working for the poor. Considering informal financial services and devices as alternatives completes the picture of the financial services used by poor populations (Porteous 2004: 23). This inclusion of the omnipresent informal financial solutions strengthens using the criterion of usage, as well as alternatives, for access because usage is probably based on deliberate choice.

However, access in terms of 'real choices' is not the same as 'real opportunities'. The latter refer to opportunities that can help people to realize their goals and live a better life. Deliberate choices might, however, also lead to direct results that are clearly freedom-restricting. At the financial system level, the analysis of numerous banking crises after impressive booms[115] shows that the usage always needs to be accompanied by a *how*, in the sense of analysing whether the observed growth in usage can be healthy and sustainable, considering the special risks and challenges inherent to the financial sector. Risks might consist of over-indebtedness at the individual level or debt and financial crises at the systemic level, including bank runs, lost savings, or unfulfilled insurance contracts. The same *how* should also be applied to the alternatives in order to determine whether the product specifications or the way a service is delivered really qualifies the alternative as a *de facto* alternative. Without such a closer examination, the appropriateness for the poor can be violated because the product conditions, for instance, could exclude certain clients or cause them high costs. Accordingly, a closer, qualitative look at the financial services offered to poor people is indispensable. Thus, specific characteristics of poor customers and their small enterprises have to be considered. Usually, micro and small enterprises are run as family-led economies and their economic transactions are consequently characterized by other specific allocation mechanisms, such as reciprocity and

[115] Examples include the South African case of 2002 (Porteous 2004: Case Study 1, 49ff.) or the Bolivian case of 1999 (Rhyne 2001).

the consumption needs of the family (see section 3.2). Accordingly, the analysis of usage patterns of financial services is essential, and the analysis of the existing evidence provides important insights (see section 4.1), which are addressed in the next section into the framework.

5.1.3 Schreiner's categories of outreach as a basis for the dimensions of pro-poor financial sector development

With his framework of six dimensions of outreach, Schreiner provides a further contribution to understanding and assessing pro-poor financial sector development. His approach aims at assessing the social benefit of microfinance to poor clients, looking beyond paradigmatic assumption of underlying cause-and-effect chains and trying to consider the different trade-offs that might be related to the provision of financial services (Schreiner 2002: 592). His framework is built on the analysis of outreach in the six dimensions of worth to clients, cost to clients, depth, breadth, length, and scope. These dimensions of outreach—offering a close and deep look at financial services for microfinance clients—are analysed at the level of individual financial institutions for assessing the social benefit of microfinance at the institutional level (Schreiner 2002). The different dimensions are thought of as overlapping categories because they mutually depend on and influence each other in terms of the social benefit of a microfinance institution. For example, increased depth through small savings accounts also increases length, but could lead to higher costs for lending, thus being a costly source of refinancing (Schreiner 2002: 596f.). This acknowledgement of the interdependences and trade-offs is another important characteristic of Schreiner's approach and is the foundation of the interest in his approach. However, the whole framework cannot be applied to the financial system level because it is conceptualized for an analysis at the institutional level and because the quantitative implementation of the framework does not make use of the rich categories provided so does not deliver a convincing framework for analysis. Nevertheless, the six dimensions of outreach constitute sound categories for gaining a deeper understanding of outreach and access.

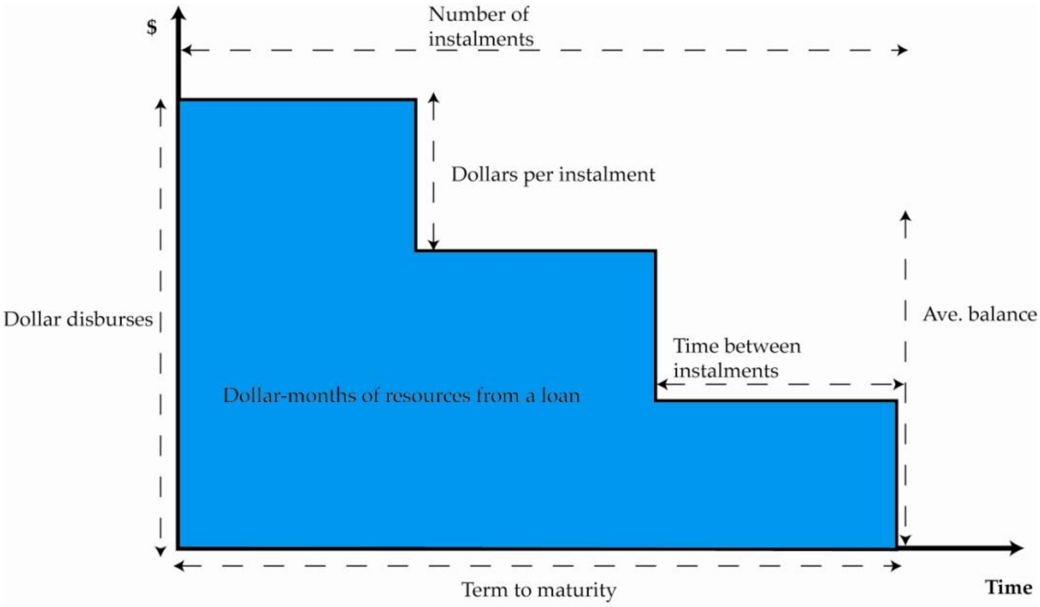
The first dimension of outreach of Schreiner's framework is 'worth of outreach' to clients, defined as willingness to pay. According to Schreiner (Schreiner 2002: 592), worth depends on the 'terms of the financial contract and on the tastes, constraints, and opportunities of clients'. Consequently, services and products should be more closely related to borrower demand (Schreiner 2002: 592). Schreiner recognizes the difficulties in measuring this worth to clients and the shortcomings of approaches taking business profits or other subjective criteria (e.g., losses and gains) as a basis of analysis because access to financial services might also prevent difficult situations like shocks or income fluctuations due to life-cycle events. This dimension basically undergirds all the other dimensions; consequently, it is taken as a concluding category in the pro-poor financial system development framework.

Schreiner's (2002) second dimension is 'cost of outreach' to clients. Cost consists of the sum of the monetary costs of direct payments of fees and interest rates to the financial institution and the transaction costs. Transaction costs include the non-monetary part of the time and effort needed, for example, during the process of applying for a loan, and the monetary part of expenditure for transportation, food, documentation, and so on. Schreiner operationalizes the cost dimension with the help of estimations of net gains to clients, defined as worth in the form of willingness to pay minus cost. Product-related costs are then measured as the internal rate of return, and transaction costs are estimated from survey data on miles, minutes, and money required to use financial services (Schreiner 2002: 593). In the proposed pro-poor financial sector development framework, both price and transaction costs are considered, analysing the cost of accessing services of different formal and informal financial service providers.

'Depth of outreach' is the third dimension of the outreach framework and is determined by the weight of a client in a social-welfare function. Consequently, *depth* can mean a preference for reaching the very poor, a quality that is difficult to measure directly. Consequently, indirect measurement of depth can be gender (preferring women), location (preferring rural), education (preferring less), ethnicity (preferring minorities), housing (preferring bad housing conditions), or access to public services (preferring less) (Schreiner 2002: 594). Considering the proposed pro-poor financial sector development framework, depth of outreach is related to outreach of financial services to marginalized populations, considering the specific, locally present patterns of discrimination and marginalization.

The most common and widely used proxy for depth related to reaching very poor or small clients is loan size. Generally, *loan size* refers only to the amount of credit assigned, which characterizes very roughly the size of the loan that matters for the client. Therefore, Schreiner (2001) developed another multi-dimensional framework in order to assess the dimensions of loan size that matter for the client (Schreiner 2001). As graph 5.1.3-A indicates, the seven dimensions of client relevant loan size can be mapped between the two axes indicating amount of money disbursed and maturity of the loan. Within the monetary and time frame, the number and frequency of instalments as well as their amount matters. For a comparative evaluation the categories of average loan balance and Scheiner's category of average amount outstanding can be used. An extended set of loan size determinants will also be included in the proposed framework.

Graph 5.1.3-A: Seven dimensions of loan size important for the client according to Schreiner (2001)



Source: Schreiner 2001: 26.

'Breadth of outreach'—Schreiner's fourth dimension—is important because many small clients still need access to finance, and even though the commercial approach shows that poor clients can be served in a financially viable manner, resources and institutions offering microfinance services are still limited. Schreiner stresses that funding for subsidy-based approaches and institution building of new, financially viable institutions is limited, considering the huge number of poor people and small clients worldwide (Schreiner 2002: 595). In many cases, outreach is (mis)understood as the mere number of clients served, without considering the other fundamental dimensions presented here. In terms of the pro-poor financial sector development framework, breadth is also one of the main dimensions. Still, changes in breadth will always be situated among the other dimensions of outreach in order to assess the quality and sustainability of the increase in terms of number of clients served.

The fifth dimension is 'length of outreach' and refers to the period of the supply of microfinance. Supply for small clients does not only matter in the present, but it could in the future. Because donations are never a guaranteed source of funding, Schreiner takes profit as a proxy for length of outreach, recognizing that it is neither a sufficient nor necessary condition, but it is still his favourite proxy (Schreiner 2002: 596). In the proposed pro-poor financial system development framework, length is an important category for assessing the sustainability and continuation of access to finance. Because different types of microfinance service providers and their contribution to pro-poor financial sector development need to be analysed at the financial system level, different proxies for length will be needed, including the resilience of the institutions, in addition to their commitment to microfinance in terms of continuity of service provision.

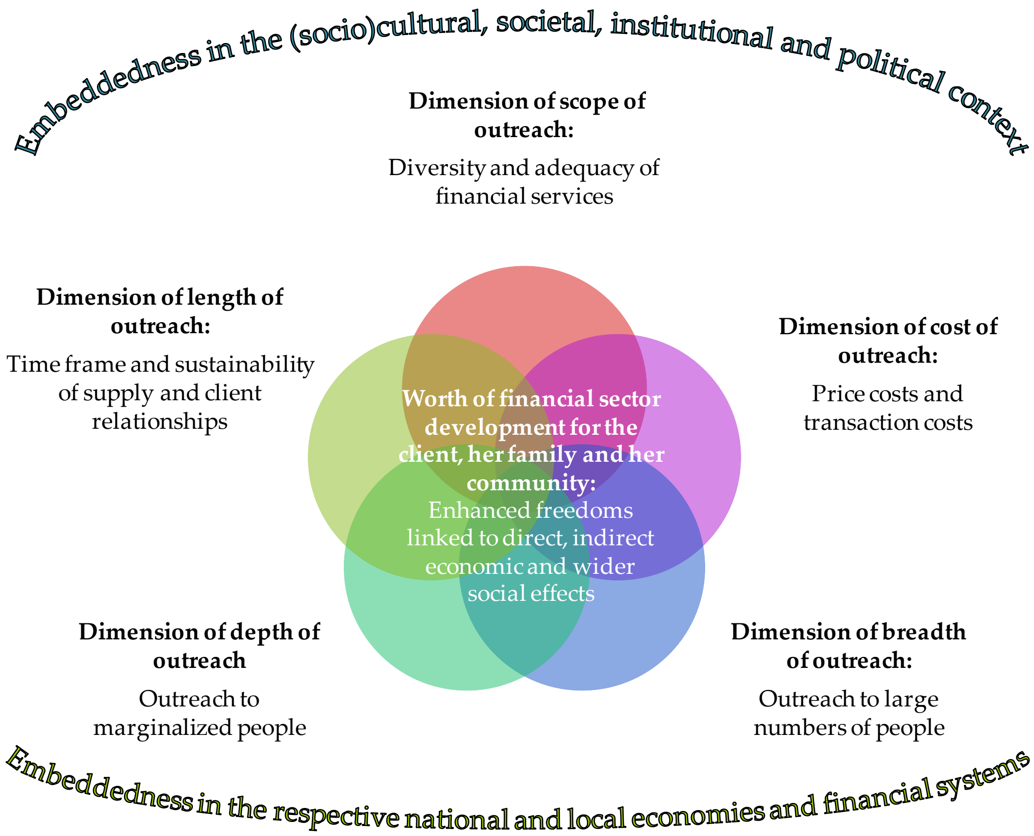
'Scope of outreach' is the sixth and last dimension corresponding to the diversity of types of financial contracts supplied. In addition to the diversity of financial products, *scope* refers to different methodologies of financial services and different terms offered. Examples are loans with group and individual methodologies with different maturities and repayment schemes (Schreiner 2002: 596).

Schreiner summarizes his methodology and further analysis as follows: 'In sum, depth is the social value of net gain, where net gain is worth to clients minus cost to clients. Breadth is number of clients, length is years of service, and scope is types of contracts. The social benefit of the outreach of a microfinance organization is net gain weighted by depth, summed across breadth of clients and across scope of contracts, and summed and discounted through length of time' (Schreiner 2002: 596). After a qualitative discussion of the proposed categories from a welfare point of view in the case of Banco Sol, Schreiner proceeds to a quantitative welfare analysis. For methodological and data problems, he cannot make use of the rich framework proposed, and consequently, Schreiner drops or simplifies important qualitative indicators and trade-offs linked to his dimensions (Schreiner 2002: 598ff.). Thus, this last quantitative part of Schreiner's methodology will not be used in the present study. It is his six dimensions of outreach for assessing client benefit that are seen as important criterion for assessing the inclusiveness of a financial system and the opportunities it offers to small clients. Hence, these dimensions will be used to structure the market level analysis based on a freedom-centred development concept and the research on usage patterns and possible types of effects.

5.2 Dimensions, analytical categories and indicators of the comprehensive pro-poor financial sector development framework

In this section, the proposed pro-poor financial sector development framework is presented. In order to assess whether financial sector development means freedom-enhancing opportunities to the poor, these opportunities cannot be grasped by simply assessing access in terms of existing banking outlets or increasing usage, even if alternatives exist. It requires a detailed assessment in terms of adequacy for the poor in the long and short term. The six dimensions of outreach relevant to clients provide a first step for determining the real opportunities. Schreiner's first dimension of 'worth of outreach' is however understood as the summerizing category, reducing the number of dimensions to five. As indicated in graph 5.2-A, all dimensions and related results for clients and non-clients are interdependent and sometimes mutually reinforcing. Possible interrelationships and trade-offs can be analysed through the combination of the different analytical perspectives of the five dimensions. Enhanced scope through a new distribution channel might foster geographical outreach and lower costs for the clients. It might further contribute to an increasing automatization of the relationship between the financial institution and the client. This change might, on the one hand, be a cost efficient and practical access point but, on the other hand, lead to uninformed client decisions in the absence of consulting with the staff of the financial institution, with possible negative effects on their freedoms in the long run. Comparing the contribution to pro-poor financial sector development of different financial institutions, the diversity of products offered might, for instance, be lower in locally rooted small financial institutions, which are, nevertheless, important for local institution building. Because the proposed pro-poor financial system development approach assesses the inclusiveness of the financial system at the market level, it is indispensable to situate the analysis in the social, political, cultural, institutional, and economic context. The context frames both the conditions for the development of the financial system and those for access and usage in terms of real opportunities (see graph 5.2-A). Considered to be in the centre of the pro-poor financial sector development framework, the worth of financial sector development for clients, their families, and their communities is important. Hence, it is essential to assess changes in opportunities not only for clients but also for non-clients and their environment. Thereby, both the micro and the aggregated perspective are needed to assess the real opportunities for all, analysing also exclusion and marginalization from these opportunities, instead of focussing only on clients (see graph 5.2-A).

Graph 5.2-A: Pro-poor financial sector development: The five dimensions of outreach embedded in the social and economic context



Source: Own design, partly based on Schreiner (2002).

The analytical categories and indicators that substantiate the presented dimensions of the pro-poor financial sector development framework will be elaborated in the following section and are presented in table 5.2.3-A. Determining the specific way financial services are used in family-led economies provides, on the one hand, the theoretical foundation for reflecting empirical findings and, on the other hand, the characteristics of family-led households included in the framework, referring, for instance, to character-based loan evaluation that takes into account the joint accounting of family and household. Accordingly, most proposed analytical categories have both a theoretical and empirical foundation. Central also are the insights on usage patterns and the different kinds of effects reviewed in Chapter 4 and the concluding tables at the ends of the different sections. These insights into types of financial services and conditions of service provision that can be considered as useful to poor populations facilitate determining whether specific financial services and financial sector developments either enhance or limit the freedom of the people. Encompassing both very concrete indicators and indicators to be operationalized further, the analytical categories and indicators are based on the related theory and available cross-country evidence and always can—and should—be adapted to the specific aim of the analysis and the relevant context.

The framework is structured in the five dimensions of scope, cost, breadth, depth, and length of outreach. In each dimension, analytical categories and related quantitative and qualitative indicators are proposed. The different indicators provide examples of how to assess different aspects of the analytical categories, which are grouped under the five dimensions of outreach. The degree to which a financial system can be considered to be pro-poor can, however, only be concluded after considering the combined results of the different dimensions of pro-poor financial sector development. In order to assess the real opportunities, the different dimensions need to be considered together, analysing contradictions, trade-offs, and overlaps. For instance, the discussion of the different dimensions might show that one financial institution providing a very broad coverage in terms of distribution of banking outlets throughout the country offers only a very limited product portfolio or perhaps a diversified product portfolio, but with prices or minimum amounts excluding the lower segment of microfinance clients. It could also be that the services offered would be accessible but carry very high prices or transaction costs. Finally, the economic performance of this financial institution could be not very solid and endanger the long-term provision of services. Accordingly, the conclusions concerning the contribution of this specific financial institution would be very different, if only one or some specific dimensions of outreach were considered as opposed to analysing the five dimensions together.

In the present study, the framework is formulated for an analysis of the financial system at the national level. It can also be used without major changes for analysing regional or local financial system development. If an analysis of development at the financial institution level or from a specific perspective, such as that of gender or rural development, is needed, the framework can be adapted to the specific aim of the study. Table 5.2.3-A shows the analytical categories and indicators of the proposed pro-poor financial sector development framework.

Before presenting the different analytical categories, it is important to stress that Sen's principles of incompleteness and openness also apply to the proposed framework. The framework is considered to be incomplete because it might well be that further dimensions, analytical categories, or indicators are missing or need to be adapted, a possibility that is even quite probable considering the complex nature of the subject. Furthermore, the framework is open to be adapted to specific uses and contexts. It provides a basic structure of dimensions, analytical categories and indicators that are of relevance for pro-poor financial sector development. Thereby, a basic structure for approaching and assessing pro-poor financial sector development is provided, which can be further refined, adapted, and complemented for further research, offering a solid and comprehensive foundation for such adaptations or refinements. The indicators proposed within the different analytical categories are both quantitative and qualitative. Furthermore, fields of analysis are proposed for which further elaboration of concrete indicators is needed. Taking the example of the analytical category 'sustainability of client relationships', the indicators proposed are, on the one hand, quantitative, like the number of long-term clients, number of different services used, and client retention rates. On the other hand, a field of analisis like 'reasons for exiting', whose measurement is comparably difficult, requires further definition of indicators, which could be elaborated, for instance, with the help of specific devices, such as client exit surveys or focus group discussions. Such items are, however, not further detailed within the framework because the specific design of further related research would depend on its purpose. Because the framework is intended to offer fundamental dimensions and categories in a comprehensive manner, the focus of the present study is to delineate these dimensions and categories rather than provide all details for their application. This stance is also related to the incompleteness and openness of the framework: Instead of determining every detail of the indicators to be assessed, the categories and related indicators provide the central dimensions and categories of analysis that can and should be adapted to the specific case of assessment.

Within the proposed framework, the sequence of the dimensions has been changed: Scope of outreach constitutes the first category of the framework because, in a first step, the financial services offered need to be related to the types of financial instruments relevant for microfinance clients in a market or a specific target group being studied. Accordingly, the first analytical category establishes the link between the financial needs and preferences of microfinance clients or potential clients and the financial services offered. Different types of products relevant to microfinance clients according to evidence from Financial Diary research and other qualitative studies (see sections 4.1.1 and 3.2.3) constitute the base for the categories established. Both different types of financial services and complementary services provided are assessed from the point of view of the clients' needs and preferences, by comparing the products to the findings about the clients' financial management needs and preference. Therefore, it is necessary to review the conditions and requirements of the products offered, analysing whether, for instance, minimum amounts, the range of documents required, the type of guarantee, age limits, and other requirements established by financial institutions might limit or make difficult the use of the products by the target group. Thereby, the specific characteristics of the clients must be considered, such as the lack of formal documents about the business and joint accounting in family-led economies that loan evaluations need to respect. If the framework is applied in a smaller context, clients could be also asked for their opinions on specific products.

Furthermore, the usage of different kinds of financial services or products for an in-depth assessment on products serves as an additional indicator for assessing the adequacy, as proposed by Porteous (2004: 10f.) and discussed in section 5.1.1. Accordingly, increased usage, given the availability of alternatives, can be taken as an indicator of adequacy and adaptedness of the financial services. The types of financial services relevant to poor populations, which have been derived in section 4.1.1 based on the theoretical fundamentals from section 3.2, are grouped within the categories of types of financial services addressed in the framework (see table 4.1.1-B). They consist of liquid savings, money transfer options, structured long-term savings, simple insurances, emergency loans, short-term loans for business use, long-term investment loans, and other financial services relevant in specific markets. Thereby, the analysis starts with a financial management need of the population, such as access to liquid savings options, and then reviews the financial instruments available to satisfy this specific financial management need. Thus, different types of financial services such as savings or current accounts might satisfy the specific financial management need, in this case the need for liquid and secure savings. Besides the financial services, complementary services are often demanded and constitute a further category. These services might aim at improving the financial management, offering income generating activities, or contributing to the creation of social capital strengthening grassroots organizations, such as SHGs (see section 4.2.3). They are also assessed against the clients' needs and preferences.

In addition to a general assessment of services and products relevant to the clients and the supply of financial products available, products for specific groups of clients, such as new clients, especially poor people or marginalized populations, are assessed and compared with the specific financial management needs and preferences of these client groups. Especially, unbanked or very poor clients often have specific needs regarding financial services, but they also have very specific preferences or even fears (see section 3.2.3). Accordingly, very specific products or approaches might be needed in order to attract and serve these clients. In the case of new clients, specific entry barriers might be overcome by lottery components or an ample introduction to the financial institution. In the case of very small clients, specific forms of collateral like jewellery in the case of poor women might be important for guaranteeing the financial inclusion of these specific groups. Not only potential clients themselves but also their enterprises vary, making relevant a further differentiation among different types of MSMEs. Because the characteristics of enterprises of clients might differ largely, with enterprises ranging from a sewing workshop in the living room to a small bakery, minimarket, or even a small coffee plantation, the financial services needed differ widely among enterprises. Therefore, the size and degree of sophistication of enterprises are to be considered, distinguishing different patterns in terms of the usage of financial services for the smallest and larger MSMEs. The sector that MSMEs are located in is another important criterion, given that some sectors lead to very specific and different financing needs, such as loans for agriculture that need to follow the relevant crop cycles. The MSMEs usually served can be further analysed in terms of their growth potential and relevance for local economic development in the short and long run (see sections 3.2.2 and 4.2.2).

Another analytical category relevant for pro-poor financial sector development in terms of scope is the product mix and the type of customer service offered. The research on usage patterns of financial services has shown that poor populations use a variety of financial instruments for themselves and their economic activities and that a specific product mix offered is relevant to them, which is also consistent with related theory (sections 4.1.1 and 3.2.3). Thus, being able to choose from a diversified range of financial services is important for clients. The variety of services can help clients, especially if the financial institution also provides some consultation, to choose the service that best suits their financial management needs, for instance saving up a lump sum instead of borrowing the money if the expenditure need is not very urgent. In a financial institution that provides a single type of services—largely loans in the case of microfinance—such a consultation is less likely, and the client might be taken from one loan cycle to the next in order to keep her with the institution, even if she does not really need a loan. If one financial institution offers a relevant variety of financial products, the financial management of the client can be simplified because she no longer has to deal with multiple providers, time frames, and conditions. This situation can constitute a great burden for poor populations, especially when they often have limited levels of formal and financial education (see section 4.1.2). Moreover, it is important to consider whether the different financial services or products might be combined as the client desires or may be used only as packages. Therefore, whether complementary services are linked to the financial services should also be assessed, along with whether the type of linkage can be considered advantageous for clients, providing them with the freedom to choose which combination of services to purchase (see section 4.2.3).

The type of service provided (individual, group-based, etc.) and the way in which clients are served also influence the degree to which financial services can be useful to poor people. In the case of group-based microfinance, the client can experience a new kind of social interaction. Moreover, a trusting long-term relationship with the bank personnel can provide the client with an informal consultant for her financial situation and even business decisions (although it can, of course, cause stress in unsustainable relationships). The provision of financial services in a way that facilitates usage by low-income populations is of importance to clients who generally cope with little formal and financial education (see section 4.1.2). Besides such factors as the kind of internal organisation of the MFI, which influences the way client relationships can develop, the client's subjective impression of her relationship might make it either beneficial or worrisome for her. Social relations knit within or linked to the microfinance-providing institution can also contribute to wider social impact. Accordingly, the existence of platforms for social relations and their functioning need to be assessed. If groups are formed linked to the provision of microfinance, the way these groups are formed and overseen are relevant, especially when solid groups that receive support beyond the facilitation of loan repayment have a potential for contributing to social change (see section 4.2.3).

In a more general way, it is essential to disaggregate in three different ways when using the pro-poor financial sector development framework. The following three kinds of disaggregation are cross-cutting categories of the framework. They should always be considered and assessed for relevance and are highlighted in some sections of the framework more explicitly:

1. **Disaggregation of providers:** The first type of disaggregation consists in differentiating between different sources, institutions, or types of institution providing the financial services analysed. This differentiation is necessary to be able to discuss the contribution of different providers to pro-poor financial sector development, analysing the results of all five dimensions of outreach together. If this information is lacking, the link between a specific scope of financial services provided by an institution or specific type of institutions and related costs or access conditions cannot be made.
2. **Disaggregation of social and geographical lines of marginalization:** The second dimension of disaggregation refers to social and geographical lines of marginalization. With all dimensions of outreach, it is important not only to analyse the conditions of outreach and market coverage at the national level but also to consider social and geographical lines of marginalization and assess the conditions of outreach for marginalized groups. For instance, it might be well documented that coverage of microenterprise loans seems to be advanced considering the potential demand at the national level, but the supply might be concentrated only in the economic capital of the country or in specific sectors such as trade, excluding rural, semi-rural of ethnic populations and entire sectors from access to finance.
3. **Disaggregation between different types of financial services and products:** Once the different types of financial services relevant for poor populations have been defined within the scope of outreach, the following elements need to be disaggregated among these types of financial services.

Cost of outreach constitutes the second dimension of the framework, focussing on price and transaction costs of financial and complementary services that have been defined as relevant for poor populations in the specific context of the analysis in the first dimension of scope. Product-related costs are relevant both in comparison to costs of informal financial devices and compared to the income levels of microfinance clients. Furthermore, the tendencies in real prices are important, taking into account inflation and changes in purchasing power. Generally, changes in consumer prices and purchasing power should be taken into account if absolute numbers are compared. Besides the monetary product-related cost of outreach, transaction costs are also important to clients, not only for financial institutions. Considering the often opportunity-led business, microenterprise clients value flexibility and fast service and might incur important monetary costs if they have to close down their businesses to manage their financial services (see section 3.2.2). Besides the transaction costs of attending a meeting at the MFI or waiting to be served, the distance and related conditions of mobility might generate further costs to the client for using a specific offer of financial services. Ultimately, these might even convert an interesting financial product into a minimally advantageous option, thereby no longer constituting a freedom-enhancing opportunity. The worth of specific financial services finally depends, however, on the characteristics and preferences of the client; for instance, the participation in a meeting might be perceived both as a significant opportunity cost but also as access to relevant knowledge or desired social networking. Transparency about costs is another fundamental category of the cost of outreach. If clients are not well informed about cost, their choices might be biased in favour of the financial institution trying to sell specific products and possibly even harm clients (see section 4.1.2). Thus, the existence and enforcement of transparency rules and regulation in the financial sector is important and needs to be assessed and compared to the clients' understanding of cost. The latter might also depend on the way information is communicated to clients, providing them, for instance, with information that is comparable, like the APR in the case of loans, but with a translation into their understanding of loans, which might be monthly rates for a standard amount and loan period. Transparency-enhancing programmes are another interesting factor because they can contribute to better informed choices on the part of the clients, helping them to ponder different options and choose the financial solution that can afford them the most freedoms in a sustainable way. Thereby, the decision is not simply which product or provider to choose for a predefined financial need. Rather, it is also deciding which type of financial service to use, taking into account, for example, that savings can be a much cheaper but 'too slow' alternative to credit-based financing or might be used for 'insuring' a small risk without compromising liquidity (see sections 3.2.3 and 4.1.2).

The third dimension, namely breadth of outreach, draws a general picture in terms of the market coverage with microfinance services, taking into account which services are open to poor populations and considering both requirements and price levels. Thereby, this dimension focuses on levels of access to finance for all, considering that development consists in enhancing real opportunities for all (see sections 1.2.1, 2.2, and 2.3). For opportunities to be real, they have to reach people both in terms of geographical location and need in addition to being accessible to them. Accordingly, a first analytical category of breadth of outreach is the access points that enable microfinance clients to purchase the financial services offered to them. Banking outlets can be branches, ATMs, banking agents, or other distribution channels that are open for the use of microfinance clients. To consider only the banking outlets that are *de facto* places where microfinance clients are offered financial services that can be valuable to them, the disaggregation of financial service providers and products as proposed within the dimension of scope is necessary throughout the entire analysis. A first very broad indicator is the availability of banking outlets in relation to potential demand. Because bank accounts should be generally open to the whole population and children or retired people might hold savings accounts, most studies assess the coverage in relation to the population, using the ratio of banking outlets per 100,000 inhabitants (see section 1.2.1.3), which is also suggested as an indicator in the present framework. However, this ratio needs to be compared to the distribution of existing banking outlets for microfinance clients throughout the country and in relation to the population density of the different regions of the country. Thereby, it has to be controlled for inhabited areas, which also do not require any presence of financial institutions. This information might then be complemented with geographic characteristics and conditions of mobility, which help to assess what the specific distance to banking outlets might mean to clients. The other analytical category of breadth of outreach is the provision of a general picture of market coverage among microfinance clients. Therefore, the numbers of clients holding different kinds of microfinance products are compared to the estimated demand for these types of services. If demand-side data, for example, from household surveys, are available, the provider-side data related estimation of market coverage can be contrasted with the demand-side view of market coverage and access conditions.

Depth of outreach, the fourth dimension of the pro-poor financial sector development framework, focuses on market coverage in terms of the poor and marginalized. Thereby, it builds on the insights on the kinds of financial services useful for poor clients, their costs, and the general picture of market coverage. Such an additional perspective on breadth of outreach is needed because, particularly with unbanked populations and the poorest or marginalized populations, further barriers to access occur, which can be both demand- or supply-side based (see section 1.2.1). A first analytical category to consider is the inclusion of new clients. In order to assess their access opportunities, it is important to analyse the changes regarding the presence of banking outlets in the places where unbanked populations live. Thus, the distribution channel needs to be supportive of a first contact with a financial institution on the part of the respective unbanked segment of potential clients and of the client characteristics, like levels of financial literacy. Changes in financial inclusion of formerly unbanked clients are also analysed, as in the rest of the framework, disaggregated for financial products and financial institutions or types of institutions. Additionally, programmes for drawing in and informing new clients and measures addressing specific demand-side barriers to well-informed financial inclusion can change the situation of poor populations.

A second central category of depth of outreach is the presence of accessible banking outlets where the poor live and the market coverage among this segment of the population. In cases in which no comprehensive demand-related information is available to enable a comparison of the poor clients served and the potential demand among the poor, small clients might be taken as a proxy, if only provider-related data are available, taking the necessary care the analysis of this approximation requires. The third analytical category consists of approaches or measures implemented in order to address the specific needs of marginalized parts of the population. Based on the identification of the respective marginalized groups in the context studied, which might include ethnic origins, gender, or poverty status of the people, it is assessed whether related measures address existing inequalities and how they are perceived and used by clients. These specific approaches might facilitate the inclusion of the marginalized groups through tailor-made products, like pawn loans for women in cultures where holding jewellery as a 'female asset' is very common or ATMs for the illiterate in locations where many poor are illiterate. In addition, applying specific forms of organization, like group based-approaches with rural or indigenous communities or gender-specific groups in certain cultural contexts, might be facilitated. If group-based arrangements are used, it is important to distinguish between repayment-focussed groups and self-sustainable groups like village banks or SHGs and assess the way groups are led and the extent to which their routines provide additional opportunities or rather constitute a burden to their members. Integrated approaches, linking financial services to other services like training and awareness building, constitute other important types of approaches for reaching particularly marginalized groups.

The fifth and last dimension, length of outreach, focuses on the time frame and sustainability of the relevant financial services and the financial sector development. A first and fundamental analytical category of this dimension is the security of clients' deposits, guaranteed by some kind of deposit guarantee fund. The protection of deposits is one of the important differences from informal savings arrangements, given that people often experience losses with informal and unprotected formal savings (see table 4.1.2-A). Because there might be also some formal providers, such as cooperatives or specific types of MFIs without coverage of a deposit guarantee fund, it is important to control for membership of the individual institutions in relevant deposit guarantee funds. Furthermore, regulations that guarantee secure and reliable service for other services are relevant, such as clear rules for claim denial in the case of insurances or time frames for service provision. Sustainable levels of debt among clients are another fundamental factor for long-term service provision and usage. Over-indebtedness has generally very adverse effects on the clients living with the burden of debt levels above their debt capacity. If over-indebtedness becomes systemic, it can lead to debt crisis, borrower revolt, and the weakening of the entire microfinance sector (see sections 3.2.2, 4.1.2, and 4.2.1). Thus, indebtedness is a relevant subject both at the individual and aggregated level. For assessing the risk of increasing indebtedness and the levels of indebtedness, related regulation and enforcement of rules is a first indicator. In order to prevent the repayment of one loan with another ('loan cycling'), the alignment rules concerning multiple clients are important. Furthermore, the availability and usage of credit register or bureau information is essential for the prevention of over-indebtedness.

The type of credit evaluation and its adequacy in terms of the client's characteristics and financial needs—for instance, taking into account joint financial management in family-led economies—is another important indicator for this analytical category, even more so if this information is combined with information concerning incentives for staff, such as credit officers and branch managers. If their targets include thus information on punctuality of repayment (e.g., certain levels of portfolio at risk, PAR), the credit evaluations tend to be more comprehensive and cautious, but pressure on clients with histories of making late instalments might be increased. The last indicator, then, is the development of levels of indebtedness for clients. Indebtedness can be measured by comparing the levels of contracted debt to disposable income at the personal and household levels. Such an assessment can be done based only on detailed household data, ideally from representative surveys. The observed levels of indebtedness need to be divided into sections of low, moderate, high, and unsustainable. Another commonly used proxy for measuring unsustainable levels of indebtedness is the negative characteristics of overdue debt collected by credit bureaus. Thereby, differentiations between multiple and unique clients and main sources of indebtedness can provide further insights into the current situation or future risks. Finally, the clients' perceptions of their levels of debt are important because the same level of indebtedness for different persons can lead to very different subjective results, which finally determine how the clients see their situation. These perceptions might depend partly on culture and may vary within the country or among different groups within society, due to distinct normative perceptions about what a loan or a debt means to them. Rules and regulation applying to over-indebted microfinance clients and even options of personal bankruptcy are also important because these might restrict to some degree the clients' liberty in conducting business if they have an overdue debt.

The sustainability of client relationships is also essential, given that financial management is a life-long need in a monetized or partly monetized society for different specific products according to life cycle, employment situation, and other circumstances. Some of the financial management needs themselves are long-term, such as savings for asset building, investment loans, and insurances. A long-term relationship with a financial institution that offers differentiated financial services facilitates these transactions for the client and enables the institution to serve its clients better, which is especially important with microfinance clients due to the possible lack of formalization of their businesses or belongings (see sections 3.2.2 and 4.1.2). Given differentiated long-term financial services are both fundamental to the clients themselves as well as for their enterprises (see sections 3.2.2, 4.1.1, and 4.2.2) whereas many MFIs focus on short-term loans, sometimes with insurance for the duration of the loan period attached to the loan, the availability of long-term loans, savings, and insurance opportunities needs to be assessed. Furthermore, the marketing strategy can be assessed to determine whether a specific kind of service is 'sold' and how such a focus may be seen from a client's perspective or whether the institution focuses on 'serving clients' instead of 'selling them financial services'. However, a strategic focus on marketing might also be positive for clients, for example, if a new long-term savings product or a new tailor-made insurance is advertised. The type of attention given to the client might indicate the quality of her relation to the financial institution, and if the financial institution manages a client's exit smoothly, asking clients for instance for the reasons behind their exit, it can be expected that the financial services should be adapted for future clients.

The composition of staff incentives influences not only repayment rates but also the sustainability of client relationships based on more careful credit evaluations if the repayment rate is included in the incentives and a more comprehensive consultation with cross-selling of other products besides loans is aimed at, given that these are products adapted to the clients' needs (see the discussion on scope). Client retention rates then show the perception of the financial institution's services in comparison to available alternatives for financial management. In addition, reasons for client exit can provide information on how clients perceive the financial services offered in terms of their financial management needs. The sustainability of all client relationships that are bound to the economic activity of the client depends on the profit-generating capacity of the economic activity and the sustainability of the financing which has been sought for the activity. Financial institutions can support MSME development through tailor-made financial services as well as through specific measures for increasing the marketing options, professionalism, or quality of local MSMEs through measures like BDS, SME cluster development, or articulation of value. Thereby, the additional services might also be used for selling specific products, such as value-chain-linked loans that are directly discounted for the buyer of the small enterprises' products, which might a be a more secure option for the microfinance institution and guarantee lower interest rates to small borrowers. These additional programmes also need to be assessed from the different dimensions of outreach, including the clients' perceptions, cost, and the type of linkage to financial services.

Since financial management needs are long-term needs of the clients and their enterprises (see sections 3.2.2, 4.1.1, and 4.2.2), continuity of service provision is a fundamental analytical category for assessing pro-poor financial sector development. Clients might be worse off if long-term financial services suddenly disappear, taking away their savings or insurance protection they have invested in instead of using alternative preventive measures for old-age or to mitigate risk. Besides the security of deposits beyond the existence of a specific provider, the regulation and supervision preventing default and solvency problems of financial institutions serving the microfinance market is a primary important indicator for continuity of service provision. Thereby, the focus does not lie so much on the existence of single institutions but on the market stability in general and the mechanisms that are applied to smooth effects on clients of market exits, mergers, and acquisitions. Within this context, it is fundamental to assess the continuity of service provision in terms of similar products in the same locale and the trust of clients in service provision. The existence of a diversified panorama of financial institutions offering microfinance service is a first indicator because the probability of continuity is higher with different providers in the market: Even though market dynamics might lead to changes among providers, another provider is likely to substitute for the first if there is a variety and diversity of providers. The resilience of all financial institutions providing microfinance is essential because only a predominantly healthy financial sector will keep on providing microfinance services, innovating, and even increasing in breadth and depth of outreach. Therefore, the performance of the relevant financial institutions in terms of their business results and vulnerabilities, as indicated by ratings, basic financial indicators, and such related market dynamics as changes and degree of competition and cooperation, need to be assessed.

Furthermore, in addition to the resilience of the financial institutions, it is necessary to assess their permanence in the market segment, given that banks might move out of the microfinance sector or MFIs might gradually serve higher client segments. The permanence in the market segment can be analysed by reviewing institutional incentives for entering and remaining in the microfinance market as they are linked to an institution's roots and mission, its location, and governance and ownership structure. In addition, the strategic orientation, linked to the cross-selling potential of microfinance or the institution's retail focus, and competition in the microfinance and other market segments can be other relevant factors. The importance of microfinance for the financial institution, its profitability, and its contribution to the overall profit might be among the most important factors. Finally, the effects of provider-related changes for clients are the most important, analysing both the frequency of provider changes that makes clients lose their confidence in the financial institution and the effects regarding continuity of service provision. Therefore, it is necessary to determine whether the provider-related changes lead to new institutions substituting for exiting ones or whether access opportunities are reduced, which might be in scope, cost, depth, or breadth of outreach with new institutions offering fewer products, reducing the number of access points or similar; alternatively, such changes could lead to improvements for the clients. Considering, however, the effects financial institutions might have on local institution building, especially in marginalized localities, institutional presence beyond the maintenance of service provision and implications of frequent changes are relevant (see section 4.2.3). This is especially the case in locations where there are few other institutions or if the institutions hold roles of importance for the local population. An institution might cooperate with other local institutions, such as the municipality, and enable these actors to realize planned projects through preferred lines of financing. The interaction with other local institutions can also be based on specific approaches to financial service provision, such as value-chain moderation, which converts the financial institution into a local actor of importance. Another financial institution will not fulfil this role automatically if the former exits the market or locality. Accordingly, institutional permanence is also relevant, especially if the financial institution performs specific community-linked tasks in the locality that are not performed by other institutions or that require a trust relationship among actors.

As stated in the introduction of the present chapter, it is essential to consider that the framework provides dimensions, analytical categories, and more or less concrete indicators for assessing whether the respective financial system can be considered as pro-poor in terms of providing valuable opportunities and alternatives for the poor, not for assessing the impact of microfinance provision. Furthermore, it is necessary to stress that the different dimensions of financial sector development must always be seen in relation to one another. Only if the interdependencies, trade-offs, and interrelationships are considered, can pro-poor financial development be grasped in its complexity. If, for example, only breadth or depth of outreach is considered without assessing scope of outreach, the existing breadth or depth of outreach might be based primarily on products of very limited use to the poor, perhaps because of inadequate amounts or high expense. Accordingly, the different analytical dimensions always need to be analysed jointly in order to derive final conclusions about the state of pro-poor financial sector development in the case analysed.

Table 5.2.3-A: The pro-poor financial sector development framework: Dimensions, analytical categories, and indicators for assessing real opportunities

Analytical categories	Possible indicators and fields of analysis
1 – Scope of outreach: Diversity and adequacy of types of financial services	
For this section: Analysing the key characteristics and conditions of the different types of financial services and products reviewed, comparing them to the clients' usage patterns, financial management needs and preferences, and analysing usage[116]	
Product diversity offered	**Liquid savings or current account** with easy and flexible access, eventually providing access to emergency loans
	Money transfer options/remittances for national and international remittances, accessibility with and without bank account
	Structured long-term savings options with restricted access, different terms, incentives for long-term saving, possibly linked to insurance schemes, and usage
	Simple insurance especially for larger life-cycle events, emergencies and covariant risk with small contributions, flexible payout, and guaranteed service provision
	Emergency loan facilities, largely for consumption use, with easy and fast access, with requirements adapted to the clients' possibilities
	Short-term credit, usually working capital for business use, with adaptable repayment schedule, character-based loan evaluation, adequate requirements
	Long-term credit for investment in business, education, or housing, with adaptable repayment schedule and requirements, character-based loan evaluation
	Other **types of financial services**, according to clients' preferences
	Complementary services, such as financial education, skill training, or business consultation, awareness building and other courses and services
Scope of products for new, poor, and marginalized customers	**Financial services designed for poor, marginalized, and new customers**, promoting access of unbanked populations, considering specific demand-side barriers
Scope of products for different kinds of MSME clients	**Specific products for start-ups and very small MSEs**
	Sophisticated financial **products for larger SMEs**, including export financing, leasing, factoring, investments, enterprise insurance
	Specific **products for different sectors**, considering the sector-specific needs for financial services
Product mix and type of customer service offered	**Product mix** covering the different needs of the clients, flexible access to the different products without compulsory 'packages', type of linkages to complementary services if offered
	Type of service provision, considering group-based and individual schemes and evaluating characteristics according to clients' preferences

[116] If usage is analysed, it always needs to be compared to available alternatives in terms of products and providers.

Continuation of Table 5.2.3-A: The pro-poor financial sector development framework: Dimensions, analytical categories, and indicators for assessing real opportunities

Analytical categories	**Possible indicators and fields of analysis**
1 – Scope of outreach: Diversity and adequacy of types of financial services (cont.)	
Product mix and type of customer service offered (cont.)	**Type of customer service**, like products promoting long-term personalized client relationships, way of MFI service provision, feedback or grievance mechanism, and perception of client-bank relationship
	Microfinance providing platform for social interaction, type of platform or group, ways of group formation and strengthening beyond loan repayment
2 – Cost of outreach: Montary product-related cost and transaction cost	
Monetary product-related costs of financial and complementary services offered	**Monetary costs of different kinds of financial and complementary services**, including entry costs and current costs, relative to costs of informal financial devices and to income of target group
Transaction and opportunity costs of financial services	**Distance to banking outlets** like agencies, ATMs or banking agents, conditions of mobility, considering client preferences for specific distribution channels
	Cost and time related to getting access to and using financial services, like cost of transportation to banking outlets, time spent waiting and in meetings
Dimension of transparency about costs	**Transparency rules and regulations**, their enforcement and their adequacy for meeting clients' information needs
	Clients' understanding of costs of financial services, ability to compare costs
	Additional **transparency-related programmes,** like consumer protection and financial education, perception of target group and participation in programmes
3 – Breadth of outreach: Outreach to large numbers of people	
Access points for microfinance clients	**Banking outlets** relative to potential demand
	Distribution of banking outlets throughout inhabited areas of the country
Market coverage among microfinance clients	**Number of microfinance clients**, relative to the potential demand estimated
	Market coverage and access conditions to different financial services by microfinance clients, according to demand-side data
4 – Depth of outreach: Outreach to marginalized populations	
Inclusion of new clients	**Opening of banking outlets** in locations where unbanked clients live, using distribution channels accessible to new clients
	Financial inclusion regarding unserved clients, considering numbers of new clients, relative to unserved potential demands
	Programmes for bankarizing clients without previous relations to the financial system, clients' perception and use of programmes
Access points for poor populations	**Banking outlets where poor populations live** and serving clients through channels accessible to poor populations
Market coverage among the poor	**Number of poor clients**, relative to potential demand of poor clients or, alternatively, usage by small clients as proxy

Continuation of Table 5.2.3-A: The pro-poor financial sector development framework: Dimensions, analytical categories, and indicators for assessing real opportunities

Analytical categories	Possible indicators and fields of analysis
Inclusion of marginalized groups	Approaches taking into account specific needs and preferences of **marginalized parts of the population** and existing inequalities, clients' perceptions and usage
5 – Length: Time frame and sustainability of supply and client relationships	
Secure deposits	**Deposit guarantee funds** covering clients' deposits
Reliable service provision	**Regulations guaranteeing reliable service provision**, such as rules for insurance claim denial
Indebtedness of clients	**Regulation** on service provision, treatment of multiple clients and alignment rules, enforcement of rules, availability and usage of credit register information
	Type and adequacy of credit evaluation, type of staff incentives applied
	Indebtedness of clients, taking into account formal and informal sources of debt, and multiple and unique clients, pressure felt by clients
Sustainability of client relationships	**Long-term savings, loan, insurances,** and focus of marketing strategies
	Client attention and client exit management, considering the organizational structure of financial institutions and the composition of staff incentives
	Client retention rates and reasons for exit
	Additional services/programmes offered for fostering MSME development, cost and conditions, availability in the market, clients' perceptions and usage
Continuity of service provision	**Regulation and supervision** preventing default and resolving solvency problems of institutions, existence and implementation of rules for market stabilizations and smoothing effects of market exits, mergers, and acquisitions for clients
	Continuity of service provision with similar products in the same locality and trust of clients in continuity of service provision: Diversity of providers in the market, resilience of financial institutions, permanence in the market segment, market dynamics, frequency of provider-related changes and effects on clients
	Institutional continuity in the locality, interaction of financial institution with local institutions and relevance for local institution building

Source: Own conceptualization and elaboration, see Chapters 2-5 for the derivation of the pro-poor financial sector development framework.

This framework has been designed for an analysis at the financial system level but could be equally applied for analysing financial sector development at the regional level. In terms of assessing a specific segment of the financial market and its contribution to pro-poor financial sector development, this segment can be compared to other segments of the financial market and informal providers. If the entire formal financial system is assessed, it is important to assess and compare different providers or types of providers because they might show fundamentally different results in the different analytical categories and dimensions. Provider or provider type assessments enables the comparison of results from different analytical categories. Furthermore, informal providers and financial arrangements should be assessed and compared, or, at least, the researcher should be aware of their existence and take these other solutions into account when discussing results, given that, especially, quantitative data on the use of informal finance are generally not available (Stone 2005).

For the complete application of the framework, disaggregated provider-related data, user-related data from surveys, and financial diaries for adapting the indicators to the specific client's needs in each context are necessary. Given that the analytical categories within 'scope of outreach' provided within the framework are sustained by the analysis of usage patterns from very different regions and the results show consistency with theory, these analytical categories can be taken as an approximation of the usage patterns to be reviewed and adapted to the specific context. For instance, this approach will be made when applying the framework to the Peruvian case because detailed and disaggregated supply-side data could be accessed, but little user-related survey and no Financial Diary data are available. In general terms, it is always important to expand and adapt the indicators and analytical categories given according to the context. Therefore, user-related and qualitative data on usage patterns and client preferences are needed. In general terms, the way the framework is applied also changes with the level of analysis: If the analysis is made at the financial system level, retention rates might be a good indicator of the sustainability of client relationships, whereas at the financial institution level, a closer look, for instance, with the help of a client exit survey, might be feasible and interesting.

It is always essential to place the application of the framework within the relevant developmental and country context, analysing relevant lines of exclusion and inclusion within society and within the financial sector and its regulatory framework. On the one hand, the context frames the changes and results of financial sector development while, on the other hand, helping to improve the understanding of specific changes and results observed. Furthermore, it is crucial to get a general perception of the main tendencies of the local markets. The tendencies to be looked at include the respective microfinance sector—main institutions, typical products offered, common conditions—and demand characteristics, consumer preferences, and customs.

PART C – APPLICATION OF THE FRAMEWORK

6 The Pro-Poor Financial Sector Development Framework Applied to the Case of Peruvian Microfinance

In this chapter, the proposed pro-poor financial sector development framework is applied to the case of Peru. The market-level analysis focuses on the changes in pro-poor financial sector development during the last decade, a period of macroeconomic stability and prosperity. For contextualizing the analysis, the embedding socioeconomic context and the relevance of micro and small enterprises in Peru will be analysed briefly in a first step. The analysis of existing lines of marginalization within the country is needed for the application of the pro-poor financial sector development framework and the analysis of related lines of financial inclusion and exclusion. In a second step, the main lines of recent microfinance development are reviewed, providing an overview of the different types of institutions present in the market, and existing evidence on usage and usage patterns is analysed and compared with the findings from Chapter 4. The supply-side information helps to contextualize the findings in terms of different dimensions of outreach, and the demand-side information is essential to evaluating the observed developments, including sustaining the kind and size ranges of financial products relevant for the poor, used in the subsequent analysis.

The third part of the present chapter consists of applying the proposed pro-poor financial sector development framework to the case of Peru. Because the focus of the present study is on elaboration of a framework for assessing pro-poor financial sector development, the complete application of the framework would have been beyond the scope of the study. Given the situation that, for the case of Peru, there is detailed provider-related information available but only very limited demand-related data and information (see section 1.3), central analytical fields within the five dimensions of scope, cost, breadth, depth, and length of outreach have been chosen in order to enable a coherent and feasible analysis of pro-poor financial sector development in Peru. Due to the missing analytical dimensions, it is not possible to arrive at comprehensive conclusions. The missing fields of analysis will be considered in the concluding section of the application of the framework (6.3.6). However, because central analytical fields have been chosen for the application in the following discussions, the present chapter enables insights both into pro-poor financial sector development in Peru and into the methodological level, thereby clarifying the potential for the application of the proposed pro-poor financial sector development framework.

6.1 Socioeconomic context, lines of marginalization, and the importance of family-led enterprises in Peru

In the present section on the context and relevant lines of marginalization in Peru, the socio-economic situation and the characteristics of poverty will be analysed in a first step, with a discussion of the situation of employment and the importance of family-led MSMEs following in a second step.

6.1.1 Socioeconomic context and poverty

During the last three decades of the twentieth century, economic development in Peru was shaped by significant macroeconomic instability related to oscillations between periods of growth, depression, hyperinflation, and devaluation of the local currency.[117] This development was accompanied by and partly caused by fundamentally different types of economic policies that were implemented. Due to the severe economic crisis, only since 2000, the Peruvian economy has reached and surpassed in the GDP per capita levels of the mid-1970s (Sheahan 2001: 33ff.; Abusada Salah & Cusato Novelli 2007: 2ff.). Since the beginning of the new millennium, the Peruvian economy has been one of the fastest growing economies in Latin America. The high growth rates translated into significant increases in the GDP per capita and occurred under conditions of macroeconomic stability and prosperity (including reduced public debt, fiscal surplus, stable prices and exchange rate, growing exports, and the assignment of an 'investment grade' in country ratings; see Webb & Fernández Baca 2007: 1145; ProInversión 2009). The unstable and sporadic prosperous economic conditions before 2000 had an important impact on financial sector development and related crises and the development of income and living conditions in Peru.

The high levels of income poverty,[118] with half of the Peruvian population still living under the national poverty line in 2005, have only decreased over the last few years. In 2008, about 36%, a considerably lower portion of the population, lived under the poverty line. The income poverty levels in rural areas are, however, still at very high levels, including 69% in the rural *sierra* and 49% in the rural jungle areas (data from INEI). Furthermore, the non-poor population in the rural *sierra* tends to be very close to the poverty line, and there is a high probability of people becoming poor in the future (see Trivelli & Yankari 2008: 49). For the population with indigenous backgrounds,[119] poverty incidence is still higher, a situation that

[117] See Appendix 6.1.1-A for a compilation of exchange rates and new currencies introduced since 1980. These exchange rates will also be used in the present study.

[118] The national poverty line is measured at the district level, adjusting the price of a basic consumption basket (the *canasta de consumo básico*, which includes region specific minimal nutrition baskets; the *canastas mínimas alimentarias*, as well as other goods and non-food services) to the respective local price level (MEF 2001: 12; INEI 2000: 2). The poverty-line is arrived at by comparing income levels to affordable consumption levels; the former are assessed through expenditure at the household level, which appears to be more reliable than using income data (see INEI 2009: 4ff.).

[119] Although the definition of a person's ethnic identity refers to many dimensions, in Peru, indigenous populations are generally identified by mother tongue. Self-reporting by the heads of households or spouses speaking indige-

might be related to the lack of access to assets and public goods, such as education and infrastructure, but also to socioeconomic structures shaped by racism (Escobal & Ponce 2007: 40ff., Drinot 2006: 13ff.). The extremely high poverty in rural areas and rural indigenous communities can still be seen as related to 'access to land' even though certain land reforms have been implemented. As agrarian policies over the last two decades have focussed rather on the modernisation of large-scale coastal agriculture and agro-industrial production, little development occurred for small-scale farmers and in mountain regions (Eguren 2006: 115ff.). Women constitute another group marked by elevated levels of exclusion (Monge Salgado 2006: 45). For example, the maternal mortality rate is one of the highest in Latin America and remains particularly high in poor areas and among the rural and indigenous population (UNFPA & PRB 2005: 276). Analysing poverty in households with indigenous origins, Trivelli (2005) shows that the group with the worst living conditions and the most difficulties for getting out of poverty are rural women with indigenous origins. The marginalization of indigenous populations is, however, not a new reality, as has been underlined, for instance, by Mariátegui pointing to the problem of the concentrated land ownership, leaving important parts of the indigenous population without land (Mariátegui 1923/1979: 20ff.).

Considering indicators for human poverty, indicators of unsatisfied basic needs and the social situation for infant health, schooling, literacy, access to social security, and old age pension and employment situation show the expected large differences between the poorest and the richest quintile in nearly all indicators. All indicators are considerably worse for the lower income quintiles, except the unemployment rate, which is due to the different employment structure in the lower income segments (see section 6.1.2). These differences point to very difficult living conditions for the lower income quintiles (World Bank 2007). Even though child mortality rates have been decreasing since the 1970s, chronic child undernourishment remains extremely high—10 points above the Latin American mean—and has shown little change in the last decade (Abusada Salah & Cusato Novelli 2007: 9). In some rural mountain regions, such as the southern Andean village Lliupapuquio, chronic child undernourishment reaches as high as 90% and is manifested in the extremely short height of the children ('Suffer the children' 2008: 43). The continuing HDI rank gives the country a middle rank of 87 out of 177 countries listed, with relatively low ranks for life expectancy at birth and GDP per capita and far higher ranks in school enrolment and adult literacy ratios (UNDP 2008: 1). Nevertheless, in some parts of the country the levels of human poverty are comparable to sub-Saharan Africa (Drinot 2006: 13). Furthermore, the HDI does not include any qualitative criteria, which often make a difference in the outcomes. For instance, in terms of education in Peru, there have been important advances in school enrolment, but the bad quality of education continues to be a fundamental problem (see PISA results in Abusada Salah &

nous languages indicates about 42-45% being indigenous populations, which decreases to 25.5% for both head of household and spouse, with 16.1% living in urban and 45.3% in rural areas (Escobal & Ponce 2007: 4f.).

Cusato Novelli 2007: 10). The Human Poverty Index (HPI-1)[120] shows a lower rank for Peru than the Latin American mean, with an especially low rank for children being underweight (UNDP 2008: 3f.). Another phenomenon, which is partly linked to the outlined socioeconomic misery, is the high and increasing emigration ratios of mainly very poor and partly poor populations, which have tripled in the present millennium and led to nearly 10% of the population being abroad. More than 60% of these emigrants left Peru after 2000 (Dirección General de Migraciones y Naturalización—Ministério del Interior del Perú, DIGEMIN-MININTER, 2006).

The large differences in numbers of poor population among households residing in different areas and the striking differences regarding the various social and socioeconomic indicators discussed can be further analysed along socio-spatial lines of development and underdevelopment that split the country into regions with fundamentally different living conditions. Appendix 6.1.1-B provides an overview of the geographic dimension of these indicators by the lowest level of disaggregation, the district level.[121] The income-based poverty line established by INEI[122] is compared with the capability-based indicator of structural poverty by FONCODES,[123] the HDI, and indicators of other single dimensions of human poverty, such as undernourishment. In terms of both types of poverty measures, poverty is highest in the Andean mountain areas and lowest in the coastal areas, and there is still considerable structural poverty in the Amazon area (see Appendix 6.1.1-B, maps 6.1.1-B2, 6.1.1-B3, and 6.1.1-B5). Expenditure per capita (see Appendix 6.1.1-B, map 6.1.1-B6) shows the same picture as the income-related poverty indices. Thereby, it should be considered that population density is particularly low in the Amazon and some areas of the southern Andes (see Appendix 6.1.1-B, map 6.1.1-B4). In examining the share of illiterate women and undernourished children, the pattern of huge differences between other regions and the *sierra* and a considerable better situation in the coastal regions can be seen (see Appendix 6.1.1-B, maps 6.1.1-B7 and 6.1.1-B9). The share of population lacking access to water and the number of pupils among 6-16-year-olds are still the lowest in the coastal areas, but access to water does not follow this tendency very closely (see Appendix 6.1.1-B, map 6.1.1-B8). Considering the rate of children not attending school, the Amazon basin appears to be an area of much lower school attendance rates (see Appendix 6.1.1-B, map 6.1.1-B11). The shares of population lacking access to information and communication services, and human development according to the HDI statistics (see Appendix 6.1.1-B, maps 6.1.1-B12 and 6.1.1-B13), differ

[120] The Human Poverty Index (HPI-1) constitutes a multi-dimensional poverty measure, which focuses on human development from the perspective of the most deprived. It is determined by a population's probability at birth of not surviving 40 years, the adult literacy rate, and indicators for access to improved water and children under weight.

[121] For an overview of climatic zones, relief, and important cities for comparing with the other maps, see map 6.1.1-B1.

[122] Poverty is defined according to the national poverty line determined by INEI, as defined before.

[123] The FONCODES needs indicator is a comprehensive measure for structural poverty based on data on structural deprivations, such as lack of access to water, sewage, and electricity, and data on vulnerability, such as illiteracy ratios for women over 15 years, the presence of young children (between 0 and 12 years), and the health and nutrition status of children between 6 and 9 years. The final index is estimated based on factorial analysis using the method of principal components (Diaz Alvarez 2006: 17ff.).

greatly between the coastal areas and the rest of the country. The share of rural population also appears to be generally the lowest in the coastal areas and the highest in the Amazon area (see Appendix 6.1.1-B, map 6.1.1-B10). Regarding the share of population without personal identification documents, the areas with a high degree of structural poverty also are those with the largest lack of access to documentation, the largest share of people without national identity card being in the Peruvian Amazon, reaching up to 20% of the population (see Appendix 6.1.1-B, map 6.1.1-B15). However, the share of population without any kind of personal document (see Appendix 6.1.1-B, map 6.1.1-B19) is very low, in general.

The proxy available for economic strength at the district level is the monthly expenditure of the district population,[124] with the advantage being that expenditure is generally reported more accurately in household surveys than income is. Monthly expenditure appears to be the lowest in the Andean regions—partly due to the low population density—, but considering average monthly expenditure per person, the Andean region is still low in terms of expenditures; nevertheless, it does not differ from all other non-coastal areas (see Appendix 6.1.1-B, map 6.1.1-B14, map 6.1.1-B18). Comparing the results of the different individual and compound indicators, as well as their calculation, the FONCODES indicator for structural poverty appears to be an adequate measure of human development and deprivation of freedoms. Furthermore, the indicators reviewed show a clear spatial distribution of human poverty in its different dimensions. This characteristic of the socioeconomic situation in Peru will be used in analysing whether access to finance is available in regions with higher incidents of (human) poverty. These are the areas where the most marginalized groups of the population, such as indigenous people, live.

The contrast between the recently very positive macroeconomic performance and the very slow socioeconomic development, with persisting high levels of poverty,[125] can also be seen reflected in the popular perception of the situation in Peru. The Peruvians' evaluation of the economic situation of the country ranks it last among other Latin American countries, despite the highest GDP growth rates in Latin America experienced in recent years (see Latinobarómetro 2007: 17).[126] Furthermore, the lack of employment and access to basic services like health and education are felt strongly, in a context of little trust in the state and institutions to resolve these situations (Latinobarómetro 2007: 21ff., 81ff., 105f.). In terms of the widespread lack of legitimacy of institutions in Peru—including political parties, state actors and governmental organizations, the business community, and even the trade union sector

[124] Given that GDP or other standard indicators for economic strength are not available at the district level, the only available variable, expenditure per capita, is multiplied by the number of inhabitants of the district for constructing this proxy of economic strength.

[125] The first indicator above taken with the later one under Latin American means that, for 2005, CEPAL (2007: 304) indicates 51.1% of the population in Peru were under the poverty line and 39.8% of Latin America's population (using adapted and thus comparable poverty lines). The respective percentages for indigence are 18.9% for Peru and 15.4% for Latin America. Growth rates have been near and slightly above the average (data CEPAL, as of 31 December 2008).

[126] The database of the yearly public opinion surveys of Latinobarómetro consists of personal interviews of representative samples from the entire population of all Latin American countries (Latinobarómetro 2007: 4, 112).

(see Latinobarómetro 2007: 62ff.), it is crucial to look not only at the deficiencies in the functioning of the institutions in terms of organizations, but also at the underlying institutions in terms of rules and behavioural patterns (Drinot 2006: 5).

Both the history of elitist ruling in Peruvian politics and excluding societal practices can contribute to an initial understanding of the generalized and deep mistrust toward institutions. For most of the twentieth century, Peru was governed by authoritarian and often military regimes, which led the country in a centralist and elitist, thus exclusive, manner. Universal suffrage was achieved only in 1979, and after the years of socioeconomic chaos under Alan García, the Fujimori government installed a top-down system of clientelism and control (Crabtree 2006: 26f.). The 'tradition' of an elitist rule—in the rural areas, a regime of the omnipotent squire or *gamonalismo* (see Mariátegui 1923/1979)—that excludes the mass of the population has, thus, given rise to political and institutional developments in Peru that cause many voters to view political parties as parts of this system of domination and exclusion and has led to the widespread lack of political and institutional legitimacy (Crabtree 2006: 25; Nugent 2008: 3). Racial and social discrimination experienced by many non-elitist Peruvians might also sustain their mistrust of governmental institutions and even be one of the reasons for the persisting low degree of organisation because these hierarchies might also be reproduced inside societal organizations (Nugent 2008: 9; Drinot 2006: 20).[127] Furthermore, most Peruvians have had little opportunity to have good experiences with the state and its capacity for resolving problems because the deficient provision of public goods ended in widespread privatization in the 1990s. Partly as a consequence of that failure to provide public goods, privatization 'from above' is now increasingly accompanied by privatization 'from below' as people from all classes substitute deficient public services for private ones (Drinot 2006: 5). This substitution occurs even in areas that might appear to be core areas of competence for the state, such as jurisdiction that is increasingly 'complemented' or substituted for by vigilantism, generally in rural and poor urban areas (Mücke 2008: 489).

6.1.2 Employment situation and micro, small, and medium enterprises

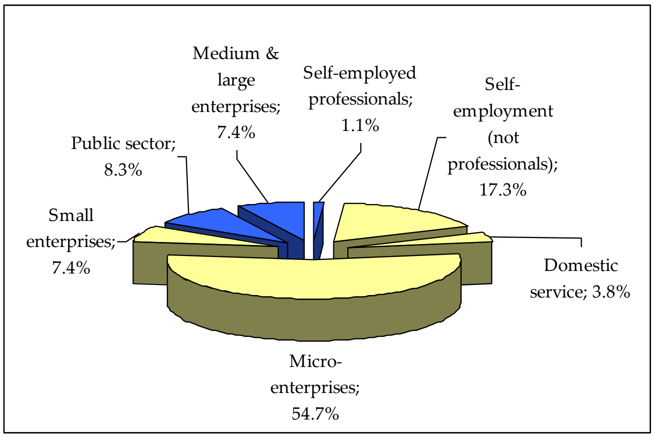
> These extralegal entrepreneurs are hardly a small and marginal sector of Peruvian society. Together with their extended families, they are the majority—around 60-80 percent of the nation's population. They construct seven out of every ten buildings; they have built and they own 278 out of Lima's 331 markets; they operate 56 percent of all businesses of the nation; they retail over 60 percent of all foodstuffs; and they operate 86 percent of all the busses. [...] Peru's extralegal entrepreneurs are not timid shoeshine boys who run for cover when they see the police. They are forceful pioneers. (de Soto 2005: 16)

Representative data on the employment structure in Peru confirm the overwhelming importance of microenterprises. Employment—including paid workers, non-remunerated family

[127] The attitude might also be partly due to the tutelary regimes of the *gamonalismo* still present in many areas of rural Peru.

workers (*trabajadores familiares no remunerados*),[128] self-employed, and entrepreneurs—in small-scale economic units accounts for nearly 80% of the employment in Peru (see Graph 6.1.2-A, marked in yellow). Thereby, the smallest enterprises—microenterprises with 2 to 4 workers—represent 83% of the largest part of all micro and small enterprises in Peru (DNMYPE 2007a: 9). Among workers in MSE, 45% were non-remunerated family workers in 2006 (DNMYPE 2007a: 25). These numbers indicate that a large number of the small economic units can be understood as family-led enterprises (see section 3.2) because they largely 'employ' non-remunerated family workers. Considering shares of self-employed, it can be shown that employment patterns differ across the country, reaching nearly 50% of the economically active population (see Appendix 6.1.1-B, map 6.1.1-B15).

Graph 6.1.2-A: Structure of employment in Peru: National classification with representative data (2006)



Source: Data from *Encuesta Nacional de Hogares* (ENAHO) (2006); see DNMYPE (2007a: 24).
Note: Data have national coverage; for notes about estimation methodology, see DNMYPE (2007a: 8); statistics according to national classification[129] of MSME.

Because access to finance usually requires specific documents, the level of formalization becomes relevant. The largest share of employment in MSE is informal (86%), which is even more accentuated for microenterprises with a share of 92% informal workers (DNMYPE 2005: Appendix 6). Regarding the formality of the enterprises, data from the Peruvian tax supervision intendancy SUNAT (*Superintendencia Nacional de Administración Tributaria*) show that only 9.2% of workers in micro and small enterprises worked in formal enterprises in 2006 (DNMYPE 2007a: 26).

[128] Although the family workers not receiving a salary are often counted in official statistics as 'non-remunerated', there are generally other forms of remuneration.

[129] According to the law Ley Nº 28015 D.S. Nº 009-2003-TR, which refers to the promotion and the formalization of micro and small enterprises, the national classifications are defined by two criteria: (1) the number of workers defining microenterprises from 1 to 10 workers and small enterprises from 11 to 50 workers and (2) a classification of gross turnover given in units of taxation norms UIT *(Unidad Impositiva Tributaria)*, which are equivalent to 532,500 PEN for microenterprises (150 UIT) and to 3,017,500 PEN for small enterprises (850 UIT) at a 2009 UIT conversion rate of 3550 PEN (see El Comercio 2008). Medium and large enterprises are defined as those enterprises having more than 50 employees and a gross turnover of more than 850 UIT. This official classification applies to the data from ENAHO presented in the following discussion. For the exchange rates of PEN to USD, compare appendix 6.1.1-A.

Due to the employment structure in Peru and further measurement biases,[130] low open unemployment rates[131] indicate little about access to labour and income in Peru. Underemployment, hidden unemployment, and informal employment are more important categories for assessing the challenges concerning employment in Peru. *Underemployment*, defined by INEI as employment that does not provide the income to purchase the basic consumption basket, is experienced by 52% of the economically active population (ENAHO 2006). For rural areas, these estimations rise to 70% and for microenterprises to 72%, and they are the highest for the self-employed at 91% (ENAHO 2004; see IPE 2006: 10). Given that the basic consumption basket also defines the national monetary poverty line of about 200 Nuevos Soles (PEN),[132] these figures indicate that there is a large number of Peruvians working who do not manage to escape income poverty because of the low remuneration or low profitability of their businesses (see INEI 2008: 15). Incomes in MSMEs are lower in smaller enterprises and for the self-employed (about 400 PEN monthly) and are still much lower for the rural self-employed (about 200 PEN) (see table 6.1.2-A). Most of these incomes are already close to the monetary poverty line for an individual, with the situation being worsened when a family must be maintained. Incomes for women, who provide the largest part of the workforce in (informal) MSMEs, are still lower (ILO 2007: table 2-A, 3-A; Sheahan 2001: 140).

Table 6.1.2-A: Income of population working in micro and small enterprises (including self-employed)

Tpye of enterprise	Monthly income in Nuevos Soles
Microenterprise	**478**
From 2 to 4 workers	463
From 5 to 9 workers	524
Small enterpise	**913**
From 10 to 19 workers	743
From 20 to 49 workers	1109
Self-employed	**416**
Rural self-employed	208
Urban self-employed	446
Independent professionals	926

Source: Data from ENAHO (2006); see DNMYPE (2007a: 27).

Besides low levels of income, people in the informal sector face insecure employment and payment conditions, demanding working conditions, and a lack of social security. Coverage with health or pension insurance is low. An estimated 12% of the employed in the informal sector and 33% of all urban employed have access to health and/or pension coverage, considerably lower degrees of access to some kind of social security than the Latin American average (see graph 6.1.2-B; Appendix 6.1.1-B, map 6.1.1-B19). Considering, however, the

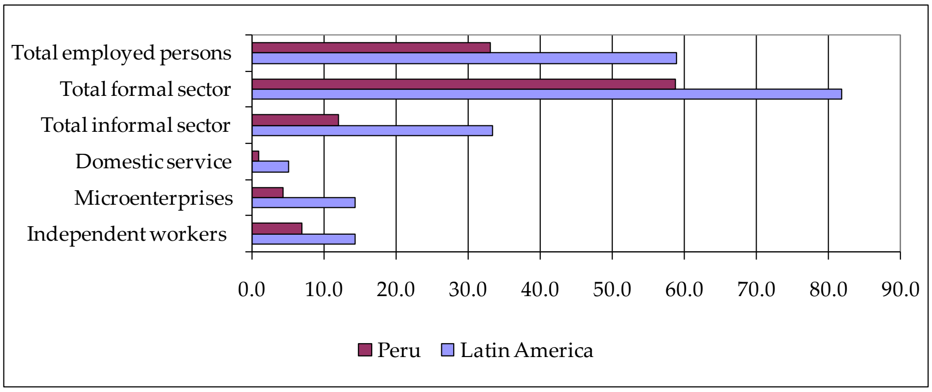
130 In Latin America, open unemployment rates are usually calculated only for urban areas—for Peru, generally only for Metropolitan Lima—and hence do not reflect the unemployment situation in rural areas or the rest of the country.

131 Since the 1990s, the rate has been stable, around 8-10%, which is close to the Latin American mean (see CEPAL 2007: 177) and even to the mean of the European Union (data from Eurostat).

132 For better readability, PEN is used instead of Nuevos Soles as the international ISO code for the Peruvian Nuevo Sol.

importance of family-led economies, informal arrangements might also provide social protection (see Saavedra & Valdivia 2003).

Graph 6.1.2-B: Urban employed population with health and/or pension coverage in (2005, in percentages)



Source: Data from ILO (2006: table 8-A), own elaboration.[133]
Note: Microenterprises in most countries have fewer than 5 workers, in some countries fewer than 4 workers; for Peru only metropolitan Lima.

Regarding the kind of economic activity small-scale enterprises perform, there are significant differences in the patterns between MSE and self-employed workers. More than half of the microenterprises and three quarters of the small enterprises work in agriculture (*actividades agropecuarias*) and fishing. The activity of the self-employed is concentrated in commerce and services, with about 30% of the self-employed working in these activities. Overall, about 40% of all small enterprises—including self-employment as 'one-person-enterprise'—work in agricultural or fishing activities, followed by construction and commerce with 20% each (see table 6.1.2-B). It will be interesting to determine whether the large share of agriculture and fishing microenterprises is well served by microfinance providers because this sector is often underserved.

Table 6.1.2-B: Distribution of micro and small enterprises according to economic activity

	Microenterprise	Small enterprise	Self-employed	Micro and small enterprise (MSE)	MSE and self-employment
Extractivist (agriculture and fishing)	59.6%	74.6%	17.3%	59.8%	40.6%
Industry	6.6%	2.9%	12.8%	6.5%	9.4%
Construction	2.2%	4.9%	3.2%	2.2%	2.7%
Commerce	19.7%	1.3%	30.0%	19.5%	24.2%
Services	12.0%	16.3%	36.7%	12.0%	23.2%

Source: Data from ENAHO (2006); see DNMYPE (2007a: 20).

Results from 'entrepreneurship' research further support the thesis concerning a large number of *Wirte* working as self-employed and MSE owners in the Peruvian economy: For micro and small enterprises in urban areas, the Global Entrepreneurship Monitor (GEM) (2008: 22) shows

[133] In the following analysis, data are taken from ILO's Labour Overview 2006, although the report for 2007 has been published (as of this writing) but with a different classification of data, which does not report the informality of employment, which is discussed here.

a very high 'entrepreneurial activity' of over 40% among adults for Peru. The large difference in relation to the averages of both OECD and non-OECD countries of GEM[134] with 'entrepreneurship ratios' of about 9% and 15%, respectively, and the very high values in Peru point to significant shares of business owners or *Wirte* rather than considering nearly half of the population as innovative entrepreneurs. This thesis is, furthermore, supported by the fact that most microentrepreneurs do not indicate having finished secondary school and tend to fear unemployment, and that two-thirds of them indicate increasing income as the main motive for starting their business, compared to one-third of the entrepreneurs in the other medium income countries (Serida, Borda et al. 2008: 28ff.). Furthermore, MSMEs show a high failure rate, which accounted for the fact that 3 of 4 enterprises in Peru are new (Serida, Borda et al. 2008: 36). For these many new firms, external financing might be difficult. Considering conditions for doing business in Peru, although the cost is considerably lower for registering small firms, the process seems even more tedious: Even though the procedures have been simplified in recent years (cf. work of the Instituto Libertad y Democracia, ILD) and are partly subsidized, they still cost between 1,140 and 3,269 PEN, and it would take the micro entrepreneur between 73 and 117 days to complete the 8 different steps for registering her enterprise (IPE 2006: 11; IBRD 2008: 2f.). Considering the monthly incomes in MSE, these costs are very high.

The participation of MSMEs in the national GDP of Peru is estimated at 56% and at 42% for MSEs, confirming the much lower GDP share compared to the share for employment (Ayyagari, Demirgüç-Kunt et al. 2003: 22f.; DNMYPE 2007b: 12). Considering the importance of the national economy, the multiplication effects of investment goods purchased by microenterprises or the consumption of formal sector products based on the revenues of informal microenterprise earnings has to be taken into account. In terms of foreign sales, only 1.8% of the micro and small enterprises showed export orientation in 2006 (DNMYPE 2007a: 36), which is not surprising considering the conditions of most MSEs being led by *Wirte*.

6.2 Microfinance in Peru: A short introduction from supply and demand sides

In this section, the recent history, an overview of the institutional environment, and some general trends of microfinance in Peru will be presented in a first step. Then, usage patterns will be discussed, and the choice of the types and size ranges of financial services considered to be microfinance and analysed in section 6.3 will be explained and supported.

[134] The 42 GEM countries consist predominantly of industrial countries, with approximately 4 to 6 countries from Latin America, Central, and South East Asia and only one country (South Africa) from Africa (see Serida, Borda et al. 2008: 20).

6.2.1 Financial market and microfinance development

Like the Peruvian economy, the development of the financial system has been marked by the radical changes in economic policy since the 1970s, going through periods of nationalization, liberalization, and finally market-based regulation, with related periods of crisis and prosperity. From the moment the economy started to grow again at the beginning of the new millennium, the financial system as a whole and also the microfinance segment have experienced significant growth and declining levels of delinquency. Microfinance shows an advanced level of development in terms of institution building, supervision and regulation, and availability of risk information, which will be discussed in the following section. In terms of size, the microenterprise loan portfolio in Peru is far bigger than that of the well-known Bolivian microfinance market, but smaller in terms of the ratio of microenterprise loans to GDP.[135] For the following analysis, the main lines of the development of the microfinance sector are relevant. Table 6.2.1-A presents the recent history of microfinance in Peru, including both institutional and regulatory development, contextualizing it within the respective changes in economic policy and development.

Table 6.2.1-A: Milestones in the recent history of Peruvian (micro)finance development, contextualized within financial sector regulation, economic policy and development[136]

	Economic and financial sector policy and development	*Institutional development regarding (micro)finance*
1950s		1950s: First COOPAC founded
1970 - 1990	Important losses of financial depth due to strong financial repression in the 1970s and after 1985	1980s: NGOs begin to implement microfinance components into their projects
1982	Economic recession and important damages by *El Niño*;	First CMAC (CMAC Piura) initiates operations; foundation of other CMACs (1980s), supported by the state and development cooperation (1985-96)
1985		CMAC Piura authorized to take deposits
1987	Strong private sector protest against declaration of nationalization of the banking system	
1988	Reversal of (intention of) the nationalization	CMAC Piura authorized for microenterprise loans
1988 - 1990	Hyperinflation, contraction of GDP and informal dollarization (peak in 1990)	
1990	Start of structural adjustment programme	
1991	Financial liberalization initiated through legislative decree *(DL, decreto ley)* N°637	Banco Wiese creates division for micro and small enterprises, channelling loans through NGOs
1992	Collapse of parts of the financial sector due to economic and financial crisis; COOPAC become supervised by SBS (delegating the supervision to FENACREP). Constitution of the CRAC model	Disappearance of state banking institutions, many COOPAC and the central cooperative institute. Restructuring of COFIDE (Corporación Financiera de Desarrollo S.A.) as development bank
1993	Further financial liberalization with DL N°770: admission of foreign investment, free setting of interest rates, and privatization of commercial banks; 1993-97: High economic growth, falling inflation rates	1993-97: Expansion of the financial sector, including microfinance
1994	Authorization of operation of EDPYMEs.	Opening of first CRACs, and of Banco de Trabajo as consumer lending bank serving medium and low income populations; followed by other consumer lenders, mostly finance companies

[135] As Portocarrera and Byrne show (2004: 55), the Peruvian microenterprise loan portfolio tripled in comparison to the Bolivian one in 2002, but showed a much lower ratio of microenterprise loans to GDP of 1.3% compared to 3.0%.
[136] For abbreviations, see the list of abbreviations or the text below the table.

Continuation of Table 6.2.1-A: Milestones in the recent history of Peruvian (micro)finance development, contextualized within financial sector regulation, economic policy and development

1995 - 1996	1996: General Law of the Banking and Insurance System N° 26702 builds the foundation of modern financial system in Peru; creation of a public credit register, the *Central de Riesgos de la SBS*	Banco Continental, Banco Wiese and Banco de Crédito del Perú start to develop own platforms for offering microcredit, although serving only small enterprises
1998	Economic recession linked to the Asian crisis and damages *El Niño* until (until 2000); cooperation agreement COPEME - Infocorp for integrating the NGOs in risk information system; begin of provision of information also on small loans by SBS	Foundation of most EDPYMEs; Mibanco is founded by upgrading; banks stop expansion of their microcredit programmes; crisis and market exit of most consumer lenders due to high default of over-indebted clients
1999	Generalized financial crisis	
2001	Increasing financial and economic stability. New accounting standards by SBS for financial reporting.	Foundation of a new state bank for agriculture, Agrobanco; Banco de Crédito creates subsidiary finance company Solución for micro lending
2002	Stable macroeconomic conditions and falling inflation rates, economic growth	Growth of the financial sector, including microfinance
2003	CMACs allowed to enter Lima	Most banks start to slowly include micro lending into core business (as separate business unit)
2004		Banco Financiero creates Solifé for microcredit
06-08	Entrance of different foreign banks in the Peruvian market is authorized	Development aid-supported entry of Interbank into the microfinance market
2008	New regulation facilitates CRACs, CMACs and EDPYMEs access to capital markets	First large merger in microfinance sector after acquisition by Fundación Microfinanzas BBVA: Caja Nuestra Gente (merged 2 CRACs and 1 EDPYME)

Source: Own conceptualization and elaboration using information from Zaldivar & Sotomayor (2003:2); Guillamon & Murphy (2000: 18f.); Portocarrero (1999/2005: 15ff.); CMAC Piura (2009); Nieder (2007: 317); Alvarado, Portocarrero et al. (2001: 18f.); Trivelli & Venero (2007: 231, 252); Zaldivar & Sotomayor (2003: 3); Marchini (2004: 43ff.): SBS (2009a, 2009b); COPEME (2005: 19); Mibanco (2009a); MIX (2008:8); Economist Intelligence Unit (2008: 48): Chowdri (2004: 26f.): Westley (2006: 63): Fernández Rojas (2000: 2ff.); Baydas, Graham et al. (1997: 8ff.); Young, Gutin et al. (2005: 19ff.): BBVA Banco Continental (2008); Izquierdo, Quiñones et al. (2007: 7); Wittowski, Mosquera et al. (2007: 2f.); data from SBS (2008).

As shown in table 6.2.1-A, primarily microfinance NGOs[137] and the first municipal savings banks (*Cajas Municipales de Ahorro y Crédito*, CMACs) began to provide loans to micro and small enterprises from the 1980s on, in the context of financial repression. CMACs and their 'sister institution' *Caja Municipal de Crédito Popular de Lima* (CMCP Lima)[138] emerged as local financial institutions[139] authorized only for pawn lending initially but developing into full-fledged financial institutions from the end of the 1980s on. Savings and loan cooperatives (*Cooperativas de Ahorro y Crédito*, COOPAC) became controlled and supervised in 1992 by the Peruvian financial supervision authority (*Superintendencia de Banca, Seguros y Administradoras*

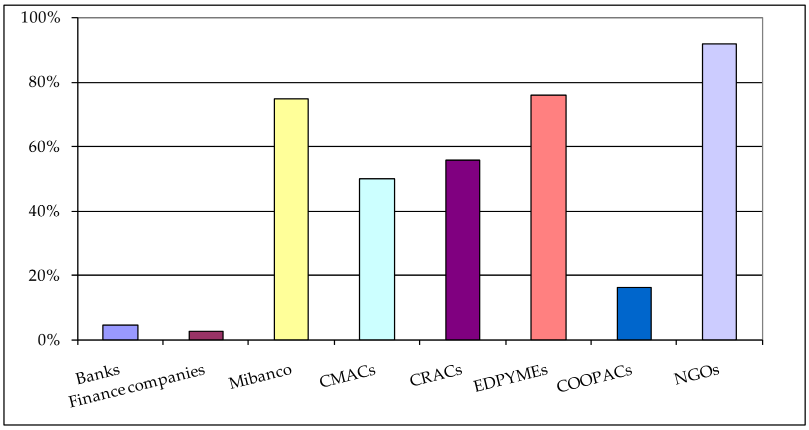
[137] In the present chapter, only NGOs that focus primarily on providing microfinance are considered, thus referring to these microfinance NGOs with the term *NGO*.

[138] Although the regulatory base of the metropolitan savings bank of Lima (CMCP Lima) differs from that of the CMACs (the CMCP being constituted by law no. 10769, dating from 20 January 1947, as property of the municipality of Lima; whereas the CMACs are based on the new municipal law D.L. Nº 22250-V-II, 28 July 1978, which proposes the creation of municipal banks) and has different governance structures (the CMCP having the governance scheme of regular banks with one general manager and an open directorate and the CMACs having a team of three leading managers, the *gerencia mancomunada*, and a specific structure of the directorate), both types of institutions started with pawn credit only and developed into local financial institutions offering a wide range of services. Because their operations are comparable and they have strong connections to the respective local municipality, they are understood as 'sister organizations', and the CMCP is analyzed within the group of the CMACs.

[139] In the current chapter, all types of institutions that are dedicated to provide financial services in a formalized way are considered functionally to be financial institutions, even though they might lack a formal status as financial institutions. Accordingly, the term refers to all kinds of banks, finance companies, CMACs, CRACs, EDPYMEs, COOPACs, and microfinance NGOs.

de Fndos de Pensiones, SBS) after a widespread crisis of the cooperative financial institutions linked to a financial and economic crises. Their supervision is delegated to their federation *Federación Nacional de Cooperativas de Ahorro y Crédito del Perú* (FENACREP). In the 1990s, economic stabilization and financial liberalization marked a fundamental change from the previous decades and sustained a first period of growth during the mid 1990s. In 1994, the first rural savings banks (*Cajas Rurales de Ahorro y Crédito,* CRACs) opened after the disappearance of the agrarian development bank *Banco Agrario*. From 1996 on, micro and small enterprise development companies (*Entidades de Desarrollo de la Pequeña y Microempresa,* EDPYMEs) were founded, largely through upgrading of microcredit NGOs, and in 1998, Mibanco was founded as the first microenterprise bank in Peru, also through upgrading. The development of finance companies has been marked by market entries and exits. Since the last financial and debt crisis in consumer lending, the few existing finance companies have shown increasing stability during a prosperous economic situation. The stability in economic and financial sector development further supports the choice of the current decade as a period of analysis (see section 1.3; see table 6.2.1-A for references).[140]

Graph: 6.2.1-A: Weighted averages of shares of microenterprise loans in total loan portfolio by types of financial institutions, 2008



Source: Data from SBS, FENACREP, and COPEME; own elaboration.
Note: Weighted averages show the total loans of each financial institution in the respective period. Microenterprise loan portfolios of NGOs are the sum of working capital and microenterprise investment portfolios. Data as of 31 September 2008; for NGOs as of 31 December 2008.

In terms of institutional roots and development, but also in terms of involvement in microfinance provision, the different types of financial institutions mentioned have many common characteristics. Considering the portfolio share of microenterprise loans within the total loan portfolio, the shares within the different types of financial institutions are generally similar, but they differ across different types of institutions. Exceptions are banks for which Banco del Trabajo[141] shows 55% of microenterprise loans, Banco del Crédito and Scotiabank above 5%, and other institutions around 1%. Another group with larger variations are

[140] The supply-side data will probably be analysed only from 2001 on because new accounting standards by SBS guarantee comparability of data only from that time.
[141] Banco del Trabajo was bought by Scotiabank in 2008 and converted into the finance company CrediScotia in 2009. Within the present study, the former name will be used because the period up to 2008 is studied.

COOPACs. For the other types of institutions, there are only minor deviations within small institutions (see graph 6.2.1-A; see data from SBS). In terms of differences between different types of institutions, the weighted averages show that NGOs, EDPYMEs, and the microenterprise banks are the types of institutions with more than 75% of their loans being microenterprise loans. CRACs and CMACs show medium positions with around 50-55% of their loans being microenterprise loans. COOPACs, banks, and companies show the lowest shares of their loans being invested in microenterprises, with the share of COOPACs still being significantly higher.

Considering the origins and type of microfinance service provision, it can be noted that EDPYMEs, Mibanco, and the microfinance NGOs have the highest microenterprise share in their lending portfolios and common origins in NGO microcredit programmes. Some NGOs have preserved their legal status, others transformed into EDPYMEs, and one NGO went for upgrading, becoming Peru's first microenterprise bank, Mibanco (see Trivelli, Morales et al. 2004: 54f.; Mibanco 2009a). However, regarding other institutional characteristics and the type of microfinance provision, the different types of institutions differ. Microfinance NGOs differ from all other financial institutions providing microfinance in terms their approach to microfinance and the credit methodology used. NGOs generally work with group-based methodologies of credit and savings, whereas other institutions serve their clients almost exclusively on an individual basis (see COPEME 2008: 6f.). Furthermore, most microfinance NGOs and all large ones are members of the networking NGO PROMUC (Promoción de la Mujer y la Comunidad) which promotes a common village banking approach that combines the promotion of savings, group-based credit with capacity building, organisational support to village banks, and recently, microinsurance (PROMUC 2010). In addition, some of the member NGOs provide microfinance services through solidarity groups, and some also on an individual basis (see Appendix 6.3.1-A, graph 6.3.1-A8). The target group or potential market of PROMUC-affiliated NGOs is indicated as the lowest enterprise segment, served only by NGOs, according to PROMUC (Díaz Campoblanco 2009: 7). EDPYMEs focus generally on extending microenterprise loans and additional small-consumption loans to their clients. The only exception is EDPYME Efectiva, which finances purchases of electrical household appliances for the retail chain Tiendas EFE (EDPYME Efectiva 2009). This is also the only EDPYME with significantly lower microenterprise shares in its portfolio (see data from SBS). Regarding the coverage and the range of products offered, as well as the key characteristics of the institutional structures, NGOs and EDPYMEs are fundamentally different from Mibanco. Initially at the local or regional level, they are not allowed to take savings and concentrate their activities largely in providing microenterprise loans, in the case of NGOs focussing on the smallest and female clients (Portocarrero 2002: 8; Trivelli, Morales et al. 2004: 107). Mibanco operates at the national level and offers a wide range of differentiated products for smaller as well as medium-sized clients in the microfinance segment (interviews of Mibanco, EDPYMEs, NGOs in Peru 2006; see also analysis in section 6.3). Mibanco's management and ownership structures are those of a bank, whereas ownership and management of microfinance NGOs and EDPYMEs are still modelled after their NGO origins (see Trivelli, Morales et al. 2004: 113f.; Portocarrero 2002: 8).

EDPYMEs, CMACs, and CRACs are all directly supervised non-bank financial institutions (NBFIs), having significantly lower minimum capital requirements than banks and finance companies. CMACs and CRACs generally operate at the regional level and are authorized to offer a limited range of operations. The modular character of the regulation of non-bank financial institutions allows them, however, to increase the number, kind, and complexity of services offered. Especially the larger institutions have been able to take advantage of these possibilities and have been increasing the range of services offered (see financial system law no. 26,702). Since 2003, bigger CMACs have also been authorized to open offices in Lima, and different larger CMACs and CRACs are expanding within and beyond their regions of origin (e.g., CMAC Piura, CMAC Arequipa, and CRAC Norperú[142]).

During the 1980s, most CMACs were founded within the government programmes for enhancing decentralization and supporting low-income populations. They received important technical cooperation and training, especially from German development cooperation during the period from 1985 to 1996 (Tello 1995: 61f.). From local government-owned small savings banks initially only authorized to do pawn lending, they developed into full-fledged small regional savings banks with about half of their loan portfolios in microenterprise lending (see graph 6.2.1-A). Besides the ownership of the local governments, which became the only shareholder with privatization of the CMACs, they are different from other financial institutions because their management is led by a team of three managers instead on one general manager *(gerencia mancomunada)* and because of the particular composition of their body of directors. The board of directors has to be composed of representatives from both ruling and minority parties in the city council, as well as representatives from the church, the local business association, and government banks. Their business has been growing based largely on taking deposits from the public and channelling the funds under market conditions, which has contributed to an efficient management of most CMACs and good financial results (interviews CMACs 2006; for business results see section 6.3.5). This process has been different for the CRACs, which depended largely on public credit lines even though being private financial intermediaries (Portocarrero 1999/2005: 32).

The initial structural weakness of CRACs already became obvious with the elevated number of closures of CRACs between 1997 and 1999. Seven CRACs were subject to liquidation and intervention, mostly due to the loss of more than 50% of the regulatory capital (Ebentreich 2005: 6). Most CRACs suffered from their strong focus on high-risk lending in farming and livestock, which was a consequence of having been created to replace the government agrarian bank Banco Agrario, which had been closed in 1992. In this regard, their local or regional

[142] This CRAC was bought by BBVA Microfinanzas in 2008 and subsequently merged into CRAC Nuestra Gente. When the history of the institution is discussed, the former name is used with the current name used for discussing current issues.

outreach meant an even much higher risk for agriculture credit because CRACs were unable to pool climate risks from different zones of the country. Hence, in 2001, the government intervened with a scheme for restructuring non-performing farming and livestock loans (*Rescate Financiero Agropecuario*, RFA), of which most CRACs had important shares in their portfolio. Recently, important changes can be seen, with most CRACs diversifying their portfolios (see Appendix 6.3.1-E and 6.3.1-F). Although many CRACs are on the way to reducing their exposure to climate risk, many institutions have still considerable RFA portfolios and many challenges to resolve, so must search for new ways of lending to farmers (see section 6.3.5; interviews CRACs 2006; results SWOT 2006).

COOPACs have been founded since the 1950s, but they have only been registered by SBS and supervised from 1992 on, after a large number of cooperatives and the central cooperative institute *Instituto Nacional de Cooperativas* had to be closed during the financial crisis of that time. Still, supervision is not implemented by SBS but has been delegated to its federation FENACREP (Zaldivar & Sotomayor 2003: 2 seq.). Cooperatives are very diverse. First, they can be classified as either closed or open cooperatives. In the case of the former, the eligibility for membership is dependent on being part of a specific group (associations, enterprises, police, or the army). Cooperatives open to the public are very heterogeneous in terms of size. Most of these cooperatives are small, but a small number is large or even very large (see Zaldivar & Sotomayor 2003: 6ff.). The 161 COOPACs with nearly 750,000 members show a low amount of savings per member (750 PEN), a relatively low amount of deposits per member (2,600 PEN), and a limited asset base per member (3,800 PEN) (data from FENACREP, as of 31 December 2008). Comparing the average savings amount per member to relevant incomes (see section 6.2.2), the average savings amount is about twice the monthly income of a microentrepreneur and about four times the income of a poor person, which is clearly an amount within the reach of microfinance clients. SBS also stresses the social relevance of COOPACs in Peru, pointing to the large number of members related to the limited asset base, and considers all COOPACs *de facto* to be open cooperatives, given that the affiliation requirements are flexible (law project No. 3324-2009-SBS, letter 21375-2009-SBS). Accordingly, all COOPACs are potential microfinance institutions and are considered as such according to the following. The low share of microenterprise loans of COOPACs can partly be explained by the fact that especially closed cooperatives have focussed on providing consumption loans to their often-salaried members. However, among the open cooperatives, there is an increasing number of cooperatives of medium to larger size that explicitly offer microfinance products such as microenterprise loans (see section 6.3.1). These open cooperatives with a microfinance focus also provide information on their services to the public—for instance, most have websites—and many of them have their data listed in the Mix Market and constitute a more homogenous subgroup among COOPACs. In general terms, there is little public information on the single COOPACs, offered either by FENACREP or through publications (see Trivelli 2007: 13).

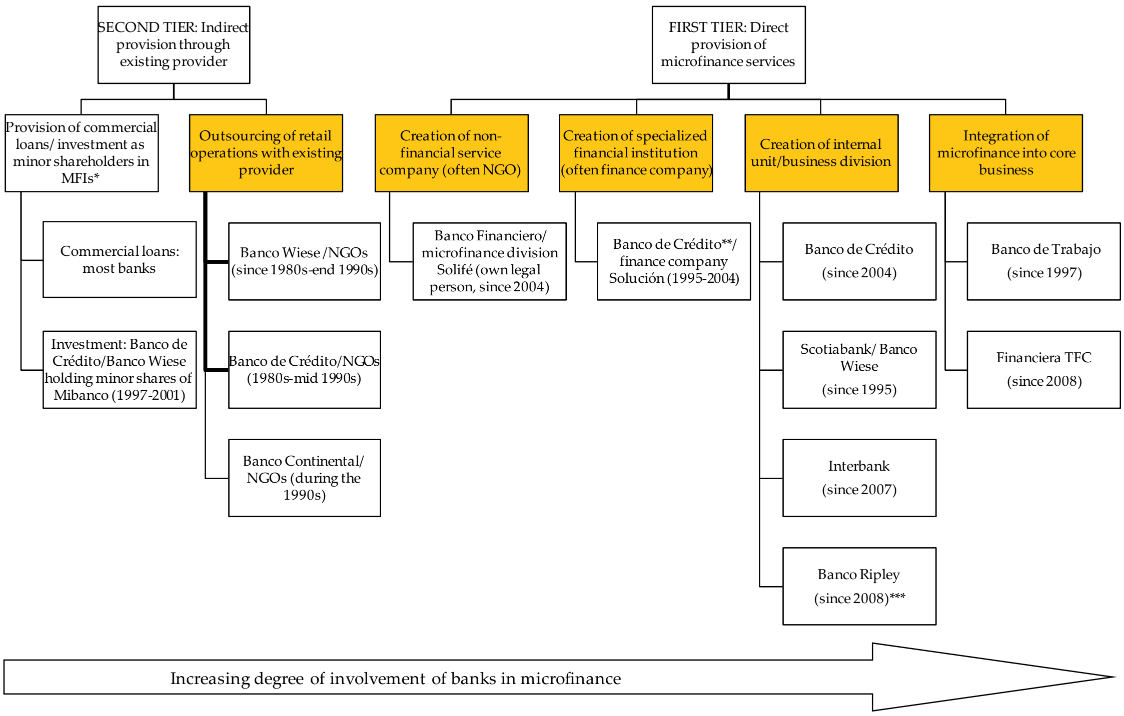
In the case of banks, their involvement in microfinance and kinds of service provided cannot be assumed on the base of common main characteristics among banks. The different institutions have generally taken different approaches towards microfinance, which need to be acknowledged at the institution level. Very broadly, however, three periods of their entrance into the microfinance market can be determined. The first period of pilots started in the 1980s, when some banks began to lend through NGOs, which were responsible for the entire lending operation (Portocarrero 1999/2005: 18). From the mid-1990s on, some of the largest Peruvian banks started to enter the microfinance market generally with specialized finance companies. Only during the present decade, have they included microenterprise lending usually as a separate business unit of their core business and started to offer a wider range of services to microfinance clients. One of the major exceptions is Banco del Trabajo, which entered the market as a low-income consumer lender in the 1990s and reoriented its main business from the mid-1990s on towards microfinance, extending loans to non-employed customers, first serving only clients with formalized microenterprises and later moving to serve informal workers, the self-employed, and microentrepreneurs (Fernández Rojas 2000: 2ff.; Chowdri 2004: 26). After a first pilot period with NGO-intermediated lending, Banco de Crédito participated in the creation of the subsidiary finance company Solución, which was acquired by the bank, by integrating microlending into the bank through the internal unit Banca Pequeña Empresa (Portocarrero 1999/2005: 20; Westley 2006: 63). When Scotiabank entered the Peruvian market in 2005 by buying Banco Wiese, it acquired at the same time one of the banks with a very long history in Peruvian microfinance, with long years of NGO-intermediated microfinance. After a pilot phase with direct microenterprise lending, the bank established its internal microfinance unit in 2004, focussing on the upper end of the microfinance segment (Young, Gutin et al. 2005: 19ff.). BBVA Banco Continental also 'bought its microfinance roots' and entered the Peruvian market by buying Banco Continental in 1995, which had a history of NGO intermediation but with lower market shares than Banco de Crédito and Banco Wiese (Portocarrero 1999/2005: 18f.; Villarán, Pillado et al. 1997: appendix 10). After this first phase of indirect involvement in microfinance, the bank did not start any other specific initiative to offer microenterprise loans directly, visible also in the disappearance of microenterprise loans from the bank's portfolio (data from SBS, as of 31 December 2008).

However, the BBVA group has initiated a new initiative of being involved indirectly in microfinance. Founded in 2007 within the Corporate Social Responsibility (CSR) strategy of the bank, its Fundación Microfinanzas BBVA has been created to promote access to finance for low-income populations—especially in areas with low levels of socioeconomic development. Thus, the foundation builds on acquiring existing MFIs and aims at becoming one of the major microfinance networks in Latin America and the world in the medium term (BBVA Banco Continental 2008: 15). In Peru, the foundation has acquired two of the three largest CRACs (Norperú and Caja Sur) and EDPYME Crear Tacna. All these institutions are growing, efficient, and profitable institutions,[143] which might lead to thoughts about other than purely social concerns in the group's CSR strategy. In 2004, when other banks integrated their

[143] In comparison to their peers, these institutions show high profit ratios (ROE and ROA) and some of the highest efficiency ratios. As of 31 May 2007, the two CRACs were two of the three largest CRACs. Because more recent data apply only to the merged CRAC Nuestra Gente, older data were analysed.

microfinance businesses into their main businesses, Banco Financiero created Solifé as a separate legal entity, serving microfinance clients in specific Solifé branches (Izquierdo, Quiñones et al. 2007: 4). Since 2008, the bank's alliance with the store chain Carsa has provided another channel for serving low-income clients (Banco Financiero 2009). Interbank is one of the banks in Peru with little, very recent experience in first tier microenterprise lending. Since 2007, Interbank has begun to offer standard microenterprise loans through its internal unit Banca Pequeña Empresa, relying on a technical assistance grant from IADB for its downscaling programme (Braun & Pezzia 2008; Interbank 2009a; Wittowski, Mosquera et al. 2007: 3). Before engaging in downscaling, Interbank already showed relevant and increasing volumes of small savings (data from SBS, for 31 December 2001-2008) and currently promotes savings opportunities for its microfinance customers along with the microenterprise loans (Interbank 2009a). In order to provide an overview of the microfinance involvement in terms of specific institutional arrangements implemented to serve microfinance clients, graph 6.2.1-B indicates methods of and changes in institution building of banks in Peru. Thereby, active downscaling is separated from loans to MFIs which are sometimes declared as 'downscaling'. Compared to other investments, this would mean that a bank does agriculture if it issues agricultural loans. Hence, only an active involvement in microfinance by a bank is considered to be downscaling.

Graph 6.2.1-B: Overview of ways of institution building in microfinance of commercial banks in Peru, 1980-2008



* As main shareholder, there is only Fundación Microfinanzas BBVA, with is a foundation and not a commercial bank

** In a joint venture with Banco de Crédito e Inversiones de Chile

*** Internal units with the following names: Banco de Crédito: Banca Pequeña Empresa, Skotiabank: Banca Emprendedores, Interbank: still without specific name, Banco Ripley: Pequeña Empresa.

Institution building options for banks in microfinance that are considered as downscaling in the current study

Source: Own elaboration, see table 6.2.1-A for references.

Note: Finance companies are not included because they have been either 'serving a bank' (as Solución), started providing microfinance only after transforming into a bank (like Banco Ripley), or just started providing microfinance very recently (like TFC).

Most finance companies *(financieras)* that entered the low-income segment with a general focus on consumption lending in the mid-1990s were wiped out at the end of the same decade during the economic and indebtedness crisis, largely due to consumer lending.[144] Only during the last few years have they slowly started to enter the microfinance market again, but are still very minor players in the market. After having overcome the last economic and financial crisis in 1998-2000, the financial system and microfinance in Peru has been expanding steadily, and no new types of financial institutions have joined the market (see table 6.2.1-A for references).

In addition to the named providers, there are three governmental financial institutions partly involved as first tier institutions in providing financial services to low-income and geographically marginalized clients, MSME, and agriculture: the MSME development bank COFIDE *(Corporación Financiera de Desarrollo S.A.)*, restrutured in 1992; the agrarian development bank AGROBANCO *(Banco Agropecuario)*, which initiated its operations in 2002; and the development bank Banco de la Nación, founded in 1966 (see Trivelli & Venero 2007: 252f.). COFIDE and AGROBANCO work largely as second-tier institutions channelling their funds through the financial intermediaries being directly supervised by SBS, most importantly through CMACs, CRACs, and EDPYMEs (Trivelli & Venero 2007: 239ff.). However, both institutions have schemes that are 'half way first tier' because they imply direct contact to client networks.[145] The development bank Banco de la Nación is directed towards attending to the public sector and, hence, offers financial services to officials, public employees, and public pensioners as well as to public entities such as municipalities or public suppliers (Banco de la Nación 2009a). The bank serves the public, in general, as a first tier bank only in locations without the presence of other financial institutions (*única oferta bancaria*, UOB), offering. For example, savings accounts to others who are not public servants (Banco de la Nación 2009b). Furthermore, since 2006, the bank has provided its infrastructure (both the physical usage of the branches and the provision of back office services and specific credit lines) as a second tier institution to CMACs, CRACs, and EDPYMEs for facilitating their entry and, hence, the provision of microenterprise loans in far away UOB locations (*oficinas compartidas—proyecto apoyo MYPE UOB)* (Banco de la Nación 2007; Izquierdo 2008: 8, 45f.).

Important advances in regulation, supervision, and provision of risk information—after financial liberalization in the 1990s—have been made, first, with the General Law of the Banking and Insurance System N° 26702 from 1996, its implementation, and the continuous development and adaptation of the regulation by SBS. The continuous effort and effective

[144] From the mid-1990s, an increasing number of banks and financial companies followed the example of Banco del Trabajo and entered the market lending to people without fix incomes. They showed rapid growth in the subsequent years but were wiped out by the simultaneous financial crisis and the crisis in consumer lending in 1998-1999 (Alvarado, Portocarrero et al. 2001: 18f.; Portocarrero 1999/2005: 21; data SBS). The application of a standardized consumer-lending methodology, which had been developed for serving middle-class employed clients but not for workers in largely informal employment conditions, can be seen as one of the reasons for the crisis (Portocarrero 1999/2005: 21).

[145] These schemes consist of supporting the organization and financing agricultural value chains by AGROBANCO (cadenas productivas) and of value chains in general (even though most are still agricultural) by COFIDE (producto financiero estandarizado, PFE) (Trivelli & Venero 2007: 240ff., 255ff.).

measures taken for improving regulation and supervision is reflected in the good reputation of Peru's financial supervision authority, SBS being the central regulator of the financial system, including financial intermediaries, insurance, and private pension funds.[146] Furthermore, there exists a specific regulation adapted to the needs of microfinance, establishing the category of microenterprise loans *(crédito MES)* with less formal information requirements,[147] but at the same time establishing rigid rules regarding provisioning in general (see resolution SBS 11356-2008) and especially the classification of multiple clients and adjustment of provisions.[148] Furthermore, since 2007, a specific microinsurance has been introduced and is being developed (resolutions SBS 215-2007, 14238-2009). Another key element of the microfinance context in Peru is the proactive supervision of microfinance institutions with comprehensive on-sight revisions of MFIs, applying a specific microfinance approach of revision developed by the microfinance department of SBS. Different from traditional on-site supervision, in which a sample of credit files is usually reviewed regarding the adequacy of the classification of the respective provisioning, the approach for MFIs—in this case CRACs, CMACs, and EDPYMEs—takes into consideration the structure and depth of information of MFI credit files. Because samples would be too large to review and information contained is based on the evaluation of the credit analysts due to the lack of formal information on microfinance clients, the SBS approach involves the revision of the entire database of microenterprise and consumption loans, checking, for example, whether new loans were granted to clients with repayment problems without declaring and provisioning for these refinanced loans. It also involves the revision of a selected sample of commercial loans (Ebentreich 2005: 7). These elements create a very advantageous business environment for microfinance, one that has been acknowledged internationally by the survey commissioned by IADB and the Corporación Andina de Fomento (CAF), ranking Peru first among all 15 reviewed Latin American countries, stressing the qualities and expertise of SBS and its microfinance department, the adequacy and sound adaptation of microfinance regulation, and the importance of the thorough in-sight supervision (Economist Intelligence Unit 2008: 48f.). Furthermore, the range of supervised institutions has been enlarged through the creation of EDPYMEs and the related incentives for formalization of NGOs (payment of value added tax on financial margins), considering the significant number of NGOs that transformed into EDPYMEs and are now supervised by SBS (see Trivelli, Morales et al. 2004: 54). Moreover, in terms of the provision of public and private risk information, important improvements have been accomplished since 1998. The public credit registry *Central de Riesgos de la SBS* was founded in 1996, listing at first only debts over 40,000 PEN (SBS 2009b). During the consumer lending crisis in 1998, it began to distribute the entire information from

[146] This fact was recognized by a combined World Bank-IMF mission in 2005, which rated SBS with 96.6 out of 100 points for the quality of general financial regulations and supervision (see Economist Intelligence Unit 2008: 48).

[147] For microenterprise loans, SBS requires only a minimum list of information to be included in each credit file, allowing the financial institution to establish its own information requirements for each client (Ebentreich 2005: 3).

[148] In case of multiple clients, financial institutions have to adjust their risk classification monthly for the riskiest classification, in which the client was rated by any of the financial institutions that lent at least 30% of the total debt to this client (*alineamiento de la clasificación de riesgo*, Resolución SBS Nº 11356 – 2008, I.5.2). The provisions have to be adjusted accordingly.

supervised institutions. Since then, the cooperation between the networking NGO for promoting MSMEs development, COPEME (*Consorcio de Organizaciones Privadas de Promoción al Desarrollo de la Micro y Pequeña Empresa*), and the private credit bureau Infocorp contribute to the integration of non-supervised microfinance institutions into the risk information database of Infocorp (COPEME 2005: 19). Consequently, risk information, even on small values and from some semi-formal microfinance providers like NGOs—in most countries not being collected—, is available in Peru, establishing an important foundation for healthy development and growth of the market.

According to their legal form, the financial institutions providing microfinance can be grouped into multiple banks, finance companies, NBFIs, COOPACs, and NGOs. Banks, finance companies and CMACs, CMCP, CRACs, and EDPYMEs are supervised directly; supervision of COOPACs is delegated to FENACREP; and NGOs do not undergo supervision as financial institutions (Ebentreich 2005; Zaldivar & Sotomayor 2003: 3; data from SBS). However, for assessing pro-poor financial sector development, this formal classification is not suitable because it creates categories of institutions that play fundamentally different roles in the microfinance market and, hence, need to be evaluated separately assessing pro-poor financial sector development. Accordingly, the proposed definition of microfinance institutions is functional and refers to the relevance of the microfinance segment to the respective institution (see graph 6.2.1-C). For instance, the multiple bank dedicated almost exclusively to microfinance, Mibanco, is separated from the other banks and categorized as a microenterprise bank. Microfinance institutions are defined by financial institutions having their core businesses in microfinance.[149] Thus, regulated microfinance institutions consist in the microenterprise bank Mibanco, CMACs, CRACs, and EDPYMEs. In the case of COOPACs, further assessment would be necessary in order to determine exactly how many of the very heterogeneous cooperatives can be considered to be microfinance providers. Considering, however, the information of microfinance products available, their registration in the Mix Market[150] and internal classifications of FENACREP, 17 of the open cooperatives can be considered as cooperatives with a microfinance focus (Zaldivar & Sotomayor 2003: 6ff.; data from Mix Market as of 31 December 2008; interview FENACREP 2010). Still other cooperatives might provide microfinance in the form of access to savings opportunities and small consumption loans to their marginalized members. As a group, COOPACs are thus considered to be potential microfinance institutions. NGOs constitute the microfinance providers not being regulated or supervised by SBS. The group of 22 microfinance NGOs considered in the present study refers to NGOs that have formalized their microfinance activities to a certain degree, reporting either to COPEME or to the Mix Market (COPEME 2008: 2).[151] A further difference from the formal classification is the

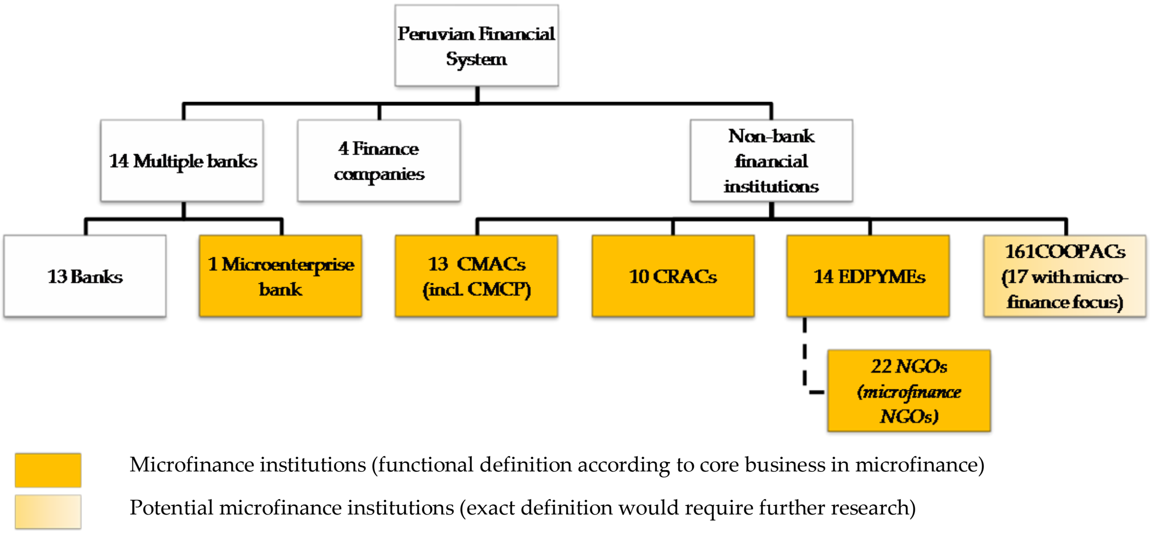
[149] For determining whether this criterion is fulfilled, the share of microenterprise loans and microsavings within the total portfolio of the respective financial institutions, as defined in section 6.2.2, have been assessed (data SBS, FENACREP, COPEME, as of 31/12/2008). Microfinance institutions are those showing for one product at least 50% of their portfolio within the microfinance segment.

[150] The Mix Market is the most comprehensive online source for financial and social performance data on MFIs across the globe (www.mixmarket.org).

[151] Additionally, 12 of these NGOs have adhered to a private scheme of supervision (Sistema de Supervisión Prudencial Privado de Organizaciones de Microcrédito No Reguladas) initiated by COPEME (2008: 2).

attribution of some institutions according to the kind of financial institution, which marked their development and engagement in microfinance during the last decade, even though they have transformed lately (see Appendix 6.2.1-A for an overview of institutional changes and classification of financial institutions).

Graph 6.2.1-C: Functional classification of financial institutions offering microfinance services in Peru



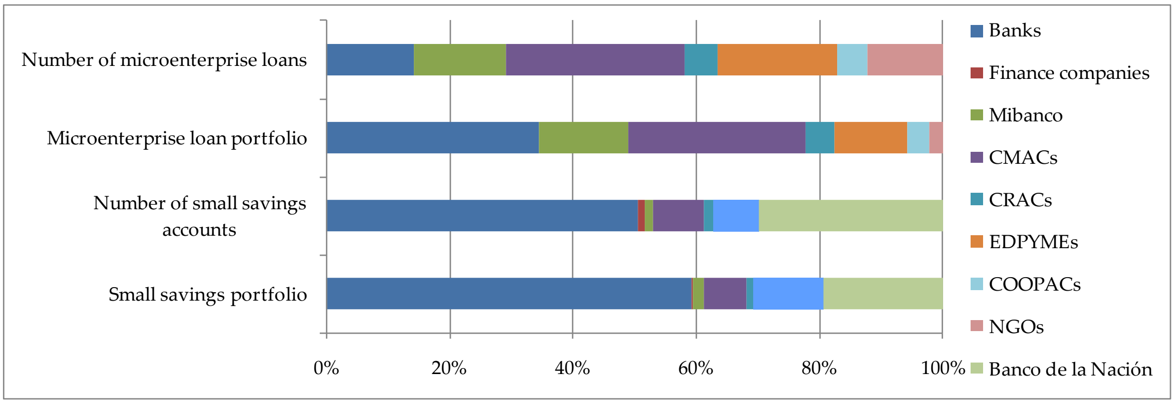
Source: Own conceptualization and elaboration, based on data from SBS, COPEME, FENACREP (data as of 31 December 2008).

Note: In Peru, the range of institutions that are understood to be microfinance institutions often changes with the perspective of the analyst or analysing institution. Whereas SBS generally only considers CMACs, CRACs, and EDPYMEs to be MFIs (see Ebentreich 2005: 1), COPEME adds the NGOs (COPEME 2008) and both generally exclude the financial cooperatives, even though there are also documents from SBS that confirm the important contribution of financial cooperatives to the delivery of microfinance in Peru (Zaldivar & Sotomayor 2003: 22; letter 21375-2009-SBS).

The market position of the different types of institutions in the microfinance market can be briefly characterized through the market shares of microenterprise lending and small savings.[152] The largest players in both microenterprise loan portfolio and clients are the CMACs and Mibanco,[153] followed by the banks with even larger portfolios, but fewer clients. EDPYMEs are medium players, COOPACs and CRACs are rather small, and NGOs have many small clients. In the case of savings, banks are clearly the dominant providers in low amounts of savings, followed by Banco de la Nación, with an especially high number of small savers. CMACs and COOPACs appear to be important providers of small savings, which might, however, be partly due to the proxies available for the latter (see graph 6.2.1-D).

[152] For the exact methodology behind the choice of these indicators, see 6.2.3.
[153] This information is especially true considering that Mibanco is a single institution, whereas other institutions are groups of institutions.

Graph 6.2.1-D: Overview of market shares of institutions providing microenterprise loans and small savings



Source: Data from SBS, FENACREP, COPEME; own elaboration.

Note: Microenterprise loans are assessed by the respective classification of loans by SBS; only for NGOs all loans are included. As NGOs generally provide only microenterprise loans, this is a useful proxy. Small savings are measured by the lowest category of deposit insurance fund (10% FSD, see section 6.2.3); only for COOPAC are all members and the balance of all savings taken as proxies. Because this proxy is likely to overestimate the small savings in COOPAC, it is visualized in gradual blue to show limited comparability. Data as of 31 December 2008 for savings and 31 December 2007 for microenterprise loans because COOPAC data were not available for 31 December 2008.

Since 2001, small savings have almost doubled in number and multiplied by three in balances. Microenterprise loans have increased nearly five times in number and more than seven times in portfolio (see graphs 6.3.3-C and 6.3.3-D). These impressive increases in microenterprise portfolios have only been slightly increased by inflation, which has been moderate during the observed period (data from BCRP). Considering prices of 2001, the total microenterprise loan portfolio has been multiplied more than six times in real terms. Because these differences can barely be seen in the graphs (see Appendix 6.2.1-B) and within the analysis it is necessary to refer to numbers in current prices, the analysis in the following will be done with nominal values.

Besides the named formal and semi-formal financial institutions, there is still a large number of firms and individuals providing financial services in an informal way to their clients, generally facilitating the purchase of their products *(créditos comerciales)* and/or financing the production of their suppliers *(créditos de proveedores).* For instance, in the case of agriculture, inputs for agricultural production are delivered directly as credit in-kind and financed by a credit to the farmers. The repayment of the amount loaned is effected by directly deducting the amount from the price for the crop sold. Thus, the intermediary earns both by selling (often overpriced) agricultural inputs and by purchasing the crop (usually below market prices). About 20-30% of the agroindustrial and agroexportation enterprises practice this scheme of providing partly in-kind credit directly to their clients, and in most cases, the commercial establishments specializing in agricultural inputs implement this kind of semi-formal credit provision (Trivelli, Morales et al. 2004: 130ff.). Besides these financial services based on business relationships, there is a large variety of informal financial and largely credit providing services based on personal relationships. There can be distinguished financial transactions and loans provided within ROSCAs (e.g., *juntas de ahorro y crédito)*, within family networks, among friends, in clubs and association, or by the owner of the next corner store (see Alvarado, Portocarrero et al. 2001; Burga Carmona 2006: 10). However, due to the focus on analysing changes in formalized microfinance provision and the lack of data on informal and semi-formal providers besides the data on some NGOs, this group of institutions will not be considered directly within the application of the framework (see section 1.3).

6.2.2 The demand-side: Usage of microfinance services

> Before, we saved at home, it was not secure and sometimes our spouses spent without measure, after that we lent to our neighbours in the community, when we collected the money, they responded us with bad words, instead in the rural savings bank we have more security, the money does not get lost and we take it when we need it (Testimonial by savings group 'Vírgen del Rosario de Sullca', cited in Trivelli & Yankari 2008: 105).

In this section, available user-related data on usage and usage patterns of financial services by poor populations will be reviewed and compared to the respective findings from theory and empirical research (sections 3.2 and 4.1). The related insights provide the basis for selecting products relevant for microfinance clients and support the interpretation of the findings regarding pro-poor financial sector development in Peru. Due to the limited demand-related data available in Peru, various data sets will be combined for this purpose.

In Peru, the Living Standards Measurement Study household survey (*Encuesta Nacional sobre el Nivel de Vida*, ENNIV)—and not the regularly implemented national household survey ENAHO (*Encuesta Nacional de Hogares*)—is the only representative survey at the national scale to contain some information about the access to and usage of financial services.[154] In the following, information from the last ENNIV survey available from 2000[155] will be analysed and complemented with information from smaller surveys—with micro entrepreneurs in the capital,[156] small commercial farmers in the North,[157] rural and urban population in central Peru,[158] and savings groups of poor women in the Southern rural *sierra*[159]—as well as related qualita-

[154] See the questionnaires of ENAHO and of other representative surveys and Trivelli (2002a: 113, 2002b: 12).

[155] As of 28 March 2009, the latest ENNIV survey is the one from 2000 (Instituto Cuánto 2009).

[156] The sample consists of 200 microentrepreneurs with 5 to 10 employees who responded to a survey in 1998 in the thriving shanty-town of Gamarra. The analysis of the results focuses on structural characteristics because the survey dates from 1998 (Gamarra 1998).

[157] The data on financing strategies of small commercial farmers contain a panel of 499 households in Piura with interviews in 1997 and 2003 and a sample of 324 households in the Mantaro valley (Perú Rural-Piura 1997, 2003) (see Guirkinger & Trivelli 2006: 44).

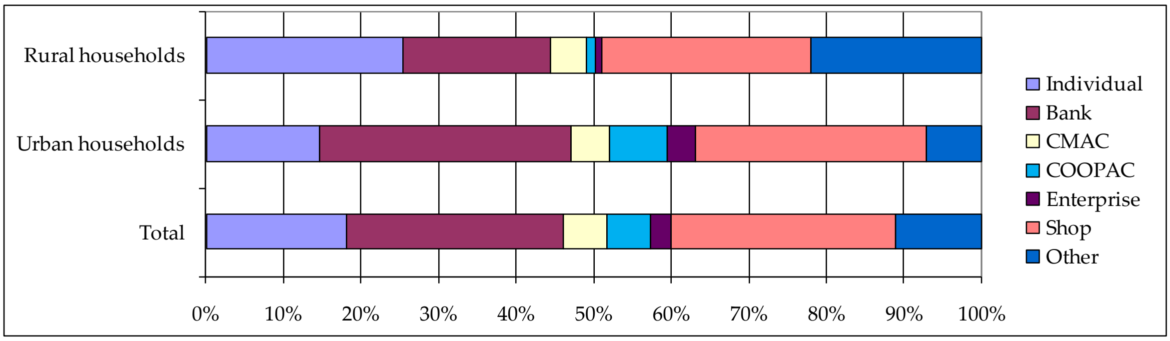
[158] The data consists of a first sample representative at the province level that includes 400 rural and 400 urban households from the province of Huancayo interviewed in 2002 by the Consorcio de Investigación Económica y Social, CIES (CIES Huancayo 2002) and a second sample of 302 farmers in the Huaral valley interviewed in 2001 by the Instituto de Estudios Peruanos, IPE (IEP Huaral 2001; Trivelli, Morales et al. 2004: 125f.).

[159] The data on the savings strategies of poor rural women in the Southern *sierra* consist of a random sample of 297 out of 1318 women of the first cohort of *Proyecto Corredor*, who finished their savings contract with the program in 2007 (IEP Proyecto Corredor 2007); additional qualitative interviews with some women from the savings group and other women from the same communities, conducted by employees from the participating CRACs, the financial instructors, and the *Proyecto Corredor* team; and finally, 370 testimonials by the participating women and groups about their experiences and perceptions concerning savings and access to formal financial services (Trivelli & Yankari 2008: 29, 46). The project component for enhancing access to finance was implemented through a group-based

tive information on patterns of usage and non-usage that contain much richer information than the ENNIV survey.[160] Even though most of these surveys were conducted more than five years ago, the evidence is considered to be valid for deepening the understanding of patterns of access to and usage of financial services because the focus of the analysis is to identify structures and patterns of usage, which are not specifically bound to very recent data.[161]

Although the ENNIV 2000 does not include any detailed information on access to and use of savings, pensions, and insurance products, it does contain information about households having received loans and the sources and size of these loans.[162] In 2000, 19.3% of the Peruvian population had received a loan, with only slightly more loans in urban areas (20%) than rural areas (17.9%). The reason for these rather surprising data is that significant shares of rural households appear to have received loans from informal sources such as individuals, 'other sources', and shops (which are also used by urban households). Urban households received more loans from banks, COOPACs, and enterprises. CMAC loans were received by both urban and rural populations (see graph 6.2.2-A). However, the type of financial institutions considered in the survey exclude EDPYMEs, CRACs, and NGOs from the analysis and does not allow for differentiating between the microenterprise bank Mibanco and other banks.

Graph 6.2.2-A: Shares of households with loans by source of credit and geographic localization, 2000



Source: Data from ENNIV (2000); calculations by IEP (see Trivelli 2002a: 115); own elaboration.
Note: Nationally representative data.

Considering different types of clients essential to the current study, of the 69.9% of households led by a microentrepreneur in 2000, 23% had received loans, of which 37% were formal loans (Trivelli 2002a: 127). Both 16% of all households led by women and of all poor households had also received loans in 2000 (Trivelli 2002a: 121, 131). Even though the 16% of poor households with loans does not seem to be very far from the mean of 19.3% households with loans, the sources differ strongly, and especially for the extremely poor (see graph 6.2.2-B and 6.2.2-A).

savings programme for rural women, providing financial education, field visits, and incentives for monthly individual savings (Trivelli & Yankari 2008: 31ff.).

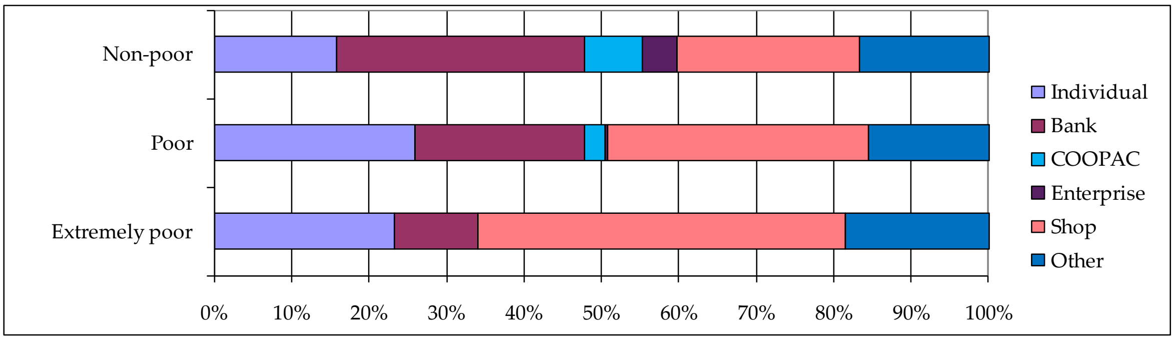
160 ENNIV contains only information on sources and sizes of loans taken, whereas information on usage patterns (as well as savings in addition to loans), the kind of financial arrangements used, and the reasons for using them can be found in the smaller surveys and the additional qualitative information.

161 If concrete amounts are analysed, inflation and other probable changes of these amounts are considered.

162 See the questionnaire of ENNIV 2000, section 11, 'savings and credit': Although there are two questions related to savings, they are not specific enough to provide further insight into saving patterns in Peru (for data, see Instituto Cuánto 2009).

These households get most of their loans from shops, with the next largest source being individuals, hence informal sources. Non-poor households get most of their loans from banks, followed by shops; hence, the share of credit from formal sources is much higher, even though informal sources still dominate (see graph 6.2.3-B).

Graph 6.2.2-B: Shares of households with loans by source of credit and socioeconomic status, 2000)



Source: Data from ENNIV (2000); calculations by IEP (see Trivelli 2002a: 116); own elaboration.
Notes: CMAC is not available with this data. Nationally representative data.

Regarding the type of provider, informal ones seem to be the major source of financing. This is, however, only true in terms of the number of loans and not in terms of the loan portfolio. As can be seen from table 6.2.2-A, formal loans are far larger than informal ones. The difference in sizes between informal and formal loans can be explained by most small informal (generally consumption) loans coming from shops and individuals. Considering the outstanding loans in different types of households, the loan sizes in households led by micro entrepreneurs is nearly twice as high as the loan sizes in poor households or those led by women. The indebtedness ratio—measured by the ratio of the current debt to the yearly income—is clearly higher with formal than informal loans for all households (see table 6.2.2-A).

Table 6.2.2-A: Characteristics of loans by type of household and type of loan (nationally representative data, 2000)

Type of household	**Led by a microentrepreneur**	**Poor household**	**Led by a woman**
Households with loans (formal and informal loans)			
Average size of current debt (PEN)	2,663	1,347	1,243
Yearly income (PEN)	17,992	12,128	20,459
Ratio current debt/ yearly income (%)	15%	11%	6%
Households with formal loans			
Average size of current debt (PEN)	4,387	2,733	2,837
Yearly income (PEN)	24,076	14,271	30,227
Ratio current debt/ yearly income (%)	18%	19%	9%
Households with informal loans			
Average size of current debt (PEN)	1,454	729	461
Yearly income (PEN)	14,389	10,673	15,434
Ratio current debt/ yearly income (%)	10%	7%	3%

Source: Data from ENNIV (2000); calculations by IEP (see Trivelli 2002a: 125ff.); own elaboration and further calculations.

Thus, the representative data indicate that informal financial services are used widely and that the largest difference between different groups of the population is the source of borrowing and not as much the share of households with loans. This widespread use of informal borrowing devices, as well as the smaller size of informal loans, is also consistent with the evidence analysed in section 4.1. More detailed information on usage of financial service is provided by the smaller surveys; however, they provide only some impressions on usage patterns in Peru because the surveys focussed on either specific locations or groups.

Consistent with the evidence from section 4.1.1, different purpose categories were mentioned, including dealing with life-cycle events, risk, and emergencies and taking advantage of opportunities, both related to the development of the family-led business and improving education and housing. Among rural poor women, for instance, the reasons for saving consisted mostly of the children's education, followed by the desire for improved housing, the prevention of emergencies, and investing in cattle or a business (Trivelli & Yankari 2008: 52). In the central *sierra*, the main reason for saving was the prevention of emergencies (Trivelli, Morales et al. 2004: 79f.). Using multiple strategies for dealing with the same type of purpose was also found, given that savings, realizing more secure and less profitable businesses, and taking fewer formal loans due to the difficulty and the high cost of renegotiating them could be observed, in this case with small farmers surveyed in the North (Guirkinger & Trivelli 2006: 53). Within the central *sierra*, the 15% of households suffering idiosyncratic shocks (such as illness or death of family members) and a much lower share often experienced climate-related covariant shocks, thus having to use loans for dealing with the damage (Trivelli & Yancari 2006: 140). Consequently, both ex-ante and ex-post risk coping strategies beyond the use of different financial services were applied, and idiosyncratic shocks appeared to be more frequent for the surveyed population in the province of Huancayo. Taking advantage of business opportunities was another purpose of using financial services or arrangements among urban microentrepreneurs from Gamarra, Lima, although only for complementing the equity base (Gonzales 2001: 128ff.). Of the small commercial farmers, only about a third indicated that they would not need any external financing (Guirkinger & Trivelli 2006: 54), which indicates a significant need for financing among these farmers.

Regarding the type of financial arrangements used, most people interviewed used a mix of informal and formal financial services and arrangements, covering the scope of financial arrangements elaborated in section 4.1 (see table 4.1.1-B). Rural poor women, for instance, took loans from multiple sources, with typical sources for specific loan sizes and purposes. The smallest loans would be taken from the family, followed by friends and neighbours. For larger loans, a large majority would approach savings banks or would rather not ask anybody for a large amount (Trivelli & Yankari 2008: 108). Urban microentrepreneurs in Gamarra reported only complementing the equity-based operation of their microenterprises with resources from the family, banks, and moneylenders, but depending on the business network and advanced payment for financing the growth of the enterprise (Gonzales 2001: 128ff.). For small farmers, financing with providers of agricultural inputs was an important source of financing in some regions, less in others, especially when considering the presence of a CMAC.[163] Regarding savings, the method used by most interviewees was savings at home, with considerably lower shares of savings within financial institutions. Within the province of Huancayo, more than half of the population saved at home and only a fifth in financial institutions (Trivelli, Morales et al. 2004: 79f.). Among poor rural women, saving at home and buying livestock were the most popular methods of saving practiced by about half of the interviewees, besides lending to others and saving in financial institutions, which were far less common (Trivelli & Yankari 2008: 59). Remittances from migrated family members were received by nearly half of the small commercial farmer households surveyed, but most households receives amounts lower than 100 USD during the 12 months before the survey (Guirkinger & Trivelli 2006: 49). This amount is in line with the average amounts received at the national level, which have been about 100 USD if calculated per month in 2006 and nearly 90 USD in 2008. These remittances, which are sent from the nearly 10% of the Peruvian population living abroad, contribute on average nearly 20% to the family income of the very poor and poor families who received remittances (Ratha & Xu 2008; IMF 2008; data from DIGEMIN-MININTER, 2006). Considering insurance, the usage of specific insurance products was not documented within the studies mentioned. Still, it was inferred through the use of different kind of ex-ante and ex-post insuring schemes, using both loans and savings in terms of financial services for mitigating risk and leading with damage.

Regarding the consumers' preferences for service provision, a preference for secure savings with both easy and restricted access as well as for convenient access to finance, making use of available technology, were articulated: Among more than half of the savers in financial institutions in the province of Huancayo, the main motive was security, followed by access to distribution channels and technology that lower transaction costs, such as the use of ATMs and paying directly in the store with a debit card, mentioned by 35% of the households (Trivelli, Morales et al. 2004: 81). Most of the households saving in financial institutions preferred banks due to the stated preferences (Trivelli, Morales et al. 2004: 81). Accessibility was, however, also seen controversial by women who, at the same time, preferred liquidity and restricted access to savings accounts (Trivelli & Yankari 2008: 107).

In the different surveys, demand- and supply-side barriers to access to finance among the surveyed populations were discussed. In the case of the small farmers in the economically dynamic regions of Piura and the Mantaro, Guirkinger and Trivelli (2006: 50ff.) conclude that the main reasons for the low levels of usage of formal loans within the groups of farmers studied were related to transaction costs for formal loans, difficulties with risk mitigation, lack of information, and mistrust of financial institutions. Transaction costs, related to cost and time spent with paperwork and related travelling, increase the total cost of formal loans and make informal loans more interesting, even though the latter show considerably higher interest

[163] Financing with providers of agricultural inputs accounted for 39% of the agricultural loans of farmers in the Huaral valley, but for only 8% of agricultural loans in Huancayo, where most loans were provided by the local CMAC (Trivelli, Morales et al. 2004: 128).

rates. The fear of not being able to cope with potential climate or health-related risks—especially in the case of loans secured with farmers' land—and the lack of information about and mistrust for the financial institutions, thus fearing unfair contracts, are further important demand-side barriers to access (Guirkinger & Trivelli 2006: 51). The lack of information is related to a lack of knowledge about the current situation of the financial system and related rules and procedures because abuses that have happened in the past seem to be very well known and still fresh in people's memory, such as cases of expropriation of farmers (Guirkinger & Trivelli 2006: 55) and the loss of savings in the case of the women in the savings groups (Trivelli & Yankari 2008: 61). Mistrust of financial institutions is seen as one of the main access barriers for largely *Quechua*-speaking rural women from economically depressed rural mountain regions: women reported that they would only start using financial services after participating in the financial education programme by *Proyecto Corredor*.[164] Workshops with a finance instructor, exchanging experiences with other groups, a guided visit to the local MFI, physical proof of the savings (like vouchers), and the prompt payment of the complete amount of savings withdrawn on a check 'if the money was still there' helped to build the women's trust, according to the analysis by Trivelli and Yancari (2008: 60ff.).

Accordingly, it can be stated that the broad outline of the findings on usage patterns in section 4.1 and the underlying theoretical understanding of most poor people living and working in family-led economies can be supported with the insights from the studies. This consistency in the insights from Peru—although constituted of isolated spots of insights from different non-representative surveys and qualitative research—along with the general findings on usage patterns and the fact that the main findings on usage patterns in section 4.1 emerged from the analysis of very different contexts—India, Bangladesh, and South Africa—are reasons that support the assumption that the main findings on usage patterns and preferences from section 4.1 are also relevant for the Peruvian context. Thus, they will also be used in the following assessment of the kind of financial sector development in Peru during the last decade.

Hence, the different types of financial services relevant for poor populations or potential microfinance clients in Peru constitute the different financial product categories, as shown in table 4.1.1-B:

- Liquid savings or current accounts with easy access
- Money transfer or remittances services, with and without linkage to account
- Structured long-term savings account with restricted access
- Short-term loans with flexible repayment schedule
- Long-term loans, adapted to the respective purpose
- Emergency loans with easy and fast access

[164] The component of the rural development project *Proyecto Corredor Puno-Cuzco (Proyecto Corredor)* for enhancing access to finance was implemented through a group-based savings programme for rural women, providing financial education, field visits, and incentives for monthly individual savings (Trivelli & Yankari 2008: 31ff.).

- Insurance and pensions or hybrid savings products, especially for larger life-cycle events and covariant risk

The types of financial products and services offered, which can fulfil these money management needs, will be analysed within the following section.

6.2.3 Products relevant to microfinance clients

For assessing whether the kind of services relevant to microfinance clients are offered to them and used by them, categories for identifying different kinds of microfinance services with providers are necessary. Because financial institutions do not collect and report data based on the type of customer and do not serve only microfinance clients, financial services and products relevant for microfinance clients need to be identified. The criteria are developed in the following section by type of financial service relevant for microfinance clients, and related to the classification by SBS for financial reporting,[165] which is also used by COOPACs and partly by NGOs.

Regarding the different kinds of deposits offered, there are current accounts *(depósitos a vista)*, savings accounts *(ahorros)*, fixed-term deposits *(ahorros a plazo)*, and employer-originated savings for employees, the so-called CTS deposits *(depósitos CTS—compensación por tiempo de servicio)*.[166] Among these types of products, both current accounts and CTS deposits do not constitute relevant product categories. In the case of current accounts, these products are not considered to be relevant for microfinance clients because the accounts tend to target larger clients to enable them to accomplish multiple operations, have a monthly cost without paying interests and are generally not offered by MFIs (e.g., Banco de Crédito 2009a, 2009b; see section 6.3.1). In the case of CTS, they are bound to formal employment, which makes them minimally relevant for microfinance clients with typically highly informal working conditions (see section 6.1.2). Thus, savings and fixed-term deposit accounts are the kinds of products of potential interest for microfinance clients. However, financial institutions report all their savings to the financial authority regardless of the type of client. To determine which size ranges the analysis of the current study should focus on, it is necessary to understand which size savings can be attributed to low-income populations. Because such information is not available in the national household surveys (ENAHO) or in the ENNIV, the available information from ENNIV on 'saving down' and from the smaller surveys on savings will be analysed. Table 6.2.3-A summarizes the results on savings from the smaller surveys with averages of current debt among poor households and households led by microentrepreneurs from ENNIV. These values are taken as indicators of the clients' savings potential, understanding their potential for

[165] For details on the different types of financial products, see reporting guidelines by SBS *(manual de contabilidad para las empresas del sistema financiero)*.

[166] According to law D.S.001-97-TR, all employees have a right to receive CTS deposits paid by their employer as a social benefit, which serves as financial safeguard in the case of dismissal; employees can access only 50% of their deposits because the other 50% are intangible.

'saving down' as being closely related to their potential for 'saving up', given that the different ways for constructing lump sums are often used interchangeably among poor populations (see section 4.1.1).

Table 6.2.3-A: Average and median amounts of 'saving down and up' by potential microfinance clients (in PEN)

Surveyed population	Survey	Financial service	Variable measured	Formal	Informal
Households led by microentrepreneurs	ENNIV 2000	Saving down	Average amount of loans	5,250	1,740
Poor households	ENNIV 2000	Saving down	Average amount of loans	3,270	872
Poor rural women in the Southern sierra	Proyecto	Saving up	Median amount of balance	1,168	/
Poor rural women in the Southern sierra	Proyecto Corredor 2007	Saving up	Median amount deposited during a period of 4 years	2,435	/

Source: Data from surveys indicated; for calculations of ENNIV (2000), see Trivelli (2002a: 125ff.); own elaboration and further calculations.
Note: In PEN of 2008, price levels adjusted to national price level.

Comparing the average amounts 'saved down' by households led by microentrepreneurs, these are significantly higher than the amounts for poor households, a result that might be due to having the loan linked to the enterprise. For determining the savings potential of poor populations and the related relevant size range, the values for poor populations vary between 1,000 and 3,000 PEN for informal and formal sources of loans. Assessing the savings potential of poor rural Andean women, a median balance of about 1,000 PEN and an accumulated balance after 4 years of about 2,500 PEN have been measured. Given that these women are all poor and living in marginalized areas, these values can be considered to be underestimating the savings potential among poor populations all over Peru. For savings accounts, the lower balance of about 1,000 PEN and a second size range of 3,000 PEN would be interesting for analysis, taking only the second one for term-deposit accounts given that these aim at constructing long-term savings. Considering, however, size ranges available for data on formal savings in Peru, the lowest size range of about 8,500 PEN is already far above the values discussed (established in percentages of the maximum coverage of the deposit guarantee fund, see table 6.2.3-B). However, taking into account that the median values analysed above also include higher values, the lowest size range available appears to be a more adequate category for analysis.

Table 6.2.3-B: Maximum coverage of the deposit guarantee fund and related size ranges, as of November 2008 (in PEN)

Maximum coverage of FSD	Amounts upper limit size ranges						
	10%	25%	50%	100%	…	10000%	> 100 times
86,358	8,636	21,590	43,179	86,358	…	8,635,800	> 8,635,800

Source: Data from SBS, own elaboration.
Note: Size ranges are adapted quarterly to the changes of price levels.

Still, it is crucial to remember that the small-scale savings are not necessarily associated with savings among low-income populations because specific groups of other parts of the society also might be holding small sums of savings (e.g., students). Because a large part of the Peruvian society can be considered low-income and poor population, the approach of analysing the lowest size ranges still appears to be very relevant for the present study. As can be seen from table 6.2.3-C, the majority of the occupied economically active population (EAP) earns less than 400 PEN. Nearly 70% of the occupied EAP earns less than 600 PEN monthly, which still might include many households close to the national poverty line, because the national poverty line was defined at 226 PEN per month per person in 2008 (INEI 2008: 15).

Table 6.2.3-C: Shares in occupied economically active population (EAP) by size ranges of monthly income

	Without income	Less than 200	From 200 to 399.99	From 400 to 599.99	From 600 to 799.99	From 800 to 999.99	From 1000 to 1999.99	From 2000 to 3999.99	4000 and more
Occupied EAP	19%	21%	17%	12%	9%	6%	11%	3%	1%
Accumulated	19%	40%	57%	70%	79%	85%	96%	99%	100%

Source: Data from ENAHO (2006); own elaboration.

Possibilities for transferring money at the national and international levels are another type of financial services relevant to microfinance clients. Given the low transfer amounts reported, it is crucial that the related financial products are available for small amounts and that sending the money does not carry high fixed costs or other preconditions, such as having a specific king of account. Accordingly, an analysis of the conditions of the transfer channels helps to identify whether they can be considered relevant for microfinance clients.

The different types of loans relevant for (potential) microfinance clients include short- and long-term loans for different purpose categories, including emergencies, economic, and other opportunities (see section 4.1.1, tables 4.1.1-A and 4.1.1-B). Within the ENNIV surveys (see table 6.2.3-D), the average amounts of formal loans are about 5,000 PEN for microentrepreneurs at the national level, and informal loans are significantly lower at about 1,700 PEN. The average amounts held by small commercial farmers in specific regions are very close to the averages of the microentrepreneurs. Accordingly, these values can be considered for microfinance loans. Poor households appear to hold considerably smaller loans, with sizes of about 3,000 PEN for formal loans and about 900 PEN for informal ones. These amounts are, however, also average loans, which demand size ranges that include both higher and lower values around these averages.

Table 6.2.3-D: Overview of informal and formal loan sizes (PEN of 2008)

Surveyed population	Survey	Average amout of formal loans	Average amout of informal loans
Households led by microentrepreneurs	ENNIV 2000	5,250	1,740
Poor households	ENNIV 2000	3,270	872
Small commercial farmers (northern coastal area)	Perú Rural -Piura 2003	6,274	1,628
Small commercial farmers in (central sierra)	Perú Rural - Mantaro 2003	4,805	1,986

Source: Data from surveys indicated; for calculations of ENNIV (2000), see Trivelli (2002a: 125ff.) for calculations of Perú Rura, see Guirkinger and Trivelli (2006: 46); own elaboration and further calculations.

In the category of loans for businesses, the SBS differentiates between microenterprise loans (*crédito MES*) granted to firms and individuals to finance economic activities up to 30,000 USDs or around 100,000 PEN, for which the financial institution might establish its own information requirements, and commercial loans (*crédito comercial*) granted to firms and individuals to finance economic activities, linked to a list of minimum information to be contained in each credit file (see resolution SBS 11356-2008, and related recommendations). Considering the low averages for formal loans with microentrepreneurs found in the household surveys, the size range of microenterprise loans up to nearly 100,000 PEN appears very high and is maintained only because of the characteristics of these loans, providing the financial institutions with the possibility of adapting the requirements to the needs of microenterprises. Furthermore, these loans are generally granted only after field visits confirming the existence of a respected business and are not very attractive to higher client segments, given that commercial and consumption loans are generally less costly (see Appendix 6.3.1-D) In addition, the relatively large upper limit allows the inclusion in this category of long-term investment loans for medium-sized family-led companies. The more rigid conditions and the breadth of the category of microenterprise loans are the basis for excluding commercial loans from the analysis in the following section. Regarding the inclusion of smaller or the smallest entrepreneurs, the analysis of the conditions of access to these loans and specific size ranges will be necessary. For analysing the size ranges, it would be preferable to define them according to the evidence of the typical size of microenterprise loans. The size of loans changes, however, not only with the different size of the enterprise (being micro, small, or medium), but sometime even more importantly according to its purpose (working capital or investment) and the sector of the enterprise (e.g., farming loans always being larger and with longer terms). Consequently, all different size ranges within the category of microenterprise loans will be analysed, complemented by a sectoral analysis.

For other long-term loans for other purposes besides business use, there is only one financial product category for housing loans. Housing loans (*crédito hipotecario para vivienda*) are granted for building, modifying, or buying housing, both with and without mortgages. For identifying relevant housing loans for poor households, first of all, requirements, flexibility of payment, and minimum amounts need to be assessed. Relevant upper limits could be drawn according to the averages poor households spend on construction, considering that poor populations often improve housing step-by-step over long periods of time, constructing the building itself incrementally (e.g., first, the first floor and, years later, the second one) (see Greene & Rojas 2008). As usage data do not allow for analysing by size range, no upper limit is defined, and the focus of the following analysis is on the conditions for assessing housing loans, besides acknowledging improvement of housing in terms of a continuous need of poor households and the fact that housing was not mentioned as a different category, but rather as part of household-related needs by the poor (see section 4.1.1.).

Other types of long-term purposes not related to business, like improving education, need to be covered by consumption loans (*crédito consumo*), which are granted to individuals for all kinds of consumption purposes and are offered for different types of purposes and related terms and conditions by financial institutions. Consumption loans for low-income populations are an important part of inclusive access to finance, but difficult to assess. Unlike the case of financial services discussed previously, a clear difference between the usage patterns of poor population and family-led enterprises and the rest of the society is lacking. Whereas the size of housings and savings tends to increase in general with increasing income, it might not always be true in the case of consumption loans. Due to the facility of paying with credit cards or financing an acquisition directly in the store, there is a wide-spread usage of small-scale consumption loans, including among the middle- or high-income populations, even though these clients could pay without financing their purchases. Accordingly, a lower size range, which could be typical for microfinance clients, can at the same time be typical for middle- and high-income clients. Because these parts of the population, especially, are very likely to take various consumption loans, an assessment linked to size ranges could be fundamentally biased, even considering the large share of poor population within the society. Hence, the assessment linked to consumption loans will focus on the access conditions to consumption loans, without trying to identify micro consumption loans by size range.

Because poor populations report the need for coping strategies for different idiosyncratic and covariant risks, all kinds of insurance products offered by financial institutions will be analysed. Although a specific category of microinsurance services has been introduced by SBS in 2007 (resolution SBS 215-2007) and has been changed in 2009 (resolution SBS 14238-2009), still a limited number of schemes have been registered under this category (see section 6.3.2.2). Accordingly, all insurance products offered by financial institutions—whether or not registered as microinsurance—will be analysed, choosing relevant products based on the access conditions and the height of premiums, which will be compared to median and MSME incomes. Because insurance products are quite heterogeneous in terms of purpose and degree of coverage, it is difficult to determine an upper limit, but the premiums will be analysed in relation to the income of the respective target groups. Table 6.2.3-E shows the comparative values of premium shares in income, which are used according to the type of insurance and its coverage, considering that comprehensive health coverage, for instance, might cost much more than simple life insurance but could still be a ‘good deal’. Thereby, the upper limit of 10 PEN for monthly premiums as established by the microinsurance regulation of 2007 provides a concrete point of reference for the analysis of premiums and corresponds for all target groups to the two lowest classes of income shares established.

Table 6.2.3-E: Table for comparing individual premiums to incomes at monthly level (in PEN)

Target group	Monthly income	Income share of 10 %	Income share of 5 %	Income share of 2.5 %	Income share of 1 %
Economically active population (median income)	300	30	15	8	3
National poverty line	230	23	12	6	2
National extreme poverty line	120	12	6	3	1
Self-employed and microenterprise	400	40	20	10	4
Small enterprise	900	90	45	23	9

Source: Data from INEI, own elaboration.

Note: Income data from 2006/ 2007 are taken without further increases due to inflation because the comparative statistics should be more understating than overstating the relationship of premiums to income, considering that prices as found on the brochure generally tend to understate the real cost.

For dealing with the important life-cycle event of old age, specific insurance-related micropensions or savings-based hybrid products are discussed (see WWB 2003). Because pension products for microfinance clients are not (yet) offered and specific regulation for micropensions is still being elaborated within SBS, this type of product will not be included in the following analysis; however, long-term savings services with the very common and popular fixed-term deposits, which can be used for planning for old-age, have been included.

Finally, table 6.2.3-F indicates the types of financial products and related characteristics or size ranges that are identified as relevant for microfinance clients and will be analysed in the next section 6.3.

Table 6.2.3-F: Relevant types of financial services for microfinance clients and related categories and size ranges for supply analysis

Categories of financial management needs	Related type of financial product (by SBS categories)	Size range/upper limit chosen	Underlying reasons
Liquid savings or current accounts	Savings accounts	Basic size range would be at around 1,000 to 3,000 PEN, but is fixed at 8,600 PEN for the given ranges available.	Saving up and down capacity among poor population; size range available larger than the average, including values above average
Structured long-term saving	Fixed-term deposits	As defined for savings	Fixed-term deposits used as substitutes for savings due to the short terms offered, considering increases over time
	Micropension	Not included in the present study, fixed-term deposits should be considered, instead, for planning for old-age	Financial institutions do not offer any specific micropension products, and regulation on micropensions is still being elaborated.
Money transfer or remittances	Remittances/ bank transfer	Money transfer open from lowest balances on	Small sums sent and received by surveyed potential microfinance clients
Short-term loans (business purpose)	Microenterprise loans	Whole category included, until the upper limit of around 100,000 PEN, further analysis of different size ranges within this upper limit	Upper limit given by SBS, adapted to the studied target group, existence of family-led firm largely verified by field visits, uninteresting for larger clients due to high cost

Categories of financial management needs	Related type of financial product (by SBS categories)	Size range/upper limit chosen	Underlying reasons
Long-term loans	Microenterprise loans	See above	See above
	Housing loans	Upper limits would need to be based on low-cost incremental construction	No upper limit is defined because data do not allow analysis by size ranges
	For other purposes	See consumption loans	No categories for other purposes, these are covered by consumption loans
Emergency loans	Consumption loans	No upper limit is chosen, analysis of access conditions	Size-based differentiation between consumption loans by poor populations and other parts of society not feasible, multi-purpose consumption loans
Insurance	Insurance and microinsurance products	Comparison of premiums to monthly income levels and to upper limit of 10 PEN given by SBS microinsurance regulation	Not only insurance declared; microinsurance are relevant; access conditions and height of monthly premiums need to be assessed

Source: Own elaboration.

6.3 Analysing pro-poor financial sector development in Peru

In the present section, the pro-poor financial sector development framework is applied to the case of Peru, analysing central categories of all five dimensions of scope, cost, breadth, depth, and length of outreach. As explained in the introduction to this chapter, the categories analysed have been chosen with the purpose of enabling a coherent analysis of the Peruvian case. The focus of the following analysis is on the market-level of the national financial system, assessing changes in pro-poor financial sector development during the last decade in Peru. In the following discussion, the five dimensions of outreach will be explored, focusing on central aspects of these dimensions. These categories were chosen linked to their central relevance for the entire assessment—such as scope of relevant products, which constitutes the base for further elaborations—and the feasibility of their application within the present study. Because data and information were not available for all indicators of the chosen central analytical categories, sometimes only selected indicators are used or proxies have been chosen for approximating the indicators as proposed by the framework. After the analysis of the five dimensions, the insights into different analytical categories and dimensions of outreach will be discussed in the last section in terms of trade-offs, overlaps, and dependencies of the provision of valuable opportunities to clients, their families, and their communities. Accordingly, only in the last section can initial conclusions be drawn about whether pro-poor financial sector development can be observed in Peru. At the level of each outreach dimension such conclusions could be misleading, considering, for instance, that a specific group of providers would guarantee broad outreach but does not offer any products accessible to microfinance clients or adapted to their financial needs. Thus, the changes in financial sector development need to be assessed by type of similar providers or by the individual providers at each dimension of outreach so that these can be addressed together in the last step. In the case of highly heterogeneous characteristics of their microfinance services, the differentiation between single providers is necessary in order to capture different dynamics. For the present analysis, such a differentiation is necessary among banks and among different groups of COOPACs because their involvement in and provision of microfinance differs widely (see sections 6.2.1 and 6.3.1). CMACs, CRACs, EDPYMEs, and microfinance NGOs will be analysed largely as types of providers, due to very similar characteristics of involvement in microfinance and service provision (see sections 6.2.1 and 6.3.1). Within the categories of microenterprise banks, Mibanco is the only institution, and within the category of development banks, Banco de la Nación is the only bank with a significant first tier business, so that these two institutions will also be considered as separate categories.

6.3.1 Scope of outreach

The present section builds on the evidence for the characteristics of the demand for financial services by poor populations in section 6.2.2 and on the kinds of financial services relevant for the microfinance segment of the Peruvian market in 6.2.3. Accordingly, the analysis will address whether financial services and products that fit into the categories established as relevant for the poor are offered. Furthermore, the conditions of service delivery will be assessed and compared to the insights on client preferences. Because the present assessment focuses on the changes in pro-poor financial sector development in Peru during the last decade, the framework will be applied at the national level. Thus, the present section of scope of outreach focuses on analysing types of financial services offered. The most important part of the chapter will consist of analysing the product diversity offered. The data analysed in the present section (see Appendice 6.3.1-B and 6.3.1-D) come mainly from the public information provided by the financial institutions because such information constitutes binding information and is supervised by SBS, according to law 28587-2005 and resolution 1765-2005.[167] The information collected from the homepages has been compared and complemented with information from leaflets collected in the institutions, participant observation, and interviews. The analysis will be conducted according to kind of financial service relevant to microfinance clients, comparing the different products offered. The data collected include a sample of banks, finance companies, the development bank Banco de la Nación, CMACs, CRACs, EDPYMEs, COOPACs, and NGOs and the microenterprise bank Mibanco. Thereby, the qualitative approach for analysing scope—instead of a comprehensive list of all financial products offered by financial institution—is crucial. Only when products are analysed considering the relevant access criteria, requirements, and characteristics is it possible to evaluate whether these products constitute real opportunities for the clients, whether they are bound to excessive bureauc-

[167] These are ley 28587-2005, 'Ley complementaria a la protección del consumidor en materia de servicios financieros', and resolution 1765-2005, 'Reglamento de Transparencia de Información y Disposiciones Aplicables a la Contratación con Usuarios del Sistema Financiero'.

racy leading to high opportunity costs, or whether they are accessible for (certain) microfinance clients.

Because the banks' involvement and microfinance service provision differ widely, all downscaling banks are included in the sample. For the other institutions, which have very similar approaches and microfinance services among the same type of institutions, a sample provides insight into the range of service scope within the respective group, in order to show the diversity among the same type of providers. Still, the group-wise patterns differ clearly from those of other providers. In the case of COOPACs, the sample is drawn only from the open cooperatives with a microfinance focus (see section 6.2.1 for the characteristics of the different types of providers; see Appendix 6.3.1-A for the selection criteria). Because the present section aims at analysing pro-poor financial sector development at the national level, the analysis of usage for assessing adequacy is not feasible at the product level. Usage will be analysed by type of financial product and is included in the section on breadth. After this general assessment of the product diversity offered, scope will be analysed regarding specific groups of microfinance clients and potential clients. These are new and very marginalized clients and clients with different types of enterprises. In a last step, the product mix offered and related conditions are discussed.

6.3.1.1 Product diversity offered and related key characteristics

All financial institutions analysed provide liquid savings accounts to their clients, except for EDPYMEs and NGOs, which are not authorized to accept savings (see Appendix 6.3.1-B, table 6.3.1-B1). Generally these accounts are easily accessible because there are no excluding requirements and only some simple documentation to complete. Only Banco del Trabajo savings accounts are offered to credit clients. Furthermore, simple liquid savings accounts are offered generally without entry and maintenance cost (see section 6.3.2). Access via the Internet, telephone, ATM, and banking agent[168] is free, but the service at the counter is quite expensive (up to 12 PEN for simple transactions and up to 40 PEN for more complicated transactions). It is, however, the banks and some larger MFIs that work with all these distribution channels, with banking agents (still) more concentrated in banks (see section 6.3.3, graph 6.3.1-A). Considering the operations that are generally feasible through the distribution channel alternatives to the counter, the limitation of access to the free accounts becomes evident. First, access to internet and other means of communication like telephone is restricted for the poor (see Appendix 6.1.1-B, map 6.1.1-B12). Second, because economic activity in family-led economies is largely cash-based, the possibility of depositing and withdrawing cash easily and at low cost is important to microfinance clients. Given that only a few ATMs of banks can take deposits and that banking agents are generally limited to banks, Mibanco, and

[168] According to resolution SBS N°755-2008, banking agents are establishments conducted by natural or juridical persons not being part of the financial system, like shops, pharmacies, or service stations. Banking agents always have to operate under the responsibility of a financial institution and can provide services of loan repayment, cash withdrawal, money transfer, cash deposits, payment of services and invoices, and other services authorized by SBS. However, they cannot open deposit accounts or allocate loans.

a few CMACs, access to the savings account becomes more difficult and costly (see section 6.3.3, graph 6.3.1-A). Furthermore, considering that, for clients with little experience, the attention at the counter is (still) often the preferred point of attendance, access becomes more costly, especially for these clients, because operations at the counter are fee-based in most institutions (see section 6.2.2; interviews Peru 2006; Appendix 6.3.1-B, table 6.3.1-B1). This situation might facilitate the access for more experienced clients with banks but make it more expensive for newer clients. Included with most savings accounts are debit cards, which are also used and estimated as practical by many microfinance clients, especially if their business involves travelling and carrying cash can be avoided (section 6.2.2; Appendix 6.3.1-B, table 6.3.1-B1; interviews Peru 2006).

Graph 6.3.1-A: Types of transactions of ATMs, by financial institutions, as of February 2010

		ATMs with the following services			Type of ATM	Without ATM
		Withdrawal & consultation of account	Transfering money	Deposit money		
Banks	BBVA Banco Continental	X	X		Own network	
	Banco de Crédito	X	X		Own network	
	Banco Financiero	X	X	X[1]	Globalnet	
	Banco del Trabajo	X	X	X	Globalnet	
	Scotiabank	X	X	X	Globalnet	
	Interbank	X	X	X	Globalnet	
Finance companies	CMR , Banco Ripley	X	X		Globalnet	
	Other finance companies					X
Development bank	Banco de la Nación	X	X Pay taxes and other government-related dues		Multired Virtual	
Microenter-prise bank	Mibanco	X	X		Own network, togehter with BBVA Banco Continental	
CMACs	CMAC Piura	X	X		Globalnet	
	CMACs with ATMs (Huancayo, Maynas, Trujillo, Sullana)	X			Globalnet/Unibanca	
CRACs	CRAC Nuestra Gente	X	X		Unibanca	
	CRAC Señor de Luren	X	X		Unibanca	
	Other CRACs				-	X
EDPYMEs	All EDPYMEs				-	X
COOPACs	All COOPACs				-	X
NGOs	All NGOs				-	X

Source: Fundación Alemana de Servicios (FAS), complemented with information from the institutions' homepages.
Note: [1] Only one of Banco Financiero's ATMs can realize this operation.

Except for Banco del Trabajo, most banks offer a wide range of savings products besides the most simple product cited. These products are, however, generally more sophisticated products with more demanding requirements. In addition to the standard liquid savings account, some of the MFIs offer further products for the financial inclusion of minors (children's accounts at special conditions) or for rural populations (rural savings and credit groups for women). Mibanco includes a raffle incentive for newly opened accounts or increased balances (see Appendix 6.3.1-B, table 6.3.1-B1).

Generally, there is no emergency loan linked to savings accounts. Only current accounts with an overdraft option would be an option for a liquid account with an emergency loan option, but these are offered only by banks and are not designed for microfinance clients, for example, because they carry high monthly maintenance costs (see section 6.2.2). Considering the characteristics important for microfinance clients, liquid savings accounts are widely available at no or little cost, but generally with a rather basic design and no other services linked to them. The accounts allow flexible payouts and are easily accessible through debit cards and ATMs, but a high frequency of transactions is viable only if clients use the cost-free distribution channels. However, these distribution channels are generally concentrated with the largest banks, Mibanco and some CMACs (see section 6.3.3). For clients of other institutions and the ones who prefer service at the counter, the accessibility can be considered to be restricted, due to the high cost of this distribution channel. Accordingly, all financial institutions except for EDPYMEs offer accessible liquid savings accounts — both in terms of requirements and in ease of access to the account, but only if the counter is not used as the main distribution channel.

An exception to the mentioned products consists of the way NGOs provide savings opportunities, even though not officially enabled to do so. In Peru, most NGOs work with village banking and/or solidarity group methodologies in which clients' savings are held and managed as obligatory or voluntary within the groups (see Appendix 6.3.1-A, graph 6.3.1-A7). Access to these savings is restricted because it is bound to the decision of the group during weekly or bimonthly meetings and to the product-related monetary costs[169] of saving and borrowing offered as 'packages'. In addition, the opportunity cost of attending the meetings have to be considered (see section 6.3.3). Depending on when the person disposes of income and alternative forms of income generation, the advantage of monetary versus opportunity cost changes.

Because current accounts are not a product designed for microfinance clients (see section 6.2.2), money transfer options that are not linked to a costly current account have been analysed. Banco Continental is the only institution to offer a specific free account to receive remittances. Other institutions, like Banco de la Nación, link receiving remittances to savings accounts. At the national level, there are few possibilities for sending and receiving remittances that are not account-based (see Appendix 6.3.1-B, table 6.3.1-B2). In terms of sending and receiving remittances at the international level, which do not depend on an account, about half of the institutions analysed offer these services. Banks offer most possibilities, with a differentiated range of money transfer operators (MTOs) that can be used in different countries for sending money to Peru. Mibanco also offers the ability to receive remittances through various channels. The development bank Banco de la Nación, some COOPACs, and CRAC Nuestra Gente offer the reception of remittances through a single MTO, however, in cooperation with the largest companies such as Money Gram and Western

[169] *Product-related monetary costs* or *product-related cost* refers to all monetary costs related directly to the use of financial services that have to be paid to the financial institution, such as interest rates and fees; besides these costs, the most varied non-product-related costs are related to using financial services, such as opportunity costs for travelling to the next banking outlet and waiting there or for attending a solidarity group meeting.

Union. At the lower end are CMACs, EDPYMEs, and NGOs, which mostly do not offer remittance services. Most financial institutions do not indicate minimum and maximum accounts, and the information provided by financial institutions themselves on remittances services is, along with the information on partnering institutions, limited (see Appendix 6.3.1-B, table 6.3.1-B3). More detailed data on three of the most important remittances channels—the United States of America (USA), Spain, and Chile—confirm the tendency of banks to be the main providers of international remittance opportunities, besides Mibanco, Banco de la Nación, and some cooperatives. Most sending institutions are MTOs, in addition to some international banks that offer transfers within the same bank and a very low number of other banks and non-bank financial institutions that have cooperation agreements with banks in Peru for sending remittances. In terms of transfer speed, nearly all institutions offer periods of less than one hour (Appendix 6.3.1-C, tables 6.3.1-C1 to 6.3.1-C6; data from DIGEMIN-MININTER).

Structured long-term savings options with restricted access can be translated in terms of financial products into term-deposit accounts (see section 6.2.3). Currently, all financial institutions that are authorized to take deposits also offer term-deposit accounts in addition to the liquid savings accounts. Access to fixed-term deposit accounts is restricted to the terms chosen by the client, and financial institutions offer a large range of different terms (see Appendix 6.3.1-B, table 6.3.1-B4). If the client needs her money, most banks provide access to the fixed-term account, reducing the interest rates to the lower interest rates of a liquid savings account. This flexibility is a positive characteristic for microfinance clients, for instance, if they need to cope with an emergency. Considering, however, the minimum amounts necessary to open a fixed-term account, banks have considerably higher minimum balances for this kind of account than MFIs and Banco de la Nación. Minimum amounts can be considered as access barriers to banks and some COOPACs because they are about ten times higher than the monthly income of microfinance clients (see table 6.2.1-A). The minimum amounts of Banco de la Nación, Mibanco, finance companies, CMACs, CRACs, and some COOPACs are about 100-350 PEN, close to the monthly personal incomes of microfinance clients and around the poverty line, and they already have considerable values as minimums for initiating saving with a fixed-term account.

Minimum amounts of long-term savings options are considered an important barrier to asset-building options for microfinance clients of banks, especially if the very low interest rates paid with liquid accounts are considered, which have resulted in negative real interest rates during recent years (see section 6.3.2). Without access to a fixed-term savings account, saving cannot be considered to be asset building but rather an asset diminishing option for microfinance clients. Still, liquid savings accounts are an option to store money safely and handle it in a safe way, especially due to the debit cards linked to most savings accounts. A minor difference can be found regarding the diversity of fixed-term accounts offered, with banks offering a larger variety that are, however, generally more sophisticated products than the ones included in Appendix 6.3.1-B, table 6.3.1-B4. Considering additional services linked to the accounts, most non-bank institutions provide additional services such as insurance, incentives for saving by participating in raffles, or the use of the fixed-term deposits as guarantees for loans, which can be seen as access to emergency loans. These additional characteristics have also been identified as important to microfinance clients in Peru (see section 6.2.2, interviews Peru), and are generally offered by CMACs and COOPACs (see Appendix 6.3.1-B, table 6.3.1-B4). The high minimum amounts by banks and the very low interest rates offered by Banco de la Nación in UOB (see section 6.3.2) show that accessible opportunities for long-term saving that enable microfinance clients to build assets are generally offered by Mibanco, CMACs, CRACs, and partly by COOPACs.

Regarding the characteristics of insurance important to small customers, the recent microinsurance regulation by SBS promotes exactly the type of insurance identified as relevant for microfinance clients: a basic coverage with minimum exclusions against fundamental idiosyncratic and covariant risk, with flexible payment options, fast payouts, and low premiums (up to 10 PEN monthly), and thus limited coverage (up to 10,000 PEN) (resolutions SBS 215-2007, 14283-2009). The fact that the insurance contracts registered with SBS as microinsurance products are revised ex-ante by the regulator to assure that the content of the policies fulfils the requirement and the characteristics of microinsurance are also supervised turns them into *de facto* opportunities. Because asymmetric distribution of information is especially pronounced in the case of microinsurance, the *in situ* supervision determining whether clients are served within the predefined period or whether the finding of an eventual negation of a claim is correct certainly contributes to fairer treatment of microfinance clients. The provision of microinsurance under the described scheme has, however, only been implemented since 2007. Since then, the number of microinsurance products registered at SBS has been increasing, with 68 registered products as of June 2009. However, these products are concentrated in insurance covering life and accidents. Among these 68 products, only about ten have had a relevant increase in usage, and over 60% of the insured are concentrated in three products: two life insurance products and one for accident insurance. Accordingly, the three financial institutions that sell them—the NGO Promujer, the CRAC Señor de Luren, and the finance company Falabella—account for most of the microinsured, in terms of single institutions (data from SBS, as of 30 June 2009).[170] Additional agricultural and index-based microinsurance products are still in the planning stage (data from SBS).

For microfinance clients, it is not only the insurance products officially registered as microinsurance that are relevant to them, but also all small insurance products that are sufficiently adapted to their needs. Considering all small types of insurance currently offered

[170] For updated information on registered microinsurance products, see the website *Transparencia en Seguros* at http://www.sbs.gob.pe/0/modulos/JER/JER_Interna.aspx?ARE=0&PFL=1&JER=234 (accessed 3 March 2010).

or, rather ,commercialized[171] by financial institutions, as well as by other providers such as the governmental institutions or private clinics, it can be seen that these target covering only the main idiosyncratic risks and do not cover any covariant risk (see Appendix 6.3.1-B, table 6.3.1-B5, Webb 2009: 3ff.). The latter is a fundamental risk in agriculture and fishing in a country affected by periodic extreme climate change related to *El Niño*. For microfinance clients, coverage of covariant risk would be central, considering that about 60% of all microenterprises and 75% of all small enterprises engage in agriculture or fishing in Peru (see section 6.1.2). Furthermore, there are other systemic covariant risks, such as earthquakes, which could be insured against. These covariant risks are, however, so far uninsurable for microfinance clients in Peru; however, this situation is not exceptional in comparison to the microinsurance markets in other countries, given , especially, agriculture-related risk is difficult to insure against and only lately index-based insurance has been evolving in microfinance (see, e.g., Giné, Townsend et al. 2008).

Considering insurance for idiosyncratic risk, the small insurance policies offered by banks[172] provide very broad coverage of both main life-cycle related risks—such as death and funeral costs as well as such emergencies as accidents, incapacity, and certain diseases—for very reasonable premiums, usually under or around 10 PEN per month. These 'life plus' insurance policies tend to have limited and differentiated coverage for the different types of events from about 600 PEN for funeral costs and a minimum of 5,000 for death and becoming invalid up to more than 100,000 PEN. The inclusion of hospitalization costs or health expenditure with fatal diseases incrementally increase the coverage of these insurance policies further. With most banks, the entry condition is having a savings account at the bank, and only Scotiabank and Banco Continental (for persons over 50) require additional medical exams. If exclusions and payouts are handled in a fair manner, these insurance products seem to be very interesting options for microfinance clients due to the wide coverage, considering the low premiums paid. Moreover, banks offer a wide range of other types of insurance, which are in general, however, considerably more expensive (see Appendix 6.3.1-B, table 6.3.1-B5). Among analysed MFIs, only Mibanco, CMAC Trujillo, and both NGOs offer life insurance covering, in general, only accidental death at relatively low monthly premiums around 3 PEN with coverage around 7,000-10,000 PEN. Both NGOs' insurance policies offered are registered insurance by SBS. COOPAC Santa María Magdalena offers a wide coverage for health, funeral costs, economic necessities, and life-cycle events for a very low premium of 2.5 PEN through its insurance scheme 'Fondo de Solidaridad', these solidarity or social prevention funds being a typical form of insuring among COOPACs, with currently 78 cooperatives being members of the cooperative insurer Serviperú. Additionally, the members of this 'Fondo de Solidaridad' receive prizes for their weddings or professional exams. However, this very ample coverage

[171] The insurance policy must always be provided by a mainstream insurance company and can only be commercialized through financial institutions or other establishments, such as stores or pharmacies in the case of microinsurance products (resolutions SBS 215-2007, 14283-2009).
[172] An exception is Interbank, which offers a more expensive insurance for remittances receivers or Plaza Vea clients (see Appendix 6.3.3, table 6.3.3-C5).

leaves a doubt about the commercial viability of this insuring scheme or the real coverage delivered, even though the insurance scheme has the backing of Serviperú. Interbank, which, of the two banks, offers the most possibilities for receiving remittances and also offers a specific life insurance product for migrants, at considerably higher cost however (see Appendix 6.3.1-B, table 6.3.1-B5).

Taking into account that basic health insurance is provided for free for families under the poverty line and at a low, semi-subsidized cost of 10 PEN for individuals with incomes under 700 PEN and is accessible for those with incomes of up to 1,000 PEN by the governmental integral health insurance (Seguro Integral de Salud, SIS), it is not surprising that financial institutions focus on life, accident, and specific health needs (SIS 2010a, 2010b). Considering that 85% of the Peruvian population lived with incomes under 1,000 PEN in 2006 (table 6.2.3-C), this insurance is accessible for large parts of the population, certainly including microfinance clients. This wide access to the public health insurance is, however, due to the 2009 law on the universalization of the Peruvian health system, *Ley Marco de Aseguramiento Universal de Salud*, given that, previously, access to SIS had been reserved for pregnant women and specific groups. In general, the scope of microinsurance in Peru is (still) limited. The most important limitation is that the products offered so far provide coverage only for certain idiosyncratic risks and not for relevant covariant risks, such as climate and earthquakes. In terms of coverage for idiosyncratic risk, the scope of products providing coverage of life, accidents, and burial cost is currently increasing. The small insurance policies generally offered by banks are complemented increasingly by registered microinsurance products, commercialized by MFIs and other retail agents. COOPACs, with their solidarity funds, are one of the older players in the market, with impressively broad coverage of their insurance. The recent universalization of the public health insurance system has changed broadened accessibility criteria for free and semi-subsidized health insurance, incrementally increasing the scope of microinsurance health products for microfinance clients.

One or even various short-term microenterprise loans are offered by all financial institutions analysed, except for Banco Continental and Banco de la Nación (see Appendix 6.3.1-D, table 6.3.1-D1). Half of the banks offer microenterprise loans in the form of a credit line or a 'revolving microenterprise' loan that guarantees the client complete flexibility concerning repayment and access to additional funds within the preapproved credit line. Once the client uses another part of her credit line, fixed monthly quotas are calculated, providing a repayment schedule to the client. MFIs offer the loans in the form of instalment credits and offer differentiated repayment schedules—at monthly, bimonthly, weekly, and in some institutions even daily bases—, often including a grace period and the option of anticipated repayment. The terms offered tend to cover from a period of 3 months up to 24 months or, in the cases of some MFIs, offer only one microenterprise loan product for working capital and investment. Most banks do not indicate minimum amounts for loans, but Banco de Crédito's minimum of 1,500 PEN is considerably above the minimum amounts in MFIs of 300-500 PEN. As for upper limits, most institutions indicate the official upper limit of the microenterprise loan in Peru to be, as stipulated by the regulator, at 100,000 PEN. However, smaller COOPACs and NGOs work with a lower maximum value of loans between 3,000 and 7,000 PEN.

Considering the requirements, banks ask, in part, for a longer minimum existence of the business of one year. For most MFIs, this minimum period is half a year, and some MFIs even require only business experience, which makes an important difference to new clients. Regarding the degree of formality, banks require the tax registration number (RUC), some MFIs also accept other documentation, and NGOs work only with the declaration of the business, the reputation in the community, and the verification by the loan officer. Providing RUC should not be a barrier to access for most potential clients because registration with the tax authority *Superintendencia Nacional de Administración Tributaria* (SUNAT) requires only the national identification document and proof of residency, which might be a rent contract or recent receipts for payment of gas or electricity. Alternatively, a specific number issued by the municipality, a letter by the market association, or membership confirmation in a community of irrigating farmers might be used (SUNAT 2009). Although there is a long list of alternative documents, for very poor persons without fixed residency or living in very remote locations, this requirement might still be difficult to meet, especially considering the still significant number of persons in Peru without national identity cards or, a few even without national identity cards or birth certificates (see Appendix 6.1.1-B, maps 6.1.1-B14 and 6.1.1-B18). Another characteristic of standard MSME loans in Peru is that nearly all financial institutions offering microenterprise loans, except for NGOs, require as guarantee either a copy of a property title or a guarantor. Among banks, Banco de Crédito is the only institution not requiring a guarantee for loans up to 40,000 PEN for new and 52,000 PEN for existing clients. Furthermore, different MFIs offer additional products specifically designed for small and poorer clients, with fewer requirements and without guarantee needed, which will be discussed in the following section.

Regarding the way loans are evaluated, downscaling banks appear to have 'learned' the dominant microfinance lending technology from NBFIs, working with on-site visits and evaluations of loan officers in order to determine the debt capacity of their clients and considering the incomes and expenditures of the entire family as generally pre-established in the respective formulas. Some banks and Mibanco complement these visits with the previous application of scoring and filtering of potential clients before the client visit; in additional, they perform market-wide checking of the applicant's situation in the credit registry (see Appendix 6.3.1-D, table 6.3.1-D1). Accordingly, all institutions offering microenterprise loans apply a specific microfinance lending technology and do not just sell 'traditional loans' to small clients. This is a very positive characteristic of the Peruvian microfinance market, given that most MSMEs are family-led with resources managed at the family level and having little formal information about the enterprises. Through on-site visits, loan officers can determine much better the 'real' debt capacity of their clients, which is the base for preventing over-indebtedness of clients and late repayment to the financial institution. Furthermore, most institutions require the purchase of loan insurance or it is already included in the price of the loan, which protects the family's assets. Generally, debit cards are provided to clients, and they are served individually and in a personalized way. Only NGOs and a few CRACs and Mibanco offer group-based loans, in the case of the latter, only for specific client groups like rural clients. In general terms, banks—except Banco del Trabajo and Banco Financiero—offer working capital loans for medium-sized and larger microfinance clients, whereas MFIs, finance companies, and the two mentioned banks offer products for the whole range of clients. Regarding other products offered by the different kinds of financial institutions, this difference between banks and MFIs is still more accentuated. Banks generally provide 'upward mobility' for large and growing clients in the sense of access to more sophisticated products and services lines within the bank. Mibanco, CMACs, CRACs, EDPYMEs, and COOPACs provide 'downward access' to marginalized, new, poor, or rural clients, offering specific products for these types of clients. Furthermore, CMACs, CRACs, COOPACs, and Mibanco have specific sectoral approaches, with adapted products for rural clients. Furthermore, CMACs and CRACs also provide special products for larger or growing clients, which is not the case for the other MFIs. NGOs constitute a further exception, focussing on serving the lowest client segment. Finally, Banco de la Nación does not offer microenterprise loans directly to the general public, but within UOB, CMACs, CRACs, and EDPYMEs can offer its microenterprise products at 'shared counters' (see Appendix, 6.3.1-D, table 6.3.1-D1).

Regarding long-term loans for investment, three different purpose categories relevant to microfinance clients can be distinguished at the product level: loans for MSME investment, housing loans, and education loans. In some cases, combined products are offered for business buildings or MSME investment, largely based on mortgages. In the case of long-term loans for business use, only banks offer specific investment loans because MFIs generally offer combined microenterprise loans for working capital and investment (see Appendix 6.3.1-D, tables 6.3.1-D1; Appendix 6.3.1-A, table 6.3.1-A2). The terms of the investment loans by banks are considerably longer than those of working capital loans offered by banks, but similar to the multi-purpose products by MFIs with durations up to 60 months in general. The maximum values are generally also similar, reaching the official limit for *crédito MES* of 100,000 PEN. Banco de Crédito is the only bank that provides higher values, up to 175,000 PEN in the case of microenterprise loans for working capital and up to 300,000 PEN in the case of investment loans. Banco de Crédito and Banco Ripley are, furthermore, the only banks providing loans without guarantees (up to a certain limit in the case of Banco de Crédito), largely consisting for most other banks in mortgages and property (see Appendix 6.3.1-D, table 6.3.1-D2). For most MFIs, the conditions for long-term investment loans are the same as for short-term working capital loans because the same products are offered for short- and long-term loans up to 60 months. The small differences in investment loans compared to the working capital loans for microenterprise clients might also be one of the reasons for the slight differences in interest rates between these two types of loans (see section 6.3.2). The only two MFIs that offer specific investment loans are Financiera Edyficar and Mibanco. Both institutions offer these loans for investment in machinery with terms up to 24 and 36 months respectively. Edyficar even offers a specific investment loan for small enterprises, which starts at 300 PEN and includes a grace period up to six months. Comparing this loan to the banks' and Mibanco's investment loans, the lower minimum amount is a significant increase in scope for investment loans in enterprises. Comparing it, however, to the other MFIs' multi-purpose loans, the minimum amounts are the same and only the availability of such a long grace period changes (see Appendix 6.3.1-D, table 6.3.1-D2).

Regarding loans for investing in education, only Banco de Crédito and Banco Continental offer education loans, bound, however, to minimum income far above the income levels in the microfinance client segment (see Appendix 6.3.1-D, table 6.3.1-D2). Housing loans are offered by all providers in the sample except for NGOs and one COOPAC (see Appendix 6.3.1-D, table 6.3.1-D3). The terms offered are considerably higher than the terms of microenterprise loans, up to 20 years in some cases. The values are usually under 100,000 PEN, with higher amounts offered only by Banco de Crédito and Scotiabank. Requirements are generally more demanding than in the case of microenterprise loans, with many institutions requiring a certain minimum income or minimum sales for the business. Guarantees are usually required, but not necessarily in the form of a mortgage. Most institutions also require obligatory loan insurance. Considering the variety of housing loans offered, MFIs usually combine housing loans with loans for housing improvement, but banks and Mibanco are clearly the types of institutions offering the most diversified range of housing loans. Besides the housing loans for microentrepreneurs, banks offer other types of housing loans, tailor-made for microfinance clients. These consist of loans guaranteed with savings or remittances and different products linked to the governmental housing fund MiVivienda. Besides MiVivienda loans, which are also offered by some MFIs, Mibanco provides loans for business-related construction or acquisition and for urbanization projects among neighbours (see Appendix 6.3.1-D, table 6.3.1-D3).[173]

Emergency loan facilities are generally not linked to savings accounts and are, consequently, offered as a separate product, usually in the form of multi-purpose consumption loans (see Appendix 6.3.1-D, table 6.3.1-D4). Most institutions offer consumption loans for small or microenterprise clients, with some banks providing lower interest rates to fixed-term deposit account holders and savers. However, the consumption loans by banks cannot be considered viable emergency loans for microenterprise clients because they are mostly bound to relatively high minimum amounts. Other consumption loans, besides the ones mentioned, are generally more sophisticated, with increasing requirements in the case of banks and targeting the inclusion of specific marginalized clients in the case of MFIs. Minimum amounts at MFIs are lower, but they still exist and are generally still above the monthly income of microfinance clients (see table 6.2.1-A). Furthermore, terms are rather long for consumption purposes, reaching up to 60 months with many institutions and usually compulsory loan insurance is added to the loan. Regarding the possible entry barriers, banks offer their loans largely

[173] The latter might constitute additional opportunities for the poor, but can be seen as critical from a political economic perspective, assuming that the state should provide the basic infrastructure.

without guarantee but for considerable minimum monthly incomes around 700 PEN. These income levels are far above income levels of microfinance clients at about 400 PEN and the monetary poverty line of about 200 PEN. Only in some specific cases are consumption loans linked to savings, a liquid guarantee, or membership, which ease access. CMACs offer consumption loans guaranteed with the fixed-term accounts of the clients, Interbank uses the clients' savings, and Mibanco requires a liquid guarantee for giving only the same amount as a quick consumption loan. However, Banco Ripley offers consumption loans even without a guarantee. These consumption loans linked to cash guarantees are easier to assess, but they are still bound to minimum amounts in some MFIs, which restricts their use for any emergency. However, CMACs and CRACs also provide pawnshop loans for gold, which are not further restricted. Furthermore, CMAC Trujillo offers a consumption loan guaranteed by remittances for migrants' families. Within some cooperatives, members can borrow on their quotas, and in NGOs working with group methodology, group members can generally borrow from the internal account of the group (see Appendix 6.3.1-D, table 6.3.1-D4; see Appendix 6.3.1-B, table 6.3.1-B4). Thus, the provision of loans that can be easily accessed for any emergency is rather restricted for the poor in general terms, especially from banks. Only some institutions, such as Banco Ripley and Interbank, provide interesting consumption loans for emergency use, and specific products such as pawnshop loans and loans with liquid guarantees by MFIs constitute viable alternatives to standard consumption loans. The consumption loans from internal accounts from NGOs are also easily accessible, but not in a very fast or flexible manner because the allocation of these loans is bound to the group meetings and depends on the availability of cash in the internal account of the group.

Complementary services—such as financial education, skill training or business consultation, awareness building, and other courses—would need a more in-depth evaluation of the different programmes according to clients' preferences and usage. A first basic assessment of the mere availability of additional services can be done however. It can be seen that Banco de Crédito is the only bank with any complementary services, consisting of financial education programmes and business training and the organisation of business meetings of microentrepreneurs, however, at a very small scale (see Appendix 6.3.1-D, table 6.3.1-D5). The only institutions that train considerable shares of their clients are Mibanco and NGOs, as well as COOPACs if training on cooperativism is included. Mibanco offers free business training to its clients on subjects like marketing, finance, sales, and so on. Because most of and the most important NGOs in Peru are PROMUC members, they offer training on finance, business, health, and family-related issues on a regular base within the meetings of the groups, as well as occasional additional training programmes. Among its rural group-based clients, Credinka also promotes capacity building and financial education. CMACs generally cooperate with 'their municipalities' in projects at the community level, such as the construction of local markets and similar projects. Additionally, services offered at lower scale include Finca's export services for handicraft produced by their clients and Mibanco's cooperation with an energy enterprise financing solar panels in communities without electric energy (see Appendix 6.3.1-D, table 6.3.1-D5). Accordingly, only institutions working with group-based microfinance approaches—NGOs, some CRACs, and Mibanco in rural areas—offer capacity building on a regular basis to their clients. This kind of training is generally comprehensive and includes financial education and financial management, enterprise and family-related subjects; however, it is not optional but part of group meetings. Mibanco is the only institution to offer additional free entrepreneurial training to its individual clients on a relevant scale. Considering the entry barriers for very marginalized clients (see section 6.2.2), financial education can be seen as an important contribution to facilitating access to the financial system for these clients. Taking into account the positive results regarding entrepreneurial training by Karlan and Valdivia (2008), who explicitly evaluated the effects of Finca's entrepreneurial training, the approach of including training in regular group meetings can be seen as beneficial for microfinance clients because the clients with the least interest, especially, could benefit the most from the training. Still, the question of the freedom of choice of different services should be considered, especially if the scope of service for marginalized clients is restricted.

6.3.1.2 Scope of products for new, poor, and marginalized customers

Specialized products and approaches for reaching out to the unbanked population and very poor or small customers can be thought of both in terms of approaches that enable the unbanked population to use financial services and in terms of adapted products and methods of service provision. Often, specific products are also partly based on a specific form of service provision. On the deposit-side, the liquid savings products have shown to be quite accessible, considering entry and maintenance costs, but with negative returns for savings accounts. Fixed-term accounts with low minimum amounts are generally only offered by MFIs and provide an interesting option of asset building to poor customers, as was confirmed, for example, by the poor rural female savers of *Proyecto Corredor* (Trivelli & Yankari 2008). Furthermore, these accounts provide the advantage that many MFIs accept them as collateral for small consumption or emergency loans (see Appendix 6.3.1-B, tables 6.3.1-B1 and 6.3.1-B2; Appendix 6.3.1-D, table 6.3.1-D4). The 'classic' pawnshop emergency loan provided by CMACs might constitute another possibility of obtaining access to fast small consumption loans, without the necessity of doing informal pawnshop lending (see Appendix 6.3.1-D, table 6.3.1-D4). Mibanco and CMACs also provide specific microenterprise loans for small clients, such as small microenterprise loans without guarantee, RUC, or the necessity of proving income. CMAC Trujillo even offers special loans for handicapped microentrepreneurs. Furthermore, Mibanco, CRAC Credinka and COOPAC Santa María Magdalena offer group-based savings and credit schemes to rural clients. NGOs generally focus on this lowest client segment, and most of these institutions employ group-based technologies, offering very small insurance policies with premiums as low as one PEN to their clients. These institutions offer furthermore microinsurances of very low premiums of 1 PEN monthly (see Appendix 6.3.1-B, tables 6.3.1-B1, 6.3.1-B5; Appendix 6.3.1-D, tables 6.3.1-D1, 6.3.1-D2; Appendix 6.3.1-A, graph 6.3.1-A8).

Because demand-side barriers, especially among poor rural populations, consist of a deep mistrust of financial institutions (see section 6.2.2), group schemes and the related meetings can help new clients to overcome their fears. Due to the specific client segment served with group-schemes, meetings are often used for financial education or even further training, such as awareness building concerning health (see Appendix 6.3.1-D, table 6.3.1-D5). Given the lack of information and formation within this lowest client segment, both meetings and training are usually well appreciated (participant observation; interviews Peru 2006). For entrepreneurial training, the positive impact on the clients' skills and their business results could even be shown based on a RCT evaluation beyond the articulated interest of clients in the case of the NGO Finca (Karlan & Valdivia 2008). Accordingly, the product range and the approaches clearly show that it is the different types of MFIs that especially serve smaller and more marginalized microfinance clients. Among MFIs, further distinction can be made between CMACs and CRACs serving different types of client segments including the lower segments and EDPYMEs, Mibanco, and NGOs focussing largely on the lower and lowest client segments. Thereby, NGOs generally aim at including poor and marginalized clients through group schemes. While group schemes are not generally superior to individual methodologies, in the case of Peru, they have proven to be a well-adapted form for including especially rural and indigenous poor or very marginalized clients (see section 6.2.2, interviews Peru).

6.3.1.3 Scope of products for different kinds of MSME clients

Analysing the product scope offered for microenterprise businesses in different stages of development and with different types of business, the general tendency of banks that offer products generally for the higher and medium client segments with MFIs including lower segments as well can be confirmed. Considering the scope of services for very small and new business, MFIs generally offer working capital and investment loans with lower requirements, especially in terms of minimum amounts of the loans, which is important for small enterprises searching for small loans. In terms of new businesses, MFIs generally require shorter minimum periods of business experience of six months, in comparison to a year with most banks. Only CMAC Trujillo provides a specific microenterprise loan for young clients without previous business experience, and COOPAC Tocache offers a start-up loan guaranteed with fixed-term deposits for microenterprise clients without business experience. Alternatively, consumption loans could also be considered as alternatives for starting a business. However, these loans are not easy to access in general, usually because of the high minimum incomes required. With MFIs, they are easier to access due to smaller minimum income requirements, but still guarantees are usually required (see Appendix 6.3.1-B, table 6.3.1-B1; Appendix 6.3.1-D, tables 6.3.1-D1, 6.3.1-D2, and 6.3.1-D4).

It is not only the smallest, but often also the larger enterprises among MSMEs that experience difficulties accessing financing because they need more sophisticated financial solutions and/or larger sums than generally managed within the microfinance sector. In Peru, on the one hand, non-bank financial institutions are indeed limited in terms of the range of services they can offer. However, due to the modular regulation, the institutions can graduate to higher levels and offer more sophisticated services accordingly. Currently, some MFIs offer additional services such as guarantee letters and leasing, and factoring is offered by Mibanco, for instance. Comparing these additional services to the wide range of services and products banks can offer to larger clients, MFIs cannot compete in the area of more sophisticated services (see Appendices 6.3.1-B and 6.3.1-D). The regulation of microenterprise loans in Peru sets the limit of 30,000 USD or 100,000 PEN for microenterprise loans, which is a quite high upper limit considering the average size of formal loans of microentrepreneurs was around 4,400 PEN in 2000 (see table 6.2.2-A). Still, within the industrial sector especially, investment loans can easily constitute high sums. The upper limit of microenterprise loans is rather high and enables growing family-led enterprises to have access to loans with reduced requirements and character-based assessment, which is consequently very positive in terms of access to finance for SMEs. Furthermore, not only banks but also most MFIs except NGOs offer commercial loans—without any generalized upper limit besides the capacity of the individual institution—to their commercial clients (data from SBS, FENACREP, as of 31 December 2008; COPEME, as of 30 September 2008). Considering the typical insurance needs of small enterprises, such as protection against robbery, fire, or natural calamities and, especially because MSMEs are often located in less secure parts of the cities in Peru, there are hardly any enterprise-related insurance products offered to microfinance clients (Appendix 6.3.1-B, table 6.3.1-B5).

Regarding loans with specific sectoral approaches, these are relevant in sectors with specific financial needs. Agriculture is recognized as a field that demands particular financial products adapted to the rhythm of the agricultural production and the types of financial needs of this sector. For instance loans and insurance premiums can best be paid right after harvest season and agriculture-related insurance, such as weather insurance, are of particular relevance. A second sector with specific needs is the industrial sector, where investment loans are of particular importance. In the field of agriculture, CMACs, CRACs, and COOPACs are the only institutions with related products. CMAC Cuzco offers an agricultural loan with a repayment schedule adapted to the harvest period, CRAC Norperú even had its focus in microenterprise lending in agriculture, focussing on financing productive chains and cooperating with important buyers of agricultural products. COOPAC Santa María Magdalena also finances productive chains, focussing on certain types of crops. Besides the loans for agriculture, there are still some specialized loans for commerce, like the daily loan for vendors by COOPAC Santa María Magdalena and the loan for women selling products from catalogues by CMAC Trujillo, which provides further special loans for clients working in the transportation business (see Appendix 6.3.1-D, table 6.3.1-D1). Except for the case of agriculture, the lack of specific products does not mean, however, that particular sectors are not served if the products are, in general, flexible enough to be adapted to the different needs according to the kind of economic activity of the client. For analysing whether the products currently offered to microenterprise clients serve all different sectors, the sectoral distribution of microenterprise loans is analysed and then compared to the sectoral distribution of microenterprises (see Appendices 6.3.1-E and 6.3.1-F).

Analysing the distribution of microenterprise loans by loan portfolio (see Appendix 6.3.1-E, graphs 6.3.1-E1 through 6.3.1-E4), banks and CMACs held the biggest portfolios in 2001, in the case of CMACs, being dominated by trade and the repair of automotives and, in the case of banks, being quite diversified, including real estate, agriculture, trade, and manufacturing as important sectors. The portfolios of CRACs were largely dominated by agriculture, those of EDPYMEs by trade, and Mibanco's portfolio was concentrated in communal services[174] and trade. Up to 2008, the shares of agriculture in the institutions' portfolios were reduced substantially, especially in the case of CRACs, which had portfolios highly concentrated in the agricultural sector in 2001. In addition, trade has gained importance in all portfolios, being the main sector of microenterprise loans within all institutions and in absolute terms. CMACs have also diversified their portfolios, however, without further definition of important parts of their lending. Because their portfolios are very small, finance companies, Banco de la Nación, and the SME fund are not discussed in detail (see Appendix 6.3.1-E, graphs 6.3.1-E1 through 6.3.1-E4). Considering the numbers of microenterprise loans, the described patterns of sectoral distribution among institutions do not change much, but in terms of absolute numbers of clients, banks are less important (see Appendix 6.3.1-E, graphs 6.3.1-E1 through 6.3.1-E4).

Interestingly, CMACs and banks appear to have reached very similar and diversified portfolio structures, considering the sectoral distribution by microenterprise clients in 2008. Most of the microenterprise clients are in trade, and smaller shares are in real estate, hotels, manufacturing, communal services, and transportation. Concerning agriculture, the difference between all MFIs and banks has increased, with banks serving very few agricultural clients and showing very small portfolios. The concentration of the portfolio in trade has increased within EDYPMEs, CRACs, and Mibanco and decreased within CMACs. Within CRACs, the share of clients in agriculture and, in Mibanco, the clients within communal services have diminished, whereas the portfolio of EDPYMEs was already very concentrated in trade in 2001. Comparing this generalized concentration of microenterprise loan portfolios and clients in trade with the distribution of micro and small enterprises by economic sectors (see table 6.1.2-B) significant gaps appear. The great majority of all micro and small enterprises work in agriculture and fishing, and the number of loans allocated to agriculture is very small, with equally small shares of portfolio, and the loans in fishing are minimal. For the self-employed, trade and services are the most important sectors and are among the most widely served sectors. Considering the distribution of employment in MSMEs, the largely agriculture and fishing microenterprises provide more than half of the nation-wide employment and are, accordingly, the most important types of employment possibilities, followed by about 17% self-employed (see graph 6.1.2-A). Considering that different sectors of the economy might

[174] Communal services include services like waste elimination, water treatment, associations, and cultural and sports activities (section O of international uniform industrial classification, *Clasificación Internacional Industrial Uniforme*, CIIU).

have different levels of financing needs, the gap between the sectoral distribution of MSMEs and the microenterprise loans allocated is still so large that it points to disequilibrium. This disequilibrium is characterised by an apparent lack of financing for agriculture and fishing and a focus on financial enterprises in financing trade. Such a concentration in trade, which might be beneficial for actual clients, might not be a sustainable contribution to local economic development and employment in the long run, at least in urban areas, nor be sustainable for the shop-owners themselves as supermarkets, shopping malls and retail chains expand.

6.3.1.4 Product mix offered

Considering the product mix offered to meet the varied financial needs of clients for personal use and their economic activities, it was shown that a variety of services offered by one provider can help clients better manage their finances. A well-adapted assortment can enable clients to choose the service that suits best their specific financial management need (see sections 4.1 and 6.2.2). In general terms, the product mix offered varies strongly by type of provider. Among banks, there are significant differences among the product mixes offered, which varies especially if access conditions are considered. Banco de Crédito, Scotiabank, and, to an extent, Interbank offer diversified products in all service categories, but if deposits or loans are considered, these are generally only accessible to higher income segments of microfinance clients. On the other hand, these institutions provide the most interesting remittance services and insurance coverage for microfinance clients. Banco Continental does not offer microenterprise loans but other loans, deposits, and insurance products to microfinance clients. Banco del Trabajo, Banco Financiero, and the finance companies offer different kinds of services, however, with a limited product choice to a client segment below that of the other banks. Mibanco, CMACs, CRACs, and COOPACs offer a quite diversified range of savings and loan services to all microfinance clients, including smaller clients. However, remittance services and insurance are not yet offered by many CMACs, CRACs, and COOPACs, even though about half of the cooperatives offer solidarity fund-based insurance products.

The product choice within the different categories of financial services varies among these institutions. Mibanco and some larger CMACs and CRACs provide the most product variety, with products for different client segments. NGOs focus on the lowest client segment, but offer them a considerably comprehensive range of services, including loans, internal savings within the group, microinsurance, and additional capacity building during group meetings. Although NGOs are not authorized to accept savings, they have expanded their service range ‘informally’ because the clients’ savings are handled within the solidarity groups and village banks. EDPYMEs and Banco de la Nación offer a limited range of services, partly due to regulation. EDPYMEs cannot accept deposits but might offer insurance products, and Banco de la Nación can serve only non-public-servant clients if they live in UOB. To these clients, Banco de la Nación offers only one type of savings and fixed-term accounts and remittance services, these being the services a first tier institution to UOB clients is restricted to, because the bank generally serves only public servants. Additionally, the bank opens its UOB branches to CMACs, CRACs, and EDPYMEs in order to provide microenterprise loans, thereby enlarging indirectly the scope of microfinance services offered. EDPYMEs offer generally only borrowing options to microfinance clients, with larger institutions providing larger product choice. Except for Banco de Trabajo, where savings accounts are open only to credit clients, all these financial institutions offer their financial services independently of other services, except for loans being bound to compulsory loan insurance by most institutions. Taking into account that family-led business is largely based on the assets of the family, protecting the families' assets can be considered positive, which might be more important as a choice if the additional cost is very low. NGOs are the only type of institutions offering their savings and loan products in the form of a 'package' because access to loans is linked to the savings held within the group's savings account if group methodologies are applied (see Appendix 6.3.1-B, tables 6.3.1-B1 through 6.3.1-B5; Appendix 6.3.1-D, tables 6.3.1-D1 through 6.3.1-D4). As discussed, the advantages of this specific package to the most marginalized clients is a possible exception concerning initial training linked to group-based financial services for inexperienced clients, through the generally preferred freedom of choice, in terms of being a valuable option for clients (see Sievers & Vandenberg 2007: 1354ff.).

Thus, the scope of services offered to microfinance clients in Peru can be considered quite diversified if the whole range of institutions is considered. However, taking into account the access conditions and delivery of the whole range of financial services at the institution level—including the provision of options for managing, storing and saving money, borrowing, and mitigating risk—, the picture becomes more complicated. Some financial services, for instance, insurance and remittance services, are offered only by specific providers, usually banks and, in the case of insurance, also NGOs and COOPACs. Even though banks provide a quite complete range of services, their products have limited access, focussing on higher income client segments and excluding lower income client segments through demanding requirements. Most MFIs, like Mibanco, CMACs, CRACs, COOPACs, and EDPYMEs offer services open to the broad range of the microfinance client segment, including smaller clients. However, CMACs, CRACs, COOPACs, and EDPYMEs do not provide the entire service spectrum, often not offering insurance and/or remittance services. EDPYMEs are the type of institutions with the most limited range of services, usually providing only loans, followed by Banco de la Nación, which provides liquid savings, fixed-term deposit accounts, and remittances. In this case, clients cannot choose between different financial services for saving up, down, and through or specific risk mitigation tools at the same financial institution. The service range of NGOs is officially limited to services that do not involve deposits, but that are generally complemented through internal group-based savings. Furthermore, NGOs are the only type of MFIs that generally offer microinsurance and additional services, such as training that is, however, usually linked to financial services. Mibanco can be considered to be the institution that offers the largest scope of services to the entire microfinance client segment, offering a differentiated range of products that include specific products for smaller clients.

In terms of microinsurance, financial institutions generally provide only coverage for life, personal accident, and severe health problems. Basic public subsidized health care has been available since 2009 to all microfinance clients, but no microinsurance products are offered for insuring covariant risk. Even though this general picture seems to describe a well-differentiated scope of services offered, it does not mean that all kinds of clients will have access to the mentioned products. They might not be able to pay for the products or reach the banking outlets. In the following discussing, it is crucial to explore how this picture changes in terms of cost, breadth, and length of outreach of the different kinds of financial services relevant to the poor. An initial concern regarding the scope of services offered has already been mentioned in terms of the sectoral distribution of microenterprise loans and the fundamentally different distribution of microenterprises among the economic sectors.

6.3.2 Cost of outreach: Product-related cost of financial services offered

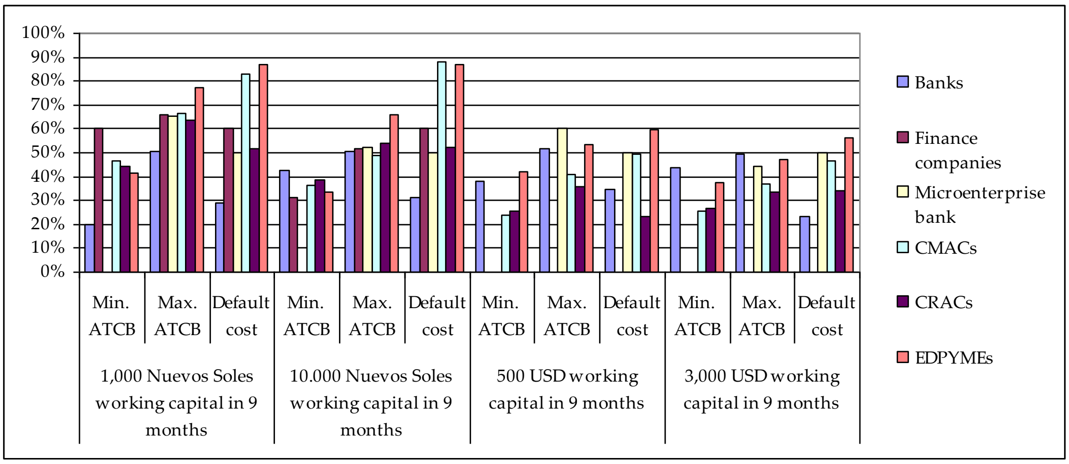
In the present section, cost of outreach will be analysed, focussing on the analysis of product-related monetary costs of the different types of financial services relevant for microfinance clients (see sections 6.2.3 and 6.3.1). Regarding product-related costs of financial services, both entry costs and current costs will be analysed for the relevant types of financial services. Thereby, different types of products of the same kind of financial service are distinguished where necessary. In the case of loans, interest rates and the cost of loans depend on the type of loan, the type of guarantee, its size, its term, and the frequency of repayment, among other factors. In general terms, smaller loans and loans with shorter terms and with less liquid guarantees tend to be more expensive. In order to make meaningful comparisons between different loans offered, they need to be compared with loans of the same type of collateral and the same or similar size and period.

In the following discussion, the type of collateral is considered to be similar for the same class of loans, being microenterprise, housing, or consumption loans for small clients. This assumption is based on a generalization of the requirements of different types of loans as analysed in scope (see section 6.3.1; Appendix 6.3.1-D, tables 6.3.1-D1 through 6.3.1-D4). The size, term, and currency of a loan are taken into account by analysing the cost of outreach for specific combinations of size, term, and currency, such as a loan of 1,000 PEN for 9 months. The cost of such a specific loan is assessed by reviewing the cost of loans according to the official tariffs published on the website of the regulator SBS. Due to the specialized regulation on transparency of information for financial services, financial service providers are obliged to provide information to the public and their clients according to the law 28587-2005 and the respective resolution SBS 1765-2005. This publication of information includes the publication of interest rates, commissions, fees, and other conditions of the contract in the areas where the clients are served and on the institutions homepages. SBS supervises the implementation of the transparency guidelines (resolution SBS 1765-2005). Accordingly, the tariffs published on the SBS homepage can be considered to be binding and can be used for the analysis of cost of outreach. Taking into account that the final interest rate applied might in some cases still depend on the client's relationship to the financial institution, her credit history, and her power to negotiate interest rates, both minimum and maximum total cost rates will be analysed. Lately, the NGO MF Transparency has started to collect repayment schedules for calculating effective interest rates (APRs) on the different loan products according to the specific term and size of the products. This information is published on the organization's website (see http://www.mftransparency.org for updated information). Because a large number of institutions have submitted their information, including many NGOs and some COOPACs, MF Transparency provides additional information along with the mentioned data from SBS and complements it with a different methodology. Even though this is planned by MF Transparency, the data on cost could not be differentiated by loan purpose as of March 2010. However, both SBS and MF Transparency information on cost of loans provide comparable yearly effective interest rates, calculated according to the concepts of both institutions.

The cost to save and related interest rates, remittances fees, and insurance premiums are assessed based on the data from the institutions' websites because this information can also be considered as binding due to the mentioned regulation. In order to provide qualitative insights into the cost of different products offered, a sample of institutions was chosen (see section 6.3.1 and Appendix 6.3.1-A for insights into the sampling methodology). The qualitative analysis is applied to the types of products for which the cost depends on the product itself, such as insurance, and not on specific terms, such as loans. As mentioned for the case of loans, the cost depends on each specific loan, including the amount loaned and the time horizon. In this case, quantitative information according to loan term and size will be assessed because the assessment of a 'generalized' cost according to product would not be meaningful. Furthermore, the analysis of cost of informal financial instruments would be necessary for comparing the mentioned information of formal providers on all types of financial services. Because this information is not regularly collected and available for analysis however, its collection falls outside the scope of the present study. The degree to which the tariffs found can be considered as improvements for the clients will then be analysed at the financial product level, considering the changes of the average interest rates applied in the market, along with an analysis of the real or effective interest rates. In the case of savings, this process applies to the question of final results of costs and interests paid if inflation is considered and, in the case of loans, to the consideration of the levels of effective interest rates paid.

In the following analysis of the product-related cost of loans, three different measures will be used for assessing the cost and the development of cost of loans. First, minimum and maximum values of the annualized total cost of borrowing (ATCB) rates, which include annualized interest rates and one-time fees, and default cost rates will be compared. The latter are interest rates that have to be paid in additional to the standard interest rate and fees contained in the ATCB in the case of late loan repayment. Second, these loan size and term-specific measures will be complemented with loan type-specific applied interest rates. In the case of working capital microenterprise loans, both ATCB rates and the default cost rates are, in general, about 20 percentage points higher in PEN than in USD (see graph 6.3.2-A). EDPYMEs, followed by Mibanco and the CMACs, show the highest rates in the tariffs published. EDPYMEs and CMACs show especially high default cost rates. Banks have rather lower tariffs published, although this information varies with the size, term, and denomination of the loans. As expected and related to the lower share of fixed cost in larger loans, the tariffs published are significantly lower for higher amounts of loans with all institutions (especially the maximum values of ATCB rates).

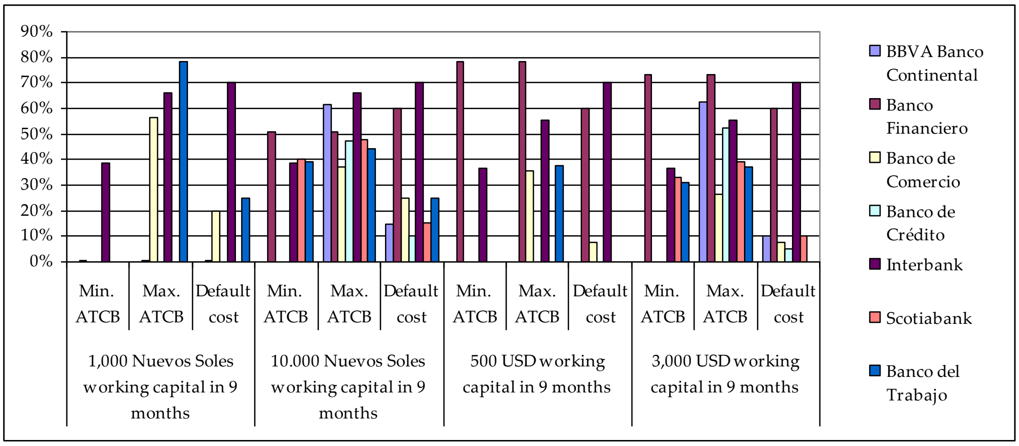
Graph 6.3.2-A: ATCB and default cost rates for different sizes, terms, and denominations of working capital loans, by type of financial institution, as of 14 May 2009



Source: Data from SBS, own compilation and elaboration.
Notes: Annualized total cost of borrowing rate (ATCB) includes one-time fees. Annualized default cost rate (default cost) is charged in case of default. Data according to the tariffs published by the financial institutions with SBS.

Furthermore, it can be seen that NBFIs offer small microenterprise loans more frequently than banks. Only half of the banks offer loans with the smaller values of 1,000 PEN and 500 USD (see column 'n' in Appendix 6.3.2-A, table 6.3.2-A1). Among banks, cost and availability of microenterprise loans differ fundamentally. The only banks offering these smaller values, according to their published tariffs, are Banco de Comercio, Interbank, Banco Financiero, and Banco del Trabajo, which confirms the finding of scope of outreach. Only the latter also serves a significant number of microfinance clients, though (see section 6.3.3). Within the larger microenterprise loans, the highest total cost and default rates, according to the published tariffs, can be observed for Banco Continental, Banco Financiero, and Interbank. Banco de Comercio and Scotiabank are part of the group of banks at the lower end of the tariffs offered, and Banco de Crédito ranks somewhere in the middle, whereas Banco de Trabajo charges especially high rates of up to 80% for small microenterprise loans in PEN—its core microenterprise loan segment as the analysis of breadth of outreach in 6.3.3 will show—and publishes rather lower rates for the other types of loans specified (see graph 6.3.2-B). Comparing the tariffs of working capital microenterprise loans to the tariffs of investment microenterprise loans, it can be observed that the patterns discussed are very similar both in terms of tariffs published and products offered (see Appendix 6.3.2-A, table 6.3.2-A2). Only for larger loans in PEN, the total cost of borrowing is a little smaller, but still the difference is not very significant (see graphs 6.3.2-C). In the case of MFIs, these small differences are not very surprising considering that most institutions offer multi-purpose microenterprise loans for working capital and investment, obviously without fundamentally differing pricing schemes. In the case of banks and the other few institutions that offer specific investment loans, this finding is, however, rather surprising (see section 6.3.1).

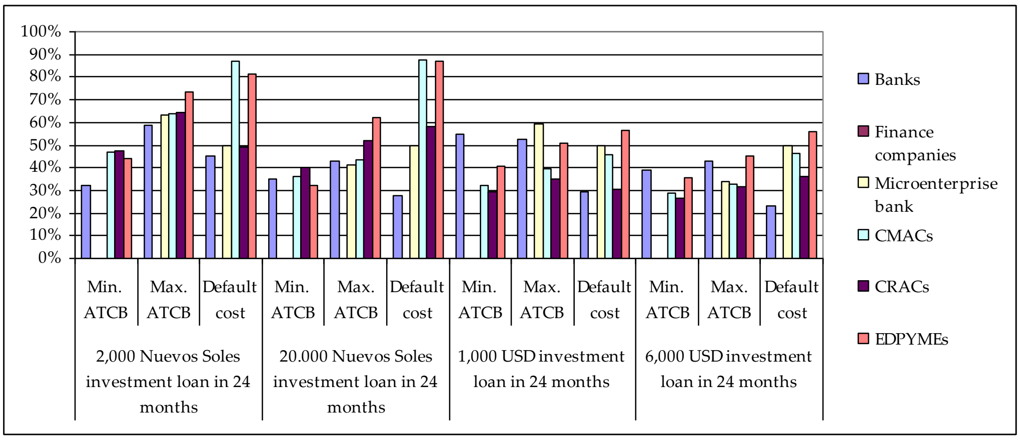
Graph 6.3.2-B: ATCB and default cost rates for different sizes, terms, and denominations of working capital loans, by bank, as of 14 May 2009



Source: Data from SBS, own compilation and elaboration.
Notes: See graph 6.3.2-A.

The slight price difference between working capital and investment loans means that, if the final interest rates negotiated and agreed upon are not significantly lower than published in the case of investment microenterprise loans only, the final cost of these loans will be much higher than the cost of the working capital loans, due to the much longer terms. This high cost of investment loans might make it difficult for the microentrepreneurs to make larger investments with longer maturities so that their enterprises remains profitable and, hence, might constitute a barrier to the development and modernisation of their enterprises and, finally, to local economic development.

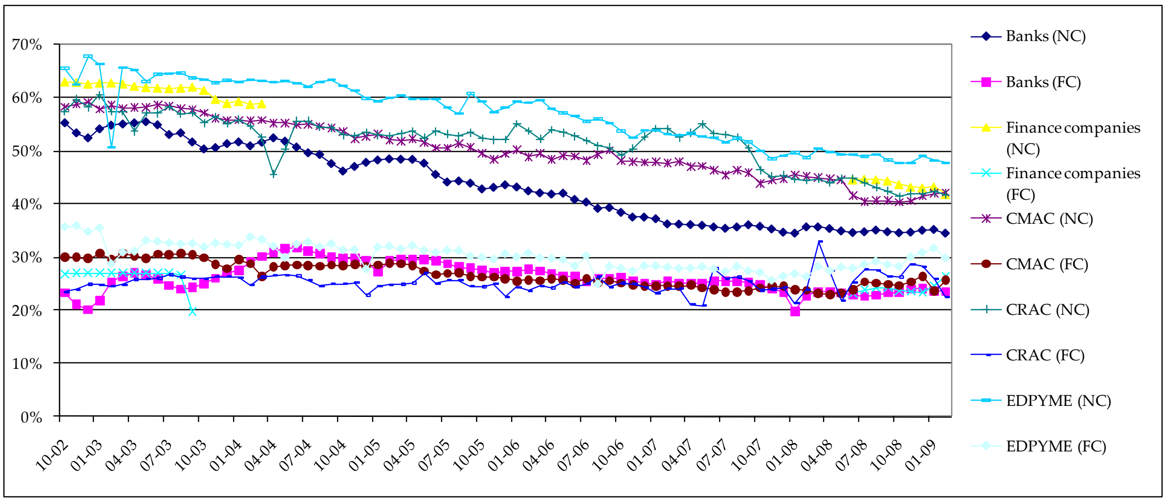
Graph 6.3.2-C: ATCB and default cost rates for different sizes, terms, and denominations of investment loans, by type of financial institution, as of 14 May 2009



Source: Data from SBS, own compilation and elaboration.
Notes: See graph 6.3.2-A.

Comparing the information on the total cost of borrowing for different types of microenterprise loans in May 2009 with the average interest rates applied for both kinds of microenterprise loans in February 2009, the tendency of interest rates in PEN being significantly lower than the ones in foreign currency is confirmed. In general terms, the applied interest rates are closer to the lower boundary of the tariffs published. They are also the highest for EDPYMEs at about 48%, followed by the CMACs, CRACs, and finance companies with applied interest rates around 42%. The interest rates applied by banks are significantly lower at 35% (see graph 6.3.2-D). Thereby, it must be noted that these interest rates do not take into account one-time payments, which can add more percentage points of annualized borrowing cost to a loan (see graph 6.3.2-E), neither do they account for the size or term of the loan. They show the average interest rate applied to microenterprise lending operations made during the respective previous 30 days weighted by the loan sums allocated. Because the banks average loans are the highest and the ones of EDPYMEs and Mibanco the lowest and, especially, because the banks average microenterprise loan amounts are considerably above the MFIs, a significant part of the differences shown is probably caused by the different loan sizes and the fixed costs related to each loan (see graph 6.2.1-A, section 6.3.4).

Graph 6.3.2-D: Average applied interest rates for microenterprise loans, by type of financial institution, monthly means from October 2002 to October 2009, weighted by the loan sums allocated



Source: Data from SBS, own elaboration.

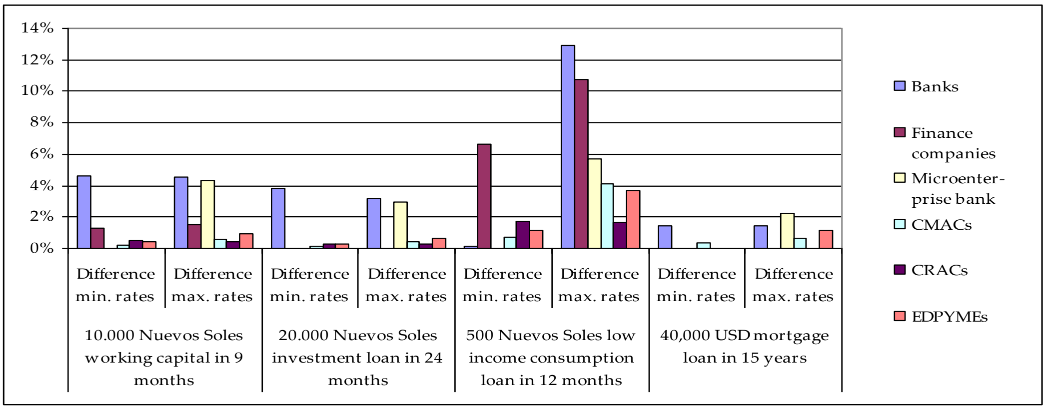
Notes: Averages for banks and finance companies are based on daily information on nominal interest rates applied. Averages weighted by the loan sums of the operations realized are calculated before calculating monthly averages. In the case of CMACs, CRACs, and EDPYMEs, the nominal interest rates refer to the average of the operations realized during the month. In this graph, Mibanco cannot be separated from the other banks, but it should, however, not alter the values strongly because they are weighted by loan sum and portfolio size. Values are given for denominations of loans in national currency (NC) and foreign currency (FC), referring to USD in the case of loans and to both USD and EUR in the case of savings.

Regarding the development of the microenterprise loan interest rates since 2002, it can be observed that, in 2002, nominal interest rates[175] in PEN stood between 55% and 65% and have come down since then to between 48% and 35%. The interest rates of the bank's microenterprise loans have declined most and have even come close to the interest rates for microenter-

[175] As inflation has been relatively stable and low, around 2.5% p.a. during the researched period (data from BCRP), nominal applied interest rates are analysed in the following.

prise loans in USD by EDPYMEs of 30% in February 2009. Applied nominal interest rates in USD have started far lower at 23%-35% and have slightly come down to 22%-29%, after a small increase in most interest rates in 2004. Finance companies show little or no reliable information on prices, which is largely due to the market entry and exit of these companies. The declining difference between microenterprise loans in PEN and USD occurred in the context of a growing national economy, stable macroeconomic conditions, and a stabilized national currency experiencing increasing trust, which is measurable, for instance, in the denomination of savings (see section 6.1.1). An interpretation of the differences between different types of institutions needs to consider both the differences of loan size among institutions and the changes in loan size over time, in spite of the fact that the weighting by loan sums does bias all interest rates downward somewhat. The broad pattern of the highest interest rates for microenterprise loans found with EDPYMEs, followed by other MFIs and the lowest with banks, is consistent with the broad pattern of smaller microenterprise loan sizes (see graph 6.2.1-A; section 6.3.4). As shown in graph 6.3.2-D, differences in loan sizes and terms in the applied interest rates cannot be differentiated, unlike in graphs 6.3.2-A to 6.3.2-C, in which it is difficult to determine the advantage of the respective loans for the clients on the basis of this information. What can be assessed is the development of interest rates over time. Considering that the averages of MFIs have increased only very little (see section 6.3.4, graph 6.3.4-F), the significant decrease of interest rates constitutes an improvement in the situation of cost for clients. In the case of banks, the average loan size changed significantly between 2001 and 2008—decreasing from about 13,000 PEN to 6,000 PEN and increasing again to a similar value as at the beginning. Hence, the tendency of steadily falling interest rates since 2001 cannot be explained by a similar tendency in average loan amounts, thus pointing to the improvement of the situation of cost of microenterprise loans for clients with banks. However, the previous graphs 6.3.2-A to 6.3.2-D show that banks often charge high default cost rates, and graph 6.3.2-E shows that additional fees are significantly higher with banks than with other institutions, except for Mibanco, which increases the cost for the client again.

Graph 6.3.2-E: Differences between minimum and maximum ATCB rates and annualized interest rates for different types of loans, by type of financial institution, as of 14 May 2009



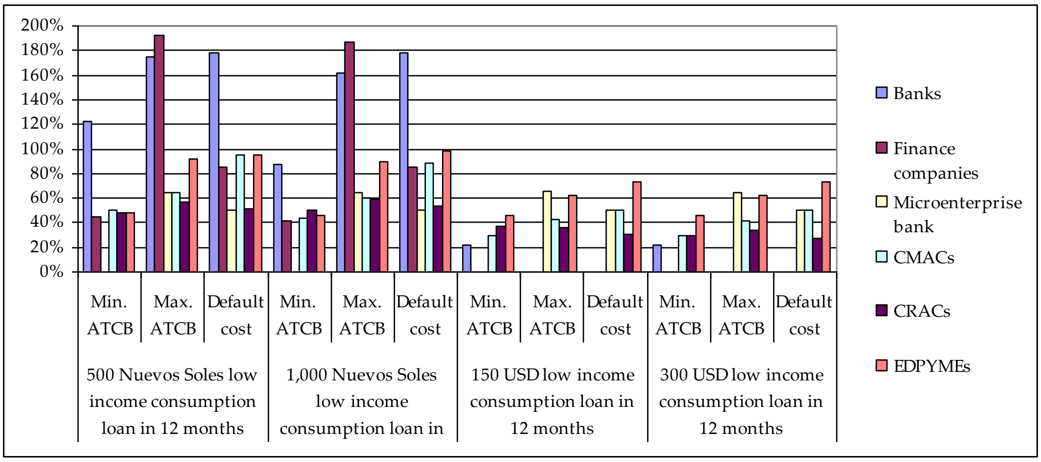
Source: Data from SBS, own compilation and elaboration.

Notes: Annualized total cost of borrowing rate (ATCB) includes one-time fees, which are not included in an annualized interest rate (AIR). Differences are calculated by ($ATCB^{min}$ – AIR^{min}) and ($ATCB^{max}$ – AIR^{max}) respectively. See also graph 6.3.2-A.

Throughout this section on cost of microenterprise loans, banks have shown interest rates near the lower boundaries of the different types of cost rates reviewed. These lower rates might also have contributed to the general market result of significantly lower interest rates for microenterprise loans in PEN (about 20 percentage points less) and slightly lower rates in USD (about 5 percentage points less). Compared to other highly developed microfinance markets, as for example the Bolivian, the Peruvian rates are still considerably high, yet part of a group of countries with lower interest rates (interviews Felipe Portocarrero 2006, 2009; data from MF Transparency 2009). The persistence of significant differences in cost of microenterprise loans, especially in the main denomination of microenterprise loans PEN, points to a segmented market structure that enables the coexistence of lenders offering very different levels of interest rates (see interest rates of EDPYMEs and banks, graph 6.3.2-D). Thereby, the segmentation has both a dimension of client segment and related product type and size, as EDPYMEs offer small loans with high cost even in the similar urban areas where banks offer their usually larger loans at lower cost. Mibanco also appears to work in this niche market of small and often new customers. The second dimension of the market segmentation is the geographic one, with a low number of institutions working at the national level and significant differences in breadth and depth of outreach (see sections 6.3.3 and 6.3.4). Finance companies have shown not to be relevant in the present analysis because only one finance company had published its tariffs and it did not show any applied interest rates during the largest part of the period reviewed (see graphs 6.3.2-A–D). This is consistent with their low and unstable participation in the microfinance market until recently (see results from 6.3.3).

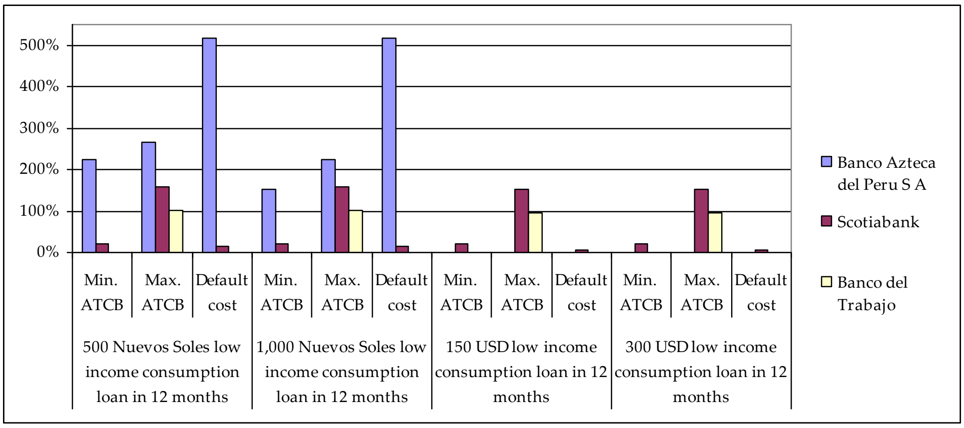
Considering the levels of cost of consumption loans for low-income clients, the tariffs published for consumption loans for clients with incomes under 800 PEN monthly show, first of all, that there are very few banks offering such small loans, whereas nearly all MFIs offer this type of loan (see Appendix 6.3.2-A, table 6.3.2-A3). These banks and finance companies, then, are the types of institutions indicating extremely high total borrowing cost and default cost rates with loans in national currency having maximum values reaching nearly 200%, but even minimum values of over 120%. These rates of banks and finance companies for small consumption loans in national currency differ fundamentally from the values published by CMACs, CRACs, Mibanco, and the EDPYMEs. The latter indicate cost rates close to the patterns of microenterprise loans (graph 6.3.2-G). Banco Azteca del Perú is the bank pushing most of these very high cost rates in PEN, with minimum borrowing cost rates of over 200% and default cost rates over 500%. But Scotiabank also indicates maximum ATCB rates over 150%, and the lowest rates with banks of Banco del Trabajo at around 100% are still significantly higher than the rates published by CMACs, CRACs, and Mibanco. The rates of small consumption loans in USD are about 10% of the cost in PEN for banks and also slightly less expensive with MFIs (see graph 6.3.2-F and 6.3.2-G). Accordingly, small consumer loans in national currency are offered at usurious rates by a small number of banks, MFIs offer the same kind of loans for reasonable rates in PEN, and all institutions offer lower rates in USD than in PEN.

Graph 6.3.2-F: ATCB and default cost rates for different sizes, terms, and denominations of consumption loans for clients with incomes below 800 PEN, by type of financial institution, as of 14 May 2009



Source: Data from SBS, own compilation and elaboration.
Notes: See graph 6.3.2-A.

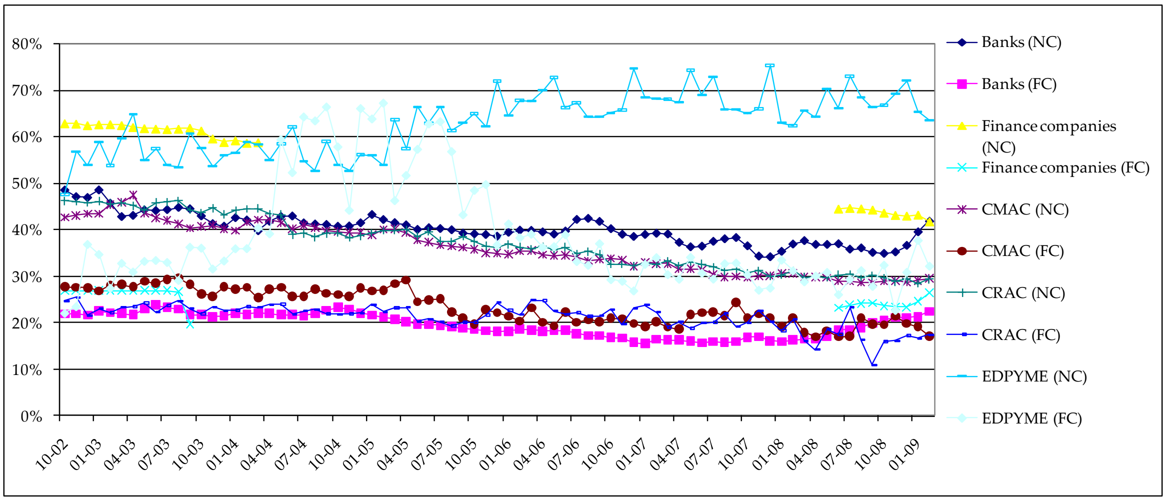
Graph 6.3.2-G: ATCB and default cost rates for different sizes, terms, and denominations of consumption loans for clients with incomes below 800 PEN, by bank, as of 14 May 2009



Source: Data from SBS, own compilation and elaboration.
Notes: See graph 6.3.2-A.

This tariff information on consumption loans for low-income clients cannot be compared with the information on applied nominal interest rates for consumption loans because these data only exist for all consumption loans (see graph 6.3.2-H). Considering that consumption loans for low-income clients banks have a moderate position above the interest taken by most MFIs for consumption loans in national currency, they show similar price levels to most MFIs with loans in USD. The development of interest rates has been decreasing for most institutions. Interest rates in PEN of 40-50% at most institutions in 2002 have declined to around 30% with banks, CMACs, and CRACs. In USD, the interest rates have slightly declined from 20-30% to around 20% for the same group of institutions through 2009 (see graph 6.3.2-H). This pattern is very similar to the one of microenterprise loans, considering that the microenterprise loans in PEN started at a higher level of 55-65% and declined more sharply in the case of the banks (see graph 6.3.2-D). For finance companies, again for the largest part of the analysed period, there is no information. The patterns for EDPYMEs are, however, fundamentally different for all patterns analysed thus far: The interest rates applied in the case of consumption loans have been relatively unstable and have risen from about 50% in 2002 to 65% in 2009 for loans in PEN and have developed to over 30% for loans in USD (see graph 6.3.2-H).

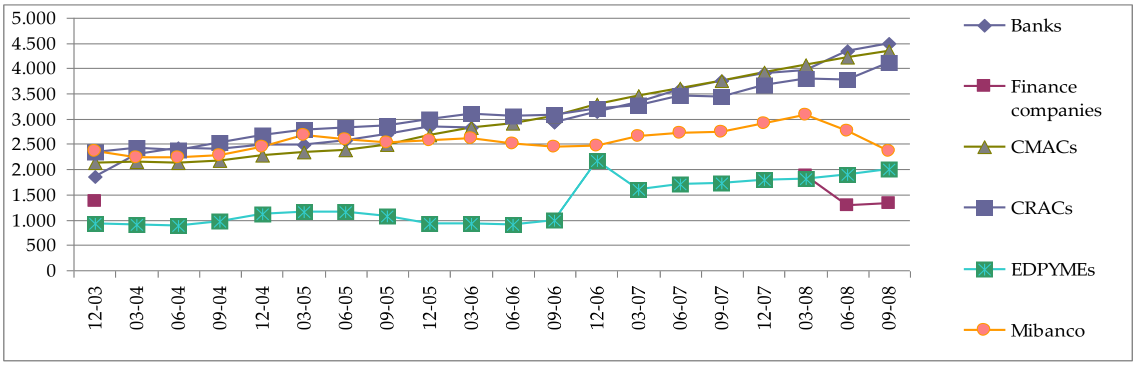
Graph 6.3.2-H: Average applied interest rates for consumption loans, by type of financial institution, monthly means from October 2002 to February 2009, weighted by the loan sums allocated



Source: Data from SBS, own elaboration.
Notes: See graph 6.3.2-D.

Taking into account that the average consumption loans of EDPYMEs have been increasing from about 1,000 to 2,000 PEN (graph 6.3.2-I), these increases in prices point to increasing prices for the customers. Average loan sizes of banks, CMACs, and CRACs are very similar, are significantly higher than the average loans of EDPYMEs and, lately, also higher than Mibanco, and have been increasing. The banks' higher interest rates compared to the ones of CMACs and CRACs turn the banks' consumption loans into costly loans in relative terms. The CMACs' and CRACs' consumption loans are the ones with the lowest interest rates not only in absolute terms but also if average loan sizes are considered. The relatively uniform and much lower interest rates of all consumption loans of banks, CMACs, and CRACs compared to those of EDPYMEs and lately also Mibanco might still indicate a similar target group in terms of their consumption lending above EDPYMEs and Mibanco, probably with a significant share of consumption loans via agreements with enterprises *(por convenio)*, thus indicating much reduced levels of risk.

Graph 6.3.2-I: Average loan sizes of consumption loans, by type of institution, 2003-2008 (in PEN)



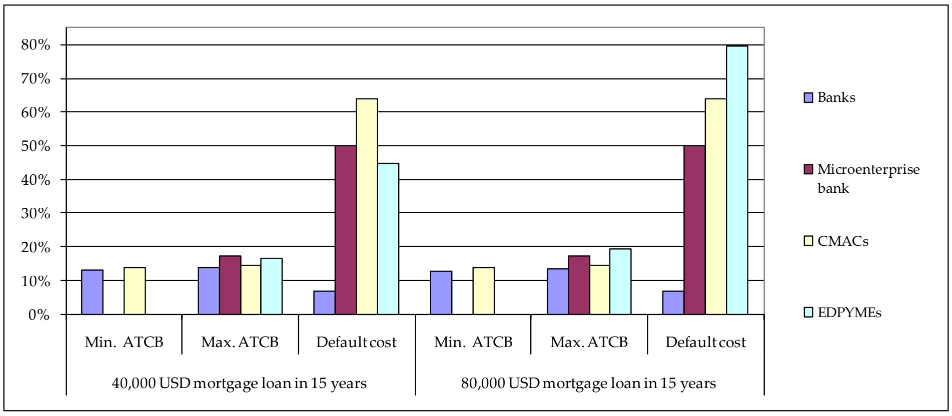
Source: Data from SBS, own elaboration.
Note: Averages weighted by number of loans.

The tariffs on different kinds of housing loans published by a much reduced number of NBFIs (no CRACs, only 2 EDPYMEs, and 6 CMACs) and six banks (see Appendix 6.3.2-A, table 6.3.2-A4) differ fundamentally from the other patterns discussed. Considering the smallest category of housing loans of 40,000 USD, the institutions published considerably lower ATCB rates, between 13-17%. Among banks, the ATCB rates are very uniform within 12-14%, which might point to a higher level of competition in this specific market segment, the difficulty of market segmentation, or the similarity of client groups served (data from SBS, as of 14 May 2009). CMACs and EDPYMEs combined the much lower ATCB rates, however, with very high default cost rates between 45% and 65%. The default cost rates of the banks are far lower at about 7%, which is a fundamental difference for a borrower having difficulty repaying her loan (see graph 6.3.2-J).[176] Certainly, high default cost rates constitute ex-post a burden for each customer with repayment difficulties, although ex-ante they can also serve as an additional incentive for timely repayment. Considering, however, the small and often irregular income streams of microfinance clients, flexibility or the adaptability of the repayment schedule becomes an additional relevant characteristic for microfinance products, especially for loans (see section 4.1.1). Hence, high default cost rates constitute an additional burden for microfinance customers. Regarding the incentive on repayment, microcredit technology generally enforces a 'zero tolerance,' expecting punctual repayment, not even late a few days. Generally, it is, however, more the peer pressure or the reminders of the financial institution than high default cost rates that lead to maintaining punctual repayment habits. The latter is generally somewhat related to consumer lenders whose business is partly based on charging high default cost rates from a considerable portion of clients (see Rhyne 2001: 143f.). A clear case of such type of consumer lending can be observed in Peru only with Banco Azteca's small consumption loans with default cost rates over 500% (see graphs 6.3.2-G and 6.3.2-H). Although the differences between default cost rates and the basic interest rate are lower than in the present case of housing loans, it is somehow surprising that CMACs and EDPYMEs charge higher default cost rates for microenterprise loans (see graphs 6.3.2-A and 6.3.2-C). Because there is no significant difference between their non-performing loan ratios

[176] No rates in PEN are available (see data SBS).

compared to other institutions, it seems as though the higher default cost rates have no fundamental impact on the clients' behaviour and a significant part of the clients are paying the high default cost rates (see graphs 6.3.5-C, 6.3.5-D, and 6.3.5-E).

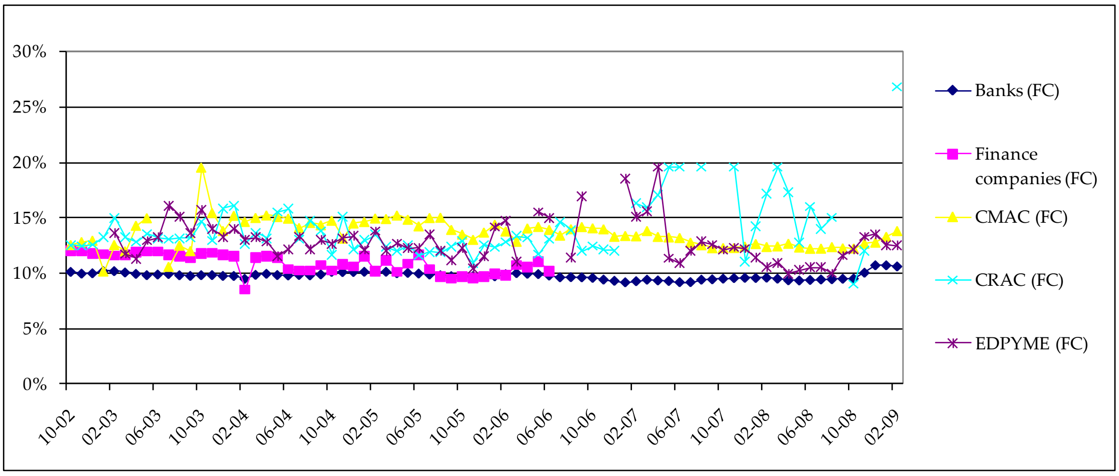
Graph 6.3.2-J: ATCB and default cost rates for different sizes, terms, and denominations of housing loans in USD, by type of financial institution, as of 14 May 2009



Source: Data from SBS, own compilation and elaboration.
Notes: See graph 6.3.2-A.

Considering the much longer terms of housing loans of 15 years compared to the shorter periods of microenterprise and consumption loans, much lower interest rates are fundamental for turning long-term loans into accessible opportunities for microfinance customers. The lower levels in tariffs for loans are also reflected in the nominal interest rates applied by the financial institutions for housing loans in USD (see graph 6.3.2-K). The banks' applied interest rates have been relatively stable at 10% and those of the CMACs, CRACs, and EDPYMEs have remained between 10% and 15% (except for CRACs from January 2007 on). For finance companies reliable data is only available until July 2006. These averages on applied interest rates are consistent with the revised tariffs but cover all housing loans, and not only the smaller housing loans, which might have had a significantly different price level.

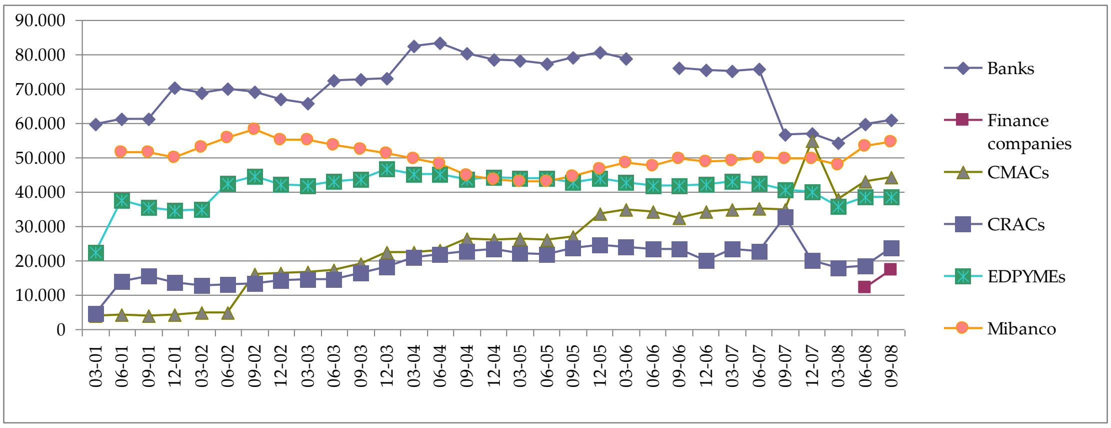
Graph 6.3.2-K: Average applied interest rates for housing loans, by type of financial institution, monthly means from October 2002 to February 2009, weighted by the loan sums allocated



Source: Data from SBS, own elaboration.
Notes: See graph 6.3.2-D.

Considering that average sizes of housing loans have not changed much, the general level of cost of housing loans has not changed much either. If the lower loan balances of MFIs—especially CMACs and, lately, CRACs—are considered, the higher nominal interest rates of MFIs can mean comparable cost levels to clients (see graph 6.3.2-K and 6.3.2-L).

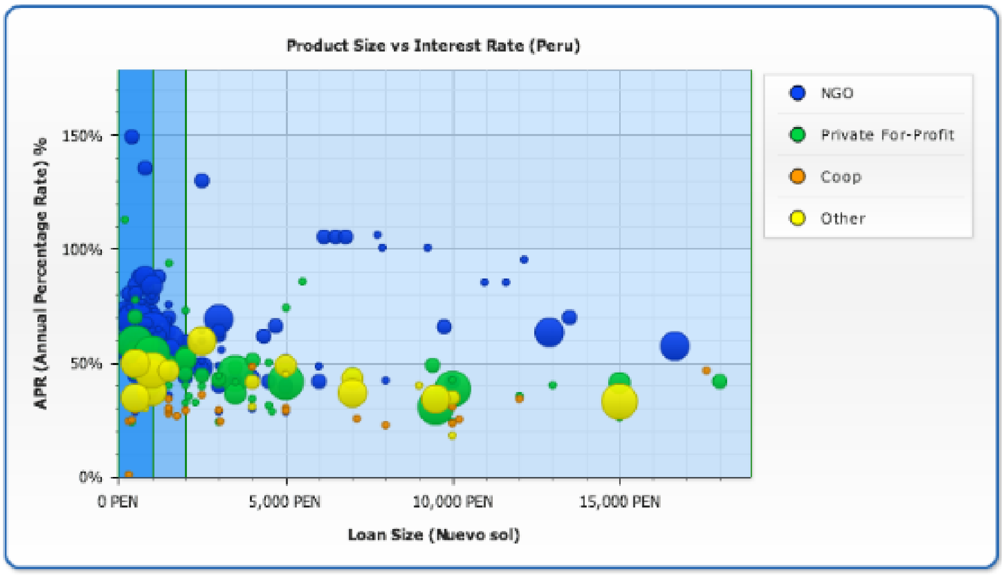
Graph 6.3.2-L: Average loan sizes of housing loans, by type of institution, 2003-2008 (in PEN)



Source: Data from SBS, own elaboration.
Note: Averages weighted by number of loans.

Finally, considering the cost of all microfinance loans by product size, based on data from MF Transparency, some of the previously discussed tendencies can be confirmed and broad further tendencies can be observed (see graph 6.3.2-M). Because MF Transparency also provides data on NGOs and COOPACs, these additional data will be analysed first. The large majority of NGOs' loan products seem to be very small, even under 2000 PEN, with considerably higher cost than the loans of other types of institutions, up to around 90%. Considering that NGOs have to pay 19% in value added tax (VAT) and that they provide very small loans, this result is not very surprising. A possible further reason for their high cost might be due to the combined service provision of loans with group-based training. However, the outliers of products with APRs up to 150% and the larger products with a cost of around 100% APR are surprising. Clearly, NGOs are the most expensive providers of microloans if only product-related cost is considered. Furthermore, opportunity costs related to attending group meetings might further increase the cost for the clients, but also increase their benefit, if the participation in meetings is valuable to them. The least expensive loans in terms of product-related costs are provided by COOPACs, which show low numbers of clients and, thus, small portfolios of different sizes but generally low cost. For the member, this cost increases if the membership fee is considered. Different types of private for-profit providers and CMACs serve the largest number of clients holding the largest portfolios, with loans of different sizes having interest rates between 30% and 50%. Considering the change in prices of loans from these providers with increasing loan size—which would be expected to be decreasing—, there is virtually no change. This finding is consistent with the observed tendency that generally larger investment loans have the same considerably high cost levels as generally smaller working capital loans of shorter duration, although the type of loan cannot be distinguished in the available version of the data by MF Transparency (see graph 6.3.2-M). This same tendency toward stable prices with increasing loan size can also be observed in COOPACS, causing larger loans to be relatively expensive considering that fixed cost-related shares of cost for providing loans decrease with increasing loan size.

Graph 6.3.2-M: Annualized percentage rates for different types of microfinance loans, by type of financial institution, as of November 2009



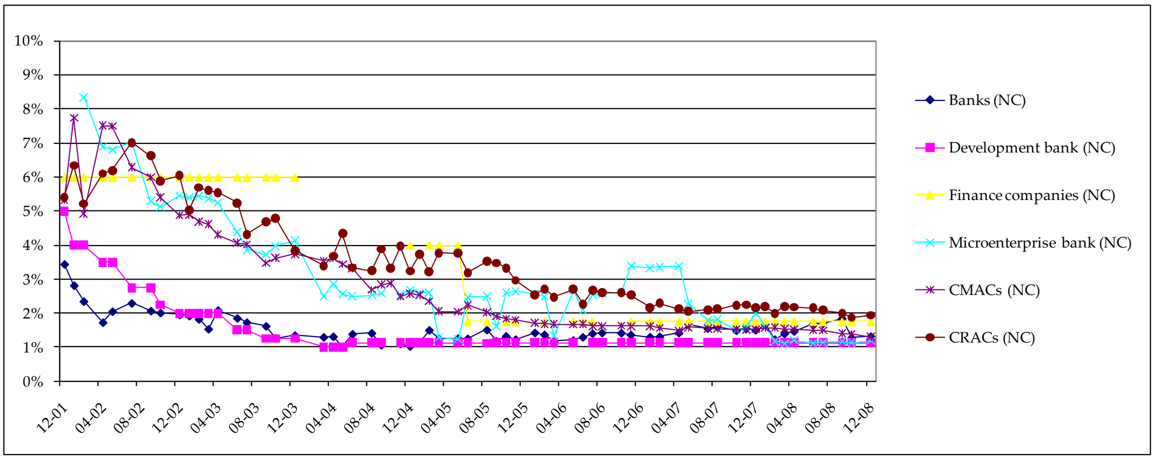
Source: MF Transparency (with data from 2009, graph as provided by MF Transparency 5 March 2010).
Note: *NGO* refers to microfinance NGOs; *private for-profit* refer to banks, finance companies, CRACs, and ED-PYMEs; *Coop* refers to COOPACs; and *other* refers to CMACs. The bubbles represent specific products, and the sizes of the bubbles the number of clients of the specific type of loan as provided by the respective financial institution.

In the case of savings, the cost for opening and maintaining a savings account defines the cost part of the access opportunities. Additionally, the interest rates published by the financial institutions for the lowest size ranges of savings can be considered to be part of the information on ‘cost’ because the interest rate paid is important in defining the final cost (or benefit) of savings, including fees, transactions, and opportunity costs. According to the information published by the different financial institutions, liquid savings accounts are generally offered without any cost for opening the account and can usually be used without maintenance fees (see Appendix 6.3.1-B, table 6.3.1-B1). Only two banks (Scotiabank and BBVA Banco Continental) and one CRAC (CRAC Nuestra Gente) charge fees of 3-5 PEN/1-1.2 USD if savings account balances fall below the relatively low balances of 200-300 PEN/50-70 USD, and Banco de la Nación charges a maintenance fee of 0.75 PEN. The interest rates for liquid savings accounts paid for the lowest class of amounts are the lowest with banks in a rage of 0.25-2% in PEN and 0.125-1% in USD and with Mibanco (0.85% in PEN/0.25% in USD). CMACs and CRACs offer similarly low interest rates of 1-1.75% in PEN/0.5%-1.25% in USD. Among the regulated financial institutions, only Banco del Trabajo offers 3% in PEN and 2% in USD for liquid savings, but links these rates to the condition of having a loan or credit card with the institution. The only type of financial institution with considerable higher interest rates are COOPACs, with interest rates of 5% in PEN/3% in USD (see Appendix 6.3.1-B, table 6.3.1-B1). These very high interest rates might be a strategy for attracting savings clients given that COOPACs are the only financial intermediary taking savings directly and being authorized to do so without being a member of the Peruvian deposit guarantee fund *Fondo de Seguro de Depósitos* (FDS) (Fondo de Seguro de Depósitos 2009). For the savings accumulated with microfinance NGOs, there is no information on interest rates because the savings are managed by and held within solidarity groups or village banks, given that NGOs are not authorized to take savings. Accordingly, the groups themselves decide on interest values. Comparing the yearly effective interest rates paid for liquid savings with FDS covered with an average inflation rate of 2.5% during the period of 2001-2008 (data from BCRP, as of 31 December 2008), the final real interest rates for the customer are negative, even before adding additional costs such as opportunity or transaction costs. Only savers rejecting a deposit guarantee can achieve positive real interest rates with liquid savings, by saving in COOPACs and, perhaps, in some solidarity groups or village banks.

In the case of fixed-term savings accounts, the interest rates are considerably higher at most institutions, considering, for instance, a period of 90 days. Furthermore, there are hardly any fees for opening and maintaining such an account (see section 6.3.1). Banks offer rates of 2-7% in PEN/0.3-3.5% in USD (with the highest interest rates of 7% in PEN offered by Interbank), Mibanco offers 4.75% in PEN/1.85% in USD, and the CMACs and CRACs between 3.5 and 4% in PEN/1.75-3.25% in USD. COOPACs again show much higher interest rates of 9.75% in PEN/ 4.3% in USD. However, a clear exception is Banco de la Nación, which offers very low interest rates of 0.85% to their clients in UOB (Appendix 6.3.1-B, table 6.3.1-B4). Consequently, for all institutions except Banco de la Nación, the differences between liquid and fixed-term savings are huge, and for a short period of 3 months, the returns on fixed-term savings are significantly superior to liquid savings, producing positive real interest rates for savings with FDS coverage for all institutions except for Banco de la Nación.

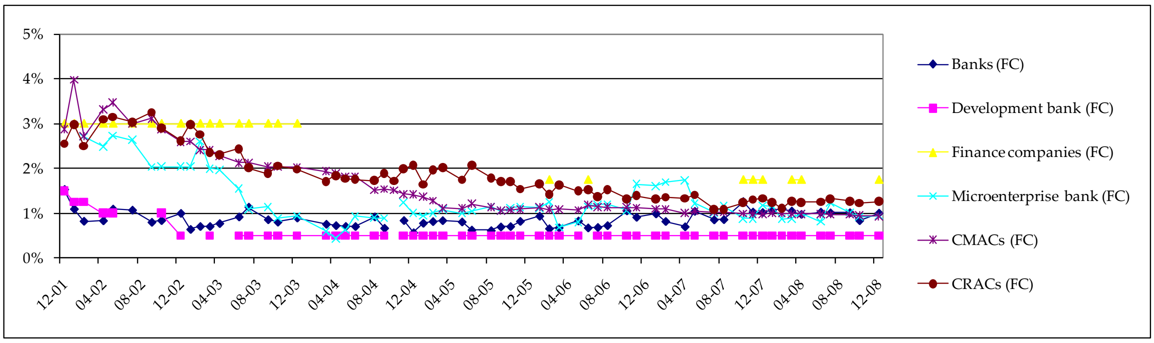
The information on interest rates published by the financial institutions concerning their lowest range of liquid savings and 90-day fixed-term deposits cannot be compared directly to the applied interest rates because there are no data with a specific perspective on the smallest savers and the time horizon of the deposits available. Graphs 6.3.2-N and 6.3.2-O provide an overview of the market results of applied interest rates of liquid savings: From 2001 on, the interest rates in PEN of 5-6% with NBFIs and Mibanco have declined towards rates of 2%, approaching the rates at banks of around 1%. The interest rates in foreign currency fell from around 3% in 2001 to around 1% in 2009 for most institutions, except for finance companies that again show little reliable results. The increasingly similar applied interest rates of about 2% for PEN and about 1% for foreign currency are also consistent with the tariffs published by the financial institutions discussed above (graphs 6.3.2-N and 6.3.2-O). Even though inflation has been low during the respective period, interest rates have been very low from 2004 on, and interest rates for liquid savings should have led to negative real interest rates in PEN and very low returns in USD within financial institution with FDS coverage. The significantly higher interest rates for fixed-term deposits should have produced positive real interest rates in most cases.

Graph 6.3.2-N: Annualized effective averages of interest rates of savings in national currency, by type of financial institution, December 2001 to December 2008



Source: Data from SBS, own elaboration.
Notes: See graph 6.3.2-D.

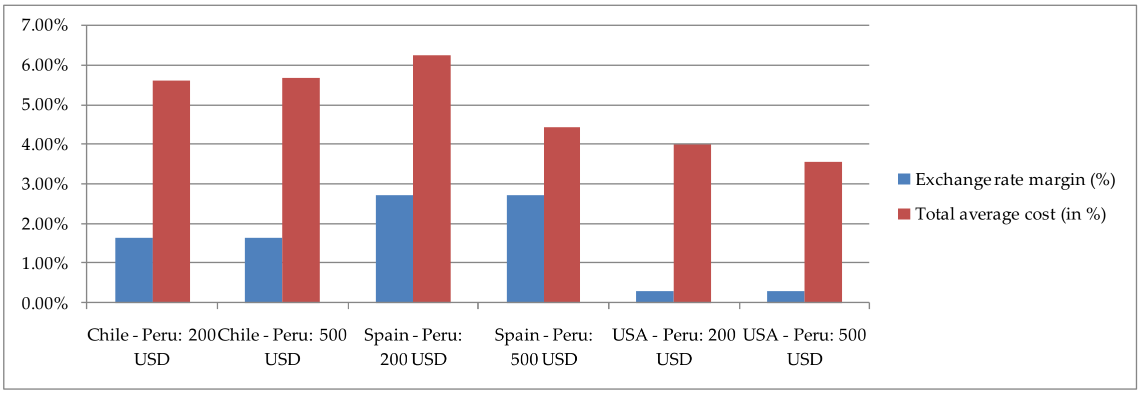
Graph 6.3.2-O: Annualized effective averages of interest rates of savings in foreign currency, by type of financial institution, December 2001 to December 2008



Source: Data from SBS, own elaboration.
Notes: See graph 6.3.2-D.

Concerning the cost of sending remittances at the national level beyond bank transfers, there is little information, and few fees are indicated. For instance, two banks take 0.5% of the amount, one 5 PEN/2 USD. Most institutions indicate that this service is free for the receiver without further details of the cost for the sender (see Appendix 6.3.1-B, table 6.3.1-B2). The little information on internal remittances might also be due to the fact that most of this money is transferred from account to account. Considering remittances at the international level, cost also needs to be analysed for sending and for receiving money respectively. Receiving money is free at all financial institutions, only Banco de Crédito indicates that this service is free only up to 2000 PEN. The cost of sending varies the most according to the sending country and least in terms of the remitting partner institutions, usually MTOs. Accordingly, the cost at the receiving institutions changes depending on the country the money is sent from and the operator used for sending the money. For instance, considering the prices for remittances of Banco de Crédito—the bank with most remittance partners together with Interbank—there are three different price corridors for sending money for three of the largest migration destinies. The cheapest remittances can be sent from the USA, for 6 USD to receive 200 USD or a total cost ratio of around 3%. However, from the same country, other remittance companies—largely MTOs—charge up to 15 USD. The remittance channel from the USA is also the cheapest one compared to other institutions, even though there are significant differences between MTOs. Among the mentioned channels, sending remittances from Chile is still cheaper than from Spain. Furthermore, the amount charged changes with the amount of money sent. These differences, for instance, between sums of 200 and 500 USD, are small. However, there is a general tendency toward relatively lower fees for higher amounts of money sent (see Appendix 6.3.1-B, table 6.3.1-B3; Appendix 6.3.1-C, tables 6.3.1-C1 through 6.3.1-C6). Comparing the average cost of sending remittances from three large migration destinies, it can be seen that differences in the cost of sending money are related to the respective exchange-rate margin. Accordingly, total cost ratios are the lowest to the USA, with a very small exchange rate margin (see graph 6.3.2-P). Considering that generally less than 5% of the money sent pays for the transfer, clients can use most of their money for themselves and do not need to spend a large part of the remittance on transferring the money. The mentioned cost is about the lowest in comparison to other remittance channels. Other remittance channels, from Latin America to the USA or from Singapore to neighbouring countries, bear similarly low costs, but, for instance, sending money from South Africa to one of the neighbouring countries, from Australia to Papua New Guinea, or from the Dominican Republic to Haiti costs nearly 20% of the amount sent (World Bank; IFC 2010).

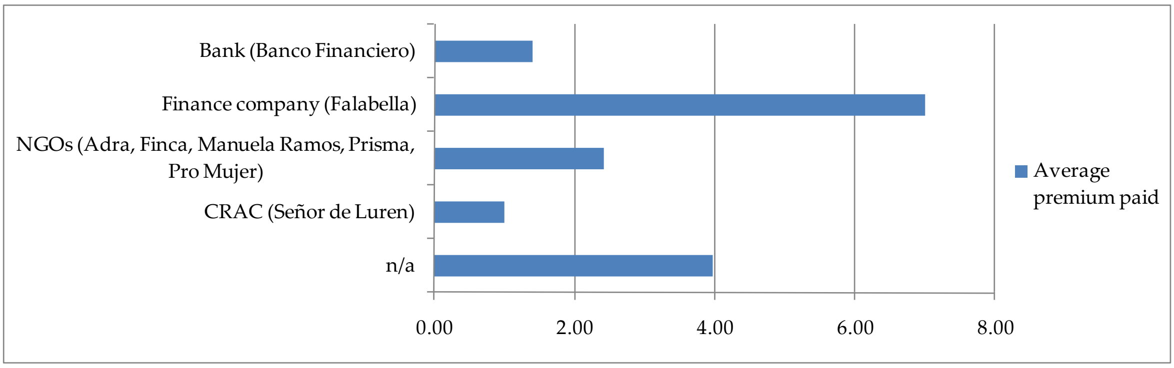
Graph 6.3.2-P: Cost of remittances, by sending country and amount of money sent, data from 3rd quarter of 2009



Source: The World Bank Group (Remittances prices worldwide, see Appendix 6.3.1-C).
Note: Averages are unweighted as market shares of different firms were not available.

Because only insurance products covering idiosyncratic risks are currently offered in the Peruvian microfinance market, only their prices can be assessed. The product-related cost of the most suitable and accessible microinsurance providing coverage for natural and/or accidental death, health, or burial costs differ strongly among different institutions and according to the coverage offered (see Appendix 6.3.1-B, table 6.3.1-B5; graph 6.3.2-Q). Considering the costs of microinsurance products registered with SBS, the cost has to be by definition under 10 PEN. Analysing however the average premiums paid by type of institutions, these are much lower with most products under or around 2 PEN monthly. Only the finance company Falabella offers a higher priced insurance which covers also a different type of risk, personal accidents, unlike most other products covering natural and accidental death.

Graph 6.3.2-Q: Average premiums paid of official microinsurance, by type of financial institution



Source: Data from SBS as of 30 June 2009, own elaboration.

In general terms, most financial institutions offer the insurance products they sell only to their own savings clients, with very different ranges of risks covered, which does not, however, translate automatically into similar differences in premiums to pay. Beyond the registered microinsurance products, banks have the broadest variety of life insurance, which often also covers specific health-related costs, becoming invalid, and burial cost, with prices ranging from about 5 PEN up to 22 USD. Banco de Crédito's *Seguro Múltiple* covers natural and accidental death, including burial cost, becoming incapacitated, emergency health costs, and other health expenditures (hospital cost, cancer, and terminal disease treatment) for a relatively small premium of 7-12.5 PEN, according to the balance of the client's savings account. Banco del Trabajo and Scotiabank are the only institutions to offer insurance products with similarly broad coverage, also for monthly premiums around and under 10 PEN. A similar insurance offered by BBVA Banco Continental bears a much higher cost of 6-22 USD, according to the client's age. Other insurance products offered that remain under 10 PEN monthly premium are insurance against death and becoming invalid offered by Mibanco and CRAC Nuestra Gente. Banco Ripley also offers such insurance, however, for a much higher cost, from 15-53 USD. Further specific life insurance products are offered by Interbank, which offers the protection of remittances to migrants for purchases in a specific store chain but also at considerably higher prices of 8-9 USD. Some of the other CMACs, CRACs, and EDPYMEs are just beginning to offer microinsurance according to SBS guidelines. CMAC Trujillo offers free burial coverage to its savings clients who maintain a minimum balance of 500 NS/150 USD. NGOs offer very low-cost insurance products, however, still with considerable differences in price and coverage, for instance offering an insurance covering death and becoming invalid for 3 to 5 PEN, and Finca even for premiums of 1 PEN. Comparing the insured sums for the insurance products offered by the NGOs, these are not only in absolute but also in relative terms lower for the insurance of 1 PEN, which makes the smaller insurance more expensive. COOPAC Santa María Magdalena offers its clients a comprehensive set of benefits, including prizes for personal achievements, with membership in their *Fondo de Solidaridad* for only 2.5 PEN monthly, without indicating the concrete amounts insured however (Appendix 6.3.1-B, table 6.3.1-B5).

All insurance products with a cost of 10 PEN appear to be affordable not only compared with the guidelines of the microinsurance regulation of SBS but also in comparison to relevant monthly incomes. However, depending on the income level, 10 PEN could constitute a relatively high amount of the monthly expenditures, considering, for instance, populations living around or under the financial poverty line of 230 PEN, with the median income of the economically active population being 300 PEN or 400 PEN in MSEs (see table 6.1.2-A). For the persons or households with the lowest incomes, the specific coverage and even small differences in the price might still be decisive over affordability and the willingness to pay such an insurance. Furthermore, the way that staff of the respective financial institutions explain the relevance and advantage of the different products might also matter in terms of purchases because (micro)insurances can be considered to be a kind of financial service that is often not bought but sold. Considering the price level of the whole range of microinsurance products offered, they seem accessible in terms of product-related cost, however, with the same prices being related to widely differing coverage and offerings limited in terms of institutions other than banks and NGOs.

Reviewing the cost of outreach within the Peruvian microfinance market, it is, first of all, important to stress that, besides product-related costs, transaction costs matter to clients. They depend, on the one hand, on the geographic distance to the next banking outlet, a topic that will be explored in the next chapter, but also on the conditions of mobility. Furthermore, the way the financial institution delivers its products changes individual opportunity costs, which might be related to additional documents that must be provided, visits to the bank, or obligatory attendance of meetings. Another relevant dimension then is the transparency of information because it is the basis for well-informed decisions by the clients. These dimensions, however, could not be explored further within the scope of the present study. The product-related costs of microenterprise loans have been decreasing and are at a middle position in comparison to other markets. As expected, there are considerable differences related to different sizes of loans.

The price difference among long-term investment loans for microenterprise businesses is surprisingly small and can constitute an obstacle for long-term MSME development, growth, and modernization. Investment loans for housing have much lower interest rates, which are also necessary related to the much longer term of the loans. For consumption loans to small clients, only three banks published much higher, even predatory, interest rates, whereas NBFI published rates close to the ones in microenterprise lending. In all different categories of loans, differences of price levels were shown to be persistent, pointing to a segmented market, with products and prices aimed at different client segments. The entry and maintenance cost for deposits was very low or none at all for most accounts, but the low interest rates paid by all institutions except for COOPACs led to negative real interest rates for liquid savings accounts. For fixed-term accounts, entry and maintenance costs also were very low and usually none, but the much higher interest rates led to positive real interest rates for term-deposit accounts, even for a short terms of 90 days. The prices of remittances somewhat vary with the sending country and are very moderate compared to the cost in other countries. In the case of insurance products, most prices remain with monthly premiums of under 10 PEN, which is the official upper limit for microinsurance within the new microinsurance regulation. However, the different coverage included makes some products much more advantageousness to clients than others. Besides these very general tendencies, it has shown that prices vary for different types of institutions and different products so that there is not a clear institution or type of institution always offering the lowest prices. In comparison to most MFIs, some banks offer lower interest rates for microenterprise loans, if size and terms are considered, but tariffs on low-income consumption loans are generally higher. For deposits, the interest rates of MFI—also without taking into account the case of COOPACs with the very high interest rates offered—are more interesting than the ones of banks, although they have also been converging. For some products, prices are rather similar among different institutions, but the scope differs widely, such as in the case of insurance, and for international remittances, the major differences in cost are due to the sending country and less due to the sending and receiving institutions. The cost of complementary services is another relevant category of cost; however, little additional information is available because the only relevant training for individual clients by Mibanco is free and the cost of NGO training in group meetings is included in the relatively high cost of their loans.

6.3.3 Breadth of outreach

For determining breadth of outreach, both the geographic outreach to potential clients and the market coverage—or the outreach relative to all potential clients—are fundamental analytical categories. Both will be analysed in the following.

6.3.3.1 Access points for microfinance clients

There are three different types of access points relevant to microfinance clients: branches, banking agents, and ATMs. Branches provide personalized service and are the central point of attending, informing, and consulting clients in addition to the visits of the loan officers. Loan officers are generally located at branches. However, Banco de Crédito has begun to appoint business development officers to promote and sell credit to customers within a set radius of banking agents (Banco de Crédito 2009c: 4). Although not supervised by bank employees, banking agents also provide personalized customer service, covering basically the whole range of frequent transactions once an account has been opened or a loan has been allocated.

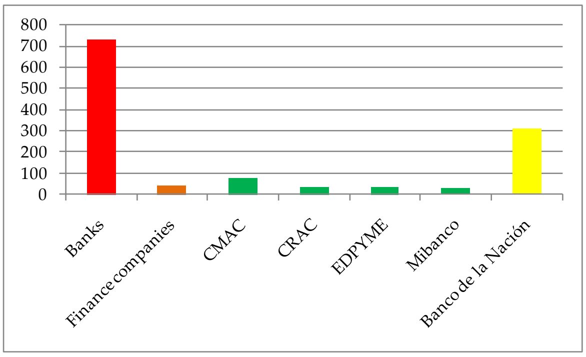
These transactions include loan repayment, cash withdrawal, money transfer, cash deposits, payment of services and invoices, and other services authorized by SBS (resolution SBS 755-2008). ATMs are automated distribution channels offering only a rather restricted range of services and can only be assessed by client of financial institutions which provice access to these distribution channels (see graph 6.3.1-A). Still, they can be practical and client-friendly distribution channels complementing the services of a branch, especially considering the clients' preferences for low transaction costs (see section 6.2.2). The fact that branches provide access to the whole range of services and that they are the entry point for acquiring financial services—which well might be used later with the help of ATMs and banking agents—, the branches are considered primary access points. Accordingly, the analysis of branches is more in-depth than that of ATMs and banking agents. However, banking agents are still explored in detail because they provide the whole range of basic services, including withdrawal, transfer, and deposit of cash, which is not the case with ATMs. Moreover, banking agents also offer personalized service, which might be of importance especially for less experienced clients and can be developed into an 'indirect' entry point to financial services, such as practiced by Banco de Crédito.

Considering the number of branches, the difference in numbers of branches between banks and the group of MFIs was quite accentuated in 2001, but due to the fast growth of MFIs in branches, the difference has become significantly smaller. Banco de la Nación has a large number of branches, whereas finance companies have very few. According to type of MFI, it can be shown that all MFIs have increased their number of branches, with the most significant growth in branches by EDPYMEs, which has led to much higher shares of MFI branches in total branches (see graph 6.3.3-A; Appendix 6.3.3-A, table 6.3.3-A1). Both the much stronger growth of MFIs in branches and the fact that they jointly hold nearly 40% of the financial system's branches, the number of which increases further when considering also branches of NGOs and COOPACs,[177] is also illustrated in graph 6.3.3-A. The number of ATMs has been increasing very quickly since 2006, especially in three banks: Interbank, Banco de Crédito, and Banco Continental. The number of ATMs of Banco de la Nación has also increased, and among MFIs, CMACs had the strongest growth in ATMs (see Appendix 6.3.3-D, table 6.3.3-D1, graph 6.3.3-D1; see data from SBS). Since the distribution channel of banking agents *(cajeros corresponsales)* has been permitted by the regulator, the increase of banking agents for banks and finance companies has been impressive. Only recently, some CMACs and Mibanco have begun to work with banking agents (Appendix 6.3.3-D, graph 6.3.3-D2, table 6.3.3-D2).

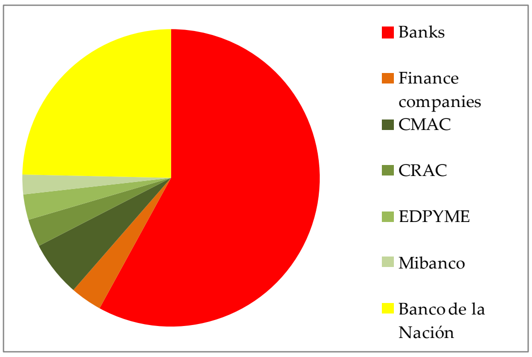
[177] For these institutions, data on branches were not available and could be collected only for 2008.

Graph 6.3.3-A: Numbers of branches by type of financial institution, 2001 and 2008

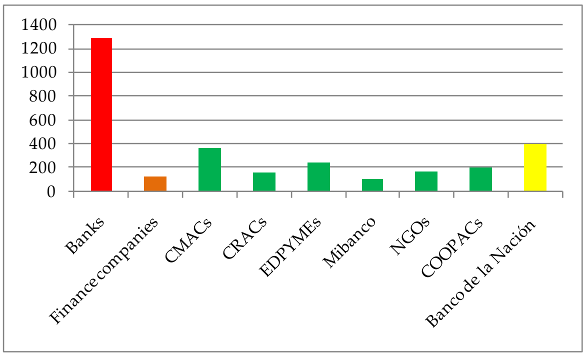
2001



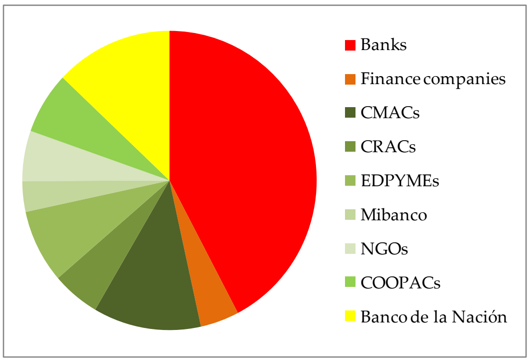
2001



2008, with COOPACs and NGOs



2008, with COOPACs and NGOs



Source: Data from SBS, COOPACs, NGOs, FENACREP, and COPEME (financial data), INEI (demographics); own elaboration.
Note: Data for COOPACs and NGOs available only for 2008.

Accordingly, the number of access of points within the Peruvian financial system has increased steeply since 2001: the number or branches has doubled, the number of ATMs has multiplied by more than six times, and banking agents developed in a relevant distribution channel shortly after their introduction. As the related growth rates are many times higher than the very moderate population growth of 4.5% between 2001 and 2008, this development has led to a much higher coverage in terms of access points per inhabitant. As can be observed in table 6.3.3-A, the growth rates in number of access points have been between 50-90%, which also appears to be the case for the number of access points per person. The number of access points has increased in every single category of branches, ATMs, and banking agents, but especially considering the total number of banking outlets per 100,000 people, which has climbed from 9 access points per 100,000 persons to 66.

Table 6.3.3-A: Numbers of banking outlets and ratios of banking outlets per 100,000 inhabitants, 2001-2008

Indicator	2001	2008	Growth rate (2001-2008)	2008 with COOPACs & NGOs
Number of branches	1,261	2,368	47%	2,738
Numer of ATMs	1,146	7,846	85%	7,846
Number of banking agents	/	8,136	/	8,136
Total number of banking outlets	2,407	18,350	87%	18,720
Number of branches/ 100.000 people	4.8	8.6	44%	9.9
Numer of ATMs/ 100.000 people	4.3	28.4	85%	28.4
Number of banking agents/ 100.000 people	/	29.5	/	29.5
Total number of banking outlets/ 100.000 people	9.1	66.5	86%	67.8

Source: Data from SBS, COOPACs, NGOs, FENACREP, and COPEME (financial data), INEI (demographics); own elaboration.

Note: Banking outlets comprise bank branches, banking agents, and ATMs. Data for COOPACs and NGOs available only for 2008, data as of 31 December 2009.

In terms of the level of coverage reached by access points, in a comparison of the ratios of branches and ATMs per inhabitant in Peru to other countries, the comparative position of Peru has improved significantly. Both the ratios for branches and ATMs have increased from below the Latin American average to well above the Latin American average between 2003/2004 and 2007.[178] Taking into account all access points, including banking agents, with 66 access points in 2008 the country even approaches the average measured in industrialized countries of about 95 access points per 100,000 persons, as measured in 2003/2004, when only branches and ATMs were analysed however (Beck, Demirgüç-Kunt et al. 2005: table 1).

However, this strong increase in number of access points should be differentiated from increase in access to financial institutions in terms of reachable banking outlets. Accordingly, it is essential to analyse the distribution of access points throughout the inhabited parts of the country. Considering the geographic distribution of branches (see Appendix 6.3.3-A, maps 6.3.3-A2 and 6.3.3-A5), it can be observed that nearly all branches are concentrated in the western part of the country, within areas with a minimum of five inhabitants per square kilometre. Branches of banks and finance company branches were and still are located in the main cities of the country. From 2001 to 2008, the number and presence of MFIs have increased significantly both in the larger cities and in locations that, before, only Banco de la Nación had served the people. The importance of Banco de la Nación in providing access points across the less populated areas of the country can be seen in more detail in Appendix 6.3.3-B, map 6.3.3-B1. From 2001 to the present, Banco de la Nación is the most important financial institution serving districts without other financial service providers present (*Ùnica Oferta Bancaria*, UOB) (see Appendix 6.3.3-B, tables 6.3.3-B1 and 6.3.3-B2; graphs 6.3.3-B1 and 6.3.3-B2). The number of UOB served has increased, even though many hitherto UOB locations show the presence of MFIs (see Appendix 6.3.3-A, maps 6.3.3-A2 and 6.3.3-A5). Among the districts that are still served only by one financial institution, Banco de la Nación clearly remains the most important provider of financial services, and there is only a very low number of branches of banks, finance companies, and MFIs in districts without the presence of other providers. Only NGOs have a considerable number of UOB branches, which, with 20 branches, constitute nearly half

[178] Comparison is according to the findings from cross-country data by Beck & Peria (2005) and Rojas-Suarez (2007).

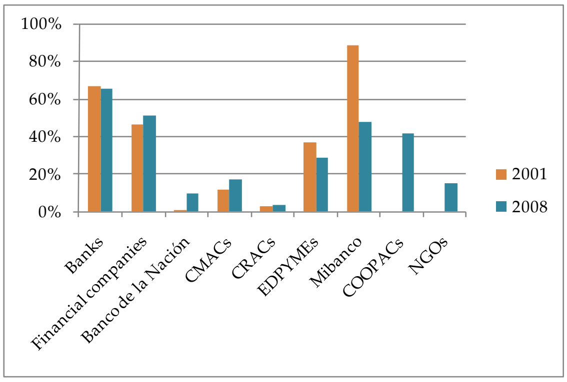
of all UOB branches of other financial institutions other than Banco de la Nación (see Appendix 6.3.3-B, tables 6.3.3-B1 and 6.3.3-B2, graphs 6.3.3-B1 and 6.3.3-B2). Furthermore, CMACs, CRACs, and EDPYMEs have increased their presences in UOB locations without own branches, by serving microfinance clients with loans within branches of Banco de la Nación in UOB at 'shared counters' *(ventanillas compartidas).* Especially, CMAC Arequipa has been very active in using this new distribution channel in UOB locations, with 30 out of a total of 70 'shared counters' in MFIs and Banco de la Nación (see Appendix 6.3.3-B, table 6.3.3-B3).

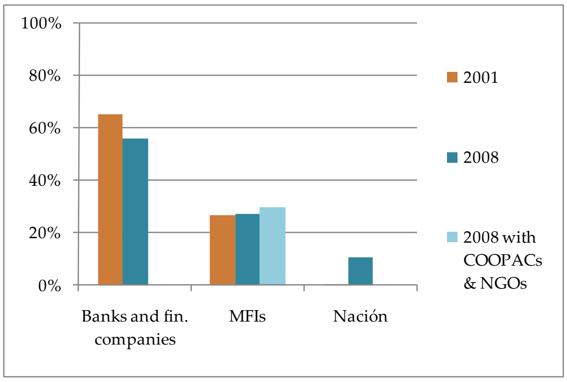
Analysing the geographic distribution of the number of branches relative to the population at the district level,[179] the pie charts in maps 6.3.3-A3 and A6 show that there are two main patterns. The first is that only districts with a minimum population density have banking outlets and that, in relative terms compared to the population, coverage is high in areas with low population density. In relative terms, the presence of Banco de la Nación and, in recent years, of MFIs is strong in these sparsely populated districts. Considering the more densely populated coastal region, the presence of many branches of banks and MFIs does not seem particularly concentrated when considered in terms of the population at the district level. However, taking into account the very small size of districts in the Andes and the result that branches in one district might also serve the neighbouring districts indicates that the apparent concentration of banking outlets in the sparsely populated area of the *sierra* is probably overestimated.[180]
Analysing the geographic distribution of the number of branches relative to the population at the level of types of financial institutions, the importance of Banco de la Nación for geographic coverage and the changes in MFIs over the last decade become still more evident (see Appendix 6.3.3-C, maps 6.3.3-C1 to 6.3.3-C19). Banks and finance companies have barely increased their geographic outreach since 2001, whereas MFIs show a strong increase, reaching close to the coverage of Banco de la Nación, which had been the only institution serving a considerable number of districts in 2001 (see Appendix 6.3.3-C, maps 6.3.3-C1 to 6.3.3-C6). Regarding MFIs, the increase in branches gave MFIs, by 2008, a geographic outreach nearly comparable to Banco de la Nación, especially if all MFIs are considered together (see Appendix 6.3.3-C, maps 6.3.3-C3, 6.3.3-C4, and 6.3.3-C15 through 6.3.3-C17). Among MFIs, the increases in geographic coverage have been created primarily by CMACs, CRACs, and EDPYMEs, with CMACs still having the widest geographic coverage among MFIs and with lower but still considerable geographic coverage by COOPACs, microfinance NGOs, and finally Mibanco (see Appendix 6.3.3-C, maps 6.3.3-C7 through 6.3.3-C20). Among downscaling banks, geographic outreach does not vary much either among banks or over time. Although numbers of branches differ significantly, the areas with bank branches vary little; only the number of branches per served district changes both according to bank and over time but with similar tendencies (see data from SBS).

[179] Population numbers have been estimated at the district level with the average yearly growth rate of the population per district calculated from the census data of 1993 and 2007. In only 84 of 1,835 districts, the population had to be estimated with the yearly growth rate for Peru because these districts were created after the census of 1993, so that only one data point was available for these districts.
[180] See Appendix 6.3.3-A, maps 6.3.3-A2 and 6.3.3-A5 for the distances between branches, and Appendix 6.3.3-C for small size of districts.

Analysing geographic coverage in terms of a possible centralization of branches within the economic centre and capital of the country, the presence of branches in Lima Metropolitana and the province can be distinguished. Graph 6.3.3-B confirms the tendencies discussed above: Banco de la Nación, CRACs, CMACs, and NGOs have more than 80% of their branches in the province, Mibanco has 'moved out' of Lima since 2001, and EDPYMEs and COOPACs have 60-70% of their branches in the province. Particularly banks and finance companies are the institutions with the most branches in Lima, around 65% of banks and 50% of finance companies. The two most important banks in terms of microfinance, Banco del Trabajo and Banco de Crédito, are the banks with a slightly higher presence in the province, with a decreasing share of branches however, whereas the presence of the other banks has increased in the province (see data from SBS).

Graph 6.3.3-B: Share of branches within Metropolitan Lima by type of financial institution, 2001 and 2008





Source: Data from SBS, COOPACs, NGOs, FENACREP, and COPEME; own elaboration.
Note: Data for COOPACs and NGOs available only for 2008, data as of 31 December 2009.

Considering the geographic distribution of other types of banking outlets, namely banking agents and ATMs, a much stronger concentration within the major cities of the country can be observed. ATMs are still generally located within the main cities and the most populated parts of the country. Since 2006, the number of ATMs in the northern coastal region has increased greatly, as well as in other major cities of the country, but are only just beginning in other regions (see Appendix 6.3.3-D, maps 6.3.3-D1 and 6.3.3-D3, graph 6.3.3-D1, table 6.3.3-D1). Banking agents are also generally located in the main cities of the country and have experienced significant growth, however, with some significant differences in comparison to ATMs (see Appendix 6.3.3-D, maps 6.3.3-D2 and 6.3.3-D4, graph 6.3.3-D2, table 6.3.3-D2). First, most ATMs are for banks, followed by Banco de la Nación, whereas banking agents are distributed nearly equally between banks and finance companies. MFIs in both cases play a very minor role (see Appendix 6.3.1-D, graphs 6.3.1-D1 and 6.3.1-D2, tables 6.3.1-D1 and 6.3.1-D2). Although similar in numbers of banking agents, the geographic distribution of banks reaches into many districts, whereas the banking agents of finance companies have remained much more concentrated (see Appendix 6.3.3-E, maps 6.3.3-E1 through 6.3.3-E7). Finally, considering the distribution at the financial institution level among all financial institutions serving their clients with banking agents, the broadest coverage in terms of outreach to a large number of mostly urban districts is clearly offered by Banco de Crédito, although Banco Continental, Interbank and Scotiabank have been increasing their regional coverage since 2006 (see data from SBS). Comparing the banks' geographic coverage through banking agents with their coverage through branches, the outreach through banking agents is fundamentally higher and reaches a coverage close to that of MFIs with their branches.

Accordingly, despite banks being clearly the group of institutions with the most branches, ATMs, and banking agents, these institutions have a significant geographic outreach only with banking agents and even then largely concentrated in urban areas. Banco de la Nación has remained the institution with the widest branch network, serving a considerable number of districts as only financial institution. The MFIs' main access points are branches, and as a group, they expanded their geographic outreach significantly, largely into districts previously served only by Banco de la Nación and also into some districts as the only financial institutions. The increased geographic presence by banks through banking agents can constitute another big change for the clients in marginalized areas, considering that banking agents also provide personalized service and are being developed into 'indirect' entry points for acquiring financial services,[181] and not only for facilitating transactions as is the case of ATMs. The degree to which these physical access points provide *de facto* access to a diversified and accessible range of microfinance products needs to analysed in the final section by combining evidence of access points with those of scope and cost of outreach because the microfinance product range might be limited or costly to the clients. Furthermore, the location of access points in marginalized areas is important, as explored in the next section.

6.3.3.2 Market coverage among microfinance clients

For illustrating market coverage of microfinance in Peru during the last decade, the changes regarding microenterprise loans, small savings and fixed-term deposit accounts, and microinsurance products will be analysed. The selection of these indicators and the relevant size ranges has been supported in section 6.2.2. For assessing changes in market coverage, the changes in use of the indicators chosen need to be related to potential demand figures. Estimating potential demand is intricate and would need in-depth research on customer preferences. In the present study, the approach applied by CGAP and financial institutions in Peru (interviews Peru, 2006) for approximating the potential demand for microenterprise loans is used: half of all microentrepreneurs are considered to be potential demand because all of them do not want a loan or could not be approved for one. Because microentrepreneurs are not assessed by the census, the occupied economically active population without health insurance is used as a proxy.[182] For estimating the market coverage of other financial services, other estimations of potential demand are necessary. In the case of small deposits, the entire population is considered because both young and older people can have a savings book in

[181] They are 'indirect', considering that new contracts can only be signed at branches (resolution SBS 755-2008).
[182] This proxy can only be considered as valid before the governmental health insurance was opened to all poor and low-income Peruvians in 2009.

their name and household members tend to keep separate savings accounts. For microinsurance products, the proxy used by SBS is taken: the entire population under the national poverty line. The rationale behind this choice is that insurance is offered at the individual level and that registered microinsurance policies provide only a very basic cover that targets poor populations. However, considering the large portion of the low-income population above the monetary poverty line, microinsurance products may also be interesting for the population over but close to the poverty line. Thus, this proxy used tends to underestimate the potential demand for microinsurance, while still providing a sound first estimate. As can be seen from table 6.3.3-B, the number of microenterprise loans increased nearly four times from 2001 to 2008, leading to a strong increase in market coverage from about 20% to 55%. The latter figure seems, however, to be very high, which might partly be due to an underestimation of the potential demand, given that there might be a significant number of low-income employees taking microenterprise (and consumption) loans for business purposes and that the employed of formalized MSMEs are not measured by the proxy used. Another reason might be that microenterprise loans indicate only the total number of microenterprise loans without controlling for multiple loans to an increasing number of clients. Still, the positive tendency is so strong that there is no doubt about an increasing coverage in terms of microenterprise loans, but only about the degree of this increase.

Table 6.3.3-B: Changes in market coverage according to the potential market for different types of microfinance services, 2001-2008

	Absolute values in 2001	Absolute values in 2008	Accounts or loans/ potential demand in 2001	Accounts or loans/ potential demand in 2008
Microenterprise loans				
*Potential demand - half of occupied economically active popualation without health insurance**	*2,326,749*	*2,978,606*	/	/
Microenterprise loans (all financial institutions, including COOPACs & NGOs)**	434,430	1,637,915	19%	55%
Small deposits				
*Potential demand - entire population**	*26,346,840*	*27,426,174*	/	/
Small saving accounts (all deposit taking financial institutions, including COOPACs)***	4,381,546	10,017,469	17%	37%
Small fixed-term deposit accounts (all deposit taking institutions, without COOPACs)	1,101,803	300,141	4%	1%
Microinsurance				
	2007	2009	2007	2009
*Population living under national poverty line**	*10,770,967*	*10,781,986*	/	/
Number of insured with microinsurances registered with SBS	6,313	208,331	0.06%	2%
Number of insured with microinsurance registered with SBS and from Serviperú	n/a	472,331	0.06%	4.38%

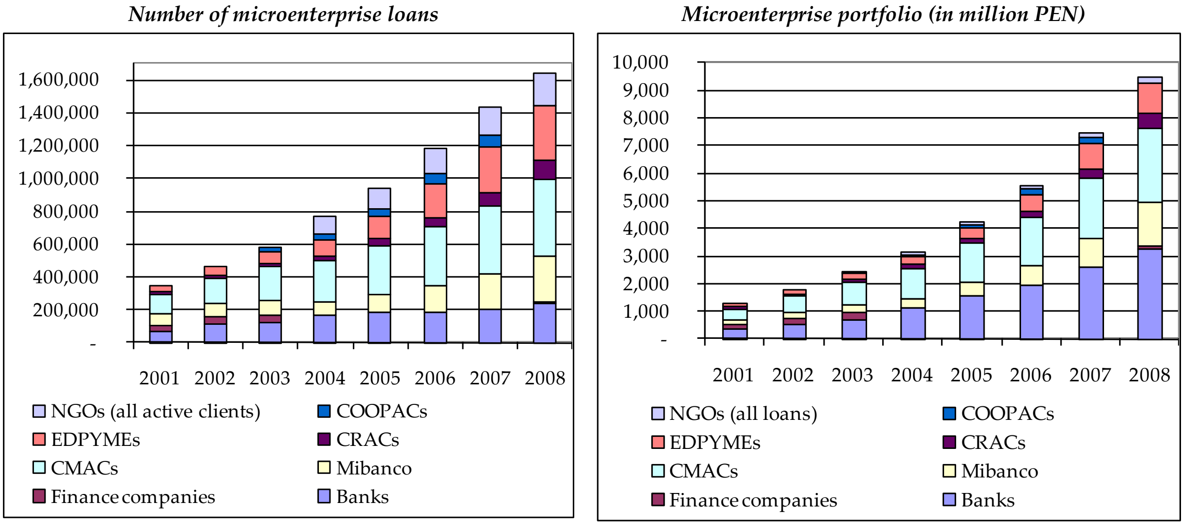
Source: Data from INEI (*Censo Nacional de Población y Vivienda*) and SBS; own conceptualization and elaboration.
Notes: * The potential demand has been estimated based on census data from 1993 and 2007. Estimations are partly by INEI and partly by the author. ** The numbers of microenterprise and consumption loan clients offer projections for the numbers of COOPACs and NGOs because numbers were only available for 2003 and 2004. *** For the savings accounts with COOPACs, the proxy of membership is used.

The market coverage of small savings has also increased considerably, up to more than a third of the population, due to the number of savings accounts having more than doubled. In this case, the potential demand might be somewhat overestimated than underestimated, which supports the market coverage reached. The market coverage might still be overstated, due to the existence of multiple account holders. With increased market coverage, the share of multiple account holders has quite probably increased. For small fixed-term deposits, the tendencies are contrary to the first because the number of small fixed-term accounts has been decreasing strongly by two-thirds, leading to significantly lower market coverage of only about 1% in 2008. The very low market coverage rate may partly be due to an overstated potential demand. The falling number of small fixed-term deposit accounts indicates that a further detailed analysis of changes in financial services used is important to explore the details behind these broad tendencies, analysing which financial institutions contributed most or least to these results. This analysis will be done in the following discussion. In the case of microinsurance, the coverage of the usage data is limited because it excludes all insurance contracts that might be *de facto* microinsurance, without having registered under the new microinsurance regulation, which especially applies to small insurance products commercialized by banks and, in part, to finance companies as well (see Appendix 6.3.1-B, table 6.3.1-B5). Taking into account the small insurance products that have the character of microinsurance provided by COOPACs affiliated to Serviperú, the market coverage increases significantly to much higher levels.[183] Considering that the products closer to the upper end of the 10-PEN limit might target microfinance clients above the poverty line, that 80% of the population in 2006 lived on incomes below 600 PEN, and that incomes up to 1,000 PEN still qualify for the government semi-subsidized health insurance (see graph 6.3.2-C, section 6.3.1), these 80% of the population could be another proxy for estimating the market coverage, consequently decreasing the market coverage by nearly half. In terms of the entire insurance market, a comparison of insurance premiums per capita ratios situates Peru at the lower end of Latin American countries (Valderrama 2009: 3). However, this result does not mean that the Peruvian insurance market is low in breadth of outreach because the available measure does not capture the number of insurance products, and large numbers of microinsurance policies will hardly be captured, given that these carry very low premiums.

Regarding changes in the usage of microenterprise loans, the growth in numbers of these loans has been strong since 2001 and led to a multiplication of numbers of accounts of nearly five times, up to over 1.6 million loans in 2008. Loan balances were also increasing, leading to a growth in the microenterprise portfolio of more than seven times, to a portfolio of over 9.5 billion PEN. The increase in number of loans has largely taken place in CMACs, EDPYMEs, and NGOs, whereas the increase in balances was most accentuated for banks and CMACs (see graph 6.3.3-C).

[183] Double counting of insured clients is not likely when combining the COOPAC with the SBS database, because the type of insurance offered is not the same, but certainly possible to a very minor degree.

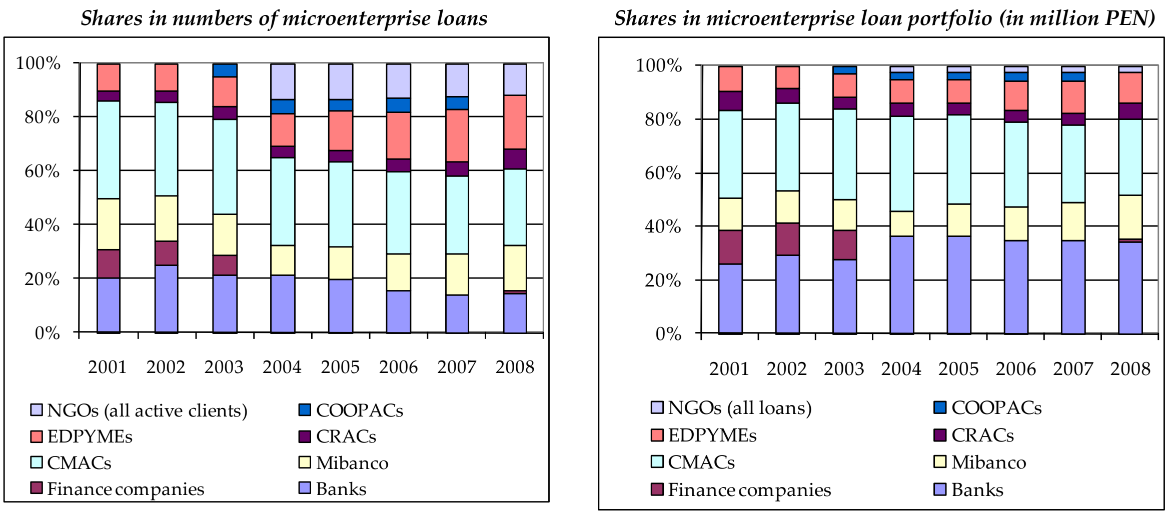
Graph 6.3.3-C: Number of microenterprise loans and microenterprise loan portfolio, 2001-2008



Source:	Data from SBS, FENACREP, and COPEME; own elaboration.
Notes:	Data as of 31 December of each year. For NGOs, only the total loan portfolio was available, being a good proxy for microenterprise loans because the portfolios of most NGOs consisted of 100% of the loan portfolio for working capital and investment, which can be considered working capital because of the low average loan amounts of NGOs. For COOPACs, data from 2003 to 2007 were available and for NGOs, from 2004 to 2008.

In terms of changes in market shares, CMACs are the providers of most microenterprise loans, followed by EDPYMEs. The share of accounts provided by Mibanco is close to those of banks and NGOs. This picture changes fundamentally, however, when analysing the market shares in microenterprise loan portfolios. Banks have increased their market share by nearly a third, and NGOs show a very small market share. CMACs are the second most important market player, followed by Mibanco and EDPYMEs. COOPACs are a minor player, both in terms of numbers and portfolio of microenterprise loans, and finance companies have only just entered the market again, but with 'invisible shares' (see graph 6.3.3-D). The large differences between market share in number of loans and portfolios indicate large differences in average loan sizes.

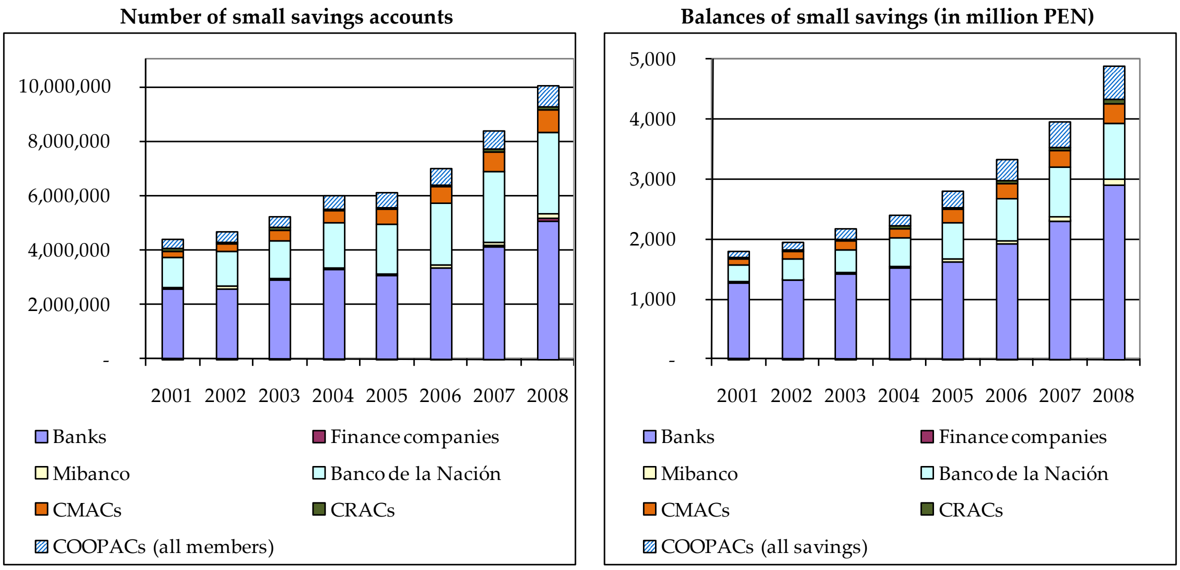
Graph 6.3.3-D: Market shares in number of microenterprise loans and loan portfolio, 2001-2008



Source:	Data from SBS, FENACREP, and COPEME; own elaboration.
Notes:	See graph 6.3.3-B.

Considering the development of small savings accounts, the increases both in numbers of accounts held and balance of these accounts have been dominated by banks (see graph 6.3.3-D). Within the group of banks, Banco de Crédito clearly has held its dominant position within the segment of small savings, with market shares of more than 35% in numbers and more than 45% in balances of small savings (data from SBS, as of 31 December 2008). The second most important player is the development bank Banco de la Nación; however, it is generally allowed to offer its services as a first-tier bank only to public employees.[184] A much smaller but still considerable part of the savings and number of accounts held are in CMACs, whereas the numbers of COOPACs is only a proxy, due to a lacking differentiation of size ranges. Considering that the average savings amount by member is 750 PEN, the total savings can be considered a reasonable proxy (data from FENACREP, as of 31 December 2008). Because the share in balances is considerably higher than the number of accounts, many larger savings accounts still seem to be included within this proxy. Mibanco and CRACs appear to play very minor roles in terms of the number and balances of small savings accounts nationwide, and the two finance companies that recently converted to banks (Banco Ripley and Falabella Perú) just started to offer small savings accounts (see graph 6.3.3-E). Even though the indicator chosen constitutes a rather broad approximation, the tendency of a dominating importance of banks in holding small savings accounts is consistent with the preference of survey respondents for banks because they perceive banks to be the most secure place for their savings (see section 6.2.3; Trivelli, Morales et al. 2004: 81).

Graph 6.3.3-E: Number and balances of lowest class of savings accounts from natural persons, by types of financial institutions, 2001-2008



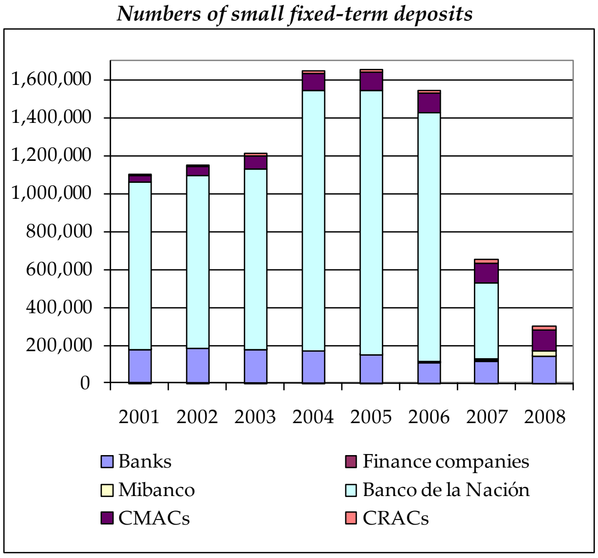
Source: Data from SBS and FENACREP; own elaboration.

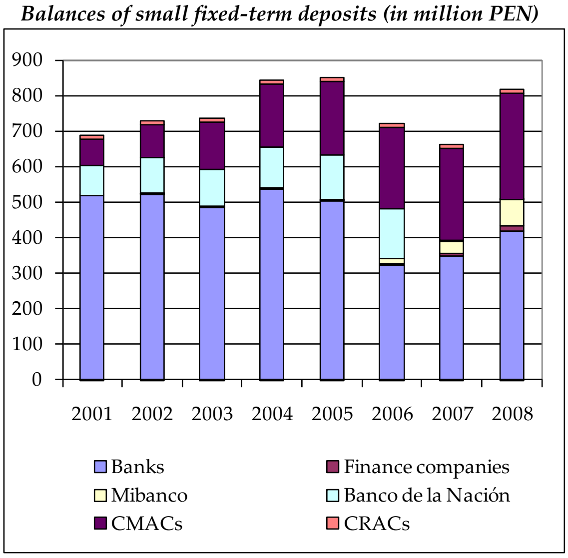
Notes: For COOPACs, only the aggregation of all savings is available without distinction as to size ranges. For limited comparability of these numbers, COOPACs are visualized with stripes. Information as of 31 December 2009.

[184] Only in places where no other financial institution is present, this bank can offer some of its services, such as savings accounts, as a first tier bank to the general public (Banco de la Nación 2009a, 2009b).

The development of small fixed-term deposits shows a very different situation with trends from the constantly increasing numbers and balances of small savings among all types of financial institutions. However, the dominant market share of banks is similar. Most small fixed-term deposits were held in the development bank Banco de la Nación until 2006, before the drastic reduction of both absolute numbers and market shares. The market share of 85% in number and 19% in size of small deposit accounts indicates the small size of these accounts (data from SBS, as of 31 December 2006). Also, in the case of fixed-term deposit accounts, it is important to recall that the bank is authorized to serve only the public in UOB location directly. Accordingly, most of the deposits held within the bank are not from typical microfinance clients, but from public servants.[185] The number of small fixed-term deposit accounts in banks and CMACs has been rather small and stable, but the significant market shares and increases for CMACs in balances of small fixed-term deposits indicate the increase of small fixed-term deposits held in CMACs. The total number of small fixed-term deposit accounts has decreased at radically lower levels than the initial level in 2001 because of the decrease in accounts held in Banco de la Nación since 2007, but the total balances have only slightly increased (see graph 6.3.3-F).[186]

Graph 6.3.3-F: Number and balances of lowest class of fixed-term deposit accounts of natural persons, by types of financial institutions, 2001-2008





Source: Data from SBS, own elaboration.
Note: Data as of 31 December 209. No data for small fixed-term accounts available for COOPACs.

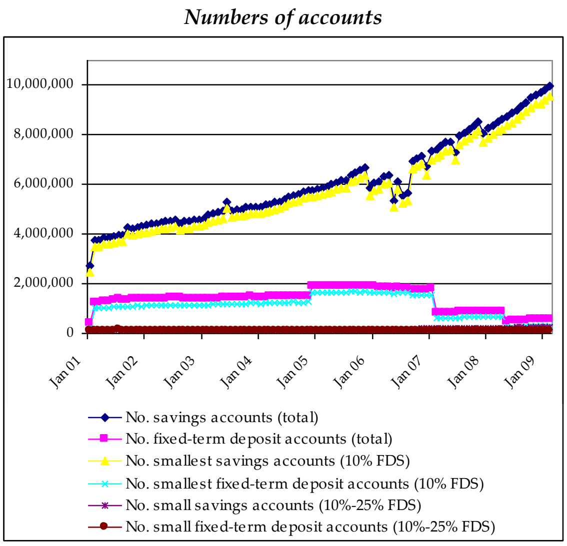
Comparing the lowest size ranges of both savings and fixed-term deposits to the next size range and the totals, it can be seen that the share of number of accounts is far higher than the share of balances (see graph 6.3.3-G). The number of smallest accounts is close to the total number of accounts, but the lowest balances are far from the total, even though they constitute

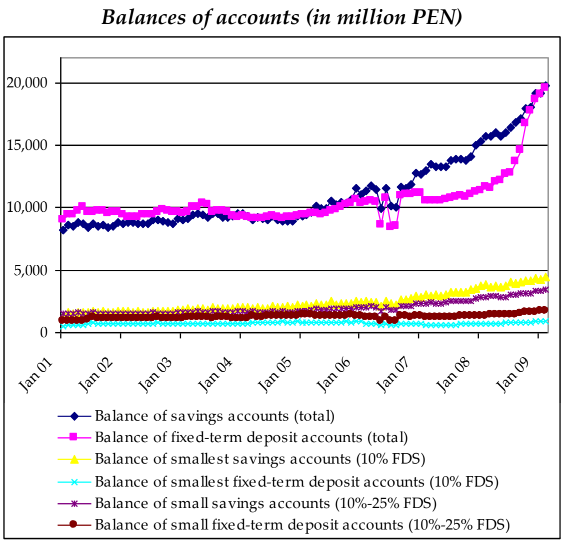
[185] Certainly, microfinance clients might also be involved with the state economy because, in the case of low-paid public employees, access to mainstream finance might also be difficult and it can be observed that, for instance, small consumption loans are used for initiating home-based microenterprises or similar purposes.

[186] Data from COOPACs had to be excluded from the analysis because differentiation by size range was not available, but this would have been necessary in this case to distinguish small fixed-term accounts from larger ones.

the majority of all accounts. The very large number of accounts included in the first size range show that the ideal size range for analysis should have been smaller (see 6.2.3), but the huge differences between numbers and balances of accounts make the lowest size range an acceptable proxy, especially because only deposits of natural persons are considered and the differences from one size range to the next are large. Regarding the breakdown of the shares of small deposits at the institution level, over 90% of all savings accounts are within the smallest size range within all types of institutions, accounting for about 20% of the banks' and finance companies' savings balances and close to 50% in MFIs. Small fixed-term deposits account for only about 40% of all fixed-term accounts in banks and for about 3% of the balances, which mean considerably lower shares in numbers but especially in balances than for other financial institutions. The shares have been fairly constant within most institutions between 2001 and 2008 (see Appendix 6.3.3-F, graphs 6.3.3-F1 and 6.3.3-F2).

Graph 6.3.3-G: Number of different classes of savings and fixed-term deposit accounts of financial institutions supervised by SBS, 2001-2008



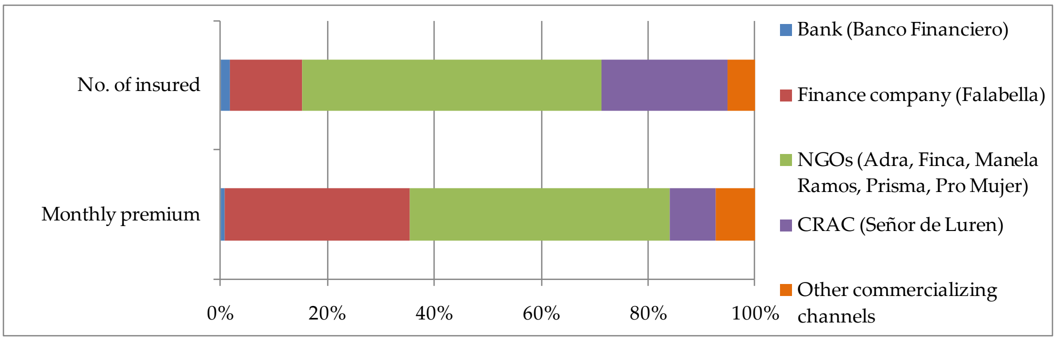


Source: Data from SBS, own elaboration.
Note: Monthly data as of the last day of each month.

As mentioned previously, usage data are available only for small insurance products that are also registered as microinsurance and for small insurance products offered by COOPACs. Since the category of microinsurance was created in 2007, the number of insured with registered microinsurance have increased to about 200,000, who pay a total of about 600,000 PEN in monthly premiums (data from SBS, as of 30 June 2009). Recently, the dynamics have changed, with more insurance companies providing microinsurance and more financial institutions selling them. Between June and September 2009, another insurance company out of 13 insurance companies—among them 9 with registered microinsurance products—has started selling microinsurance in addition to the five existing companies (data from SBS, as of 30 June 2009, 30 September 2009). More financial institutions have also started offering microenterprise loans, in addition to those indicated in graph 6.3.3-H, those institutions being CMAC Paita, CMAC Arequipa, EDPYME Crear Tacna, and CRAC Los Andes (data from SBS as of 1 March 2010). Considering the distribution of microinsurance products currently provided, NGOs are clearly the most important type of institution providing microinsurance, followed by CRAC Señor de Luren, in terms of numbers of insured, and by the finance company Falabella, in terms of monthly premiums paid.

However, financial institutions are not the only institutions that can sell microinsurance products provided by insurance companies because the regulation opens this possibility to all kinds of providers as long as they act within the requirements of the regulation. Currently, there are also shops (like Topy Top), pharmacies (like Mi Farmacia Arcángel), and an energy provider (Edelnor) offering microinsurance products, but only to a minor extent (see graph 6.3.3-H). COOPACs insure more clients than currently insured with registered microinsurances—close to 300,00 insured in 2008—, with insurance products focussing on life, burial cost, and personal accidents (data from SBS, as of 30 June 2009, Valderrama 2009). Considering a further modification making the microinsurance regulation more flexible in October 2009 (resolution SBS 14,283-2009), it can be expected that this market segment will show significant change and increases in coverage in the future. Until now, all insurance products offered by private providers focussed only on idiosyncratic risk, like life, burial costs, and accidents. A public subsidized insurance scheme offers health coverage, but thus far without any coverage for covariant risk.

Graph 6.3.3-H: Distribution of insured and premiums of official microinsurance by type of financial institutions



Source: Data from SBS as of 30/06/2009, own elaboration.

The changes in market coverage analysed with different kinds of loans, savings, and insurance for microfinance clients indicate that the tendencies observed vary fundamentally by product class and by type of provider. Both with microenterprise loans and small savings accounts, market coverage has been multiplied many times, which cannot merely be due to increasing numbers of multiple account holders and borrowers but signifies increasing degrees of market coverage. In terms of market shares, very different providers have been important to this change, with MFIs being the main providers of microenterprise loans, and banks and Banco de la Nación of small deposits, which are, however, only in part made by microfinance clients. The other tendency observed is a strong decrease of the market coverage of small fixed-term deposits, which shows that market results and dynamics of small savings and fixed-term deposit accounts used to differ fundamentally from each other. Hence, they cannot be considered good substitutes, even though the terms of fixed-term deposits can be very short and are, consequently, analysed separately. The picture of coverage drawn according to microinsurance underestimates the situation because available data cover only registered microinsurance products and those of COOPACs, but not other small insurance products that have been purchased by microfinance clients. Taking into account that the target market could be understood as larger, as proposed by SBS, the coverage could still be overestimated.

6.3.4 Depth of outreach

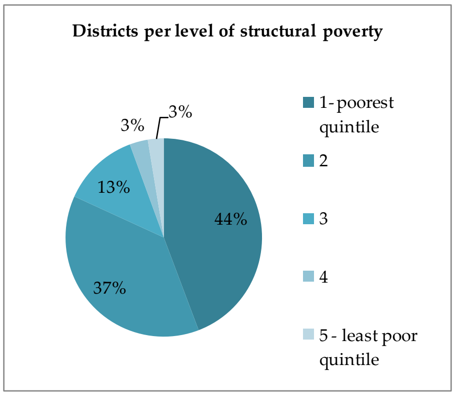
Depth of outreach in the case of financial sector development in Peru during the last decade will be analysed by reviewing the distribution of access points regarding poor populations and comparing the distribution of financial services, by size ranges and averages, to the values used by the poor.

6.3.4.1 Access points for poor populations

The analysis of the socioeconomic situation in Peru has shown that poverty varies along geographic lines of marginalization, considering different dimensions of human poverty (see section 6.1.1). The summary structural poverty indicator by FONCODES,[187] which describes the situation at the district level in quintiles from one to five, with the first being the poorest, is used in the following analysis to assess the availability of banking outlets in marginalized areas at the district level (see graph 6.3.4-A).

Analysing the distribution of branches in socioeconomically marginalized regions in 2001 (see graph 6.3.4-B), the branches of banks and financial companies were generally concentrated in areas with the highest level of socioeconomic development according to the structural poverty indicator. The types of financial institutions with the highest presence of branches in socioeconomically depressed districts were clearly Banco de la Nación and NGOs, followed by CRACs and CMACs.

Graph 6.3.4-A: Distribution of poverty by district, 2007



Source: FONCODES, own elaboration.

Rather surprisingly, considering their mission, EDPYMEs and Mibanco showed a very small presence in marginalized regions in 2001, a situation that changed significantly, especially for EDPYMEs, by 2008. The presence of EDPYMEs, Mibanco, and also COOPACs in poor regions

[187] See Section 6.1.1 and Appendix 6.1.1-A for further explanations. The categories from 2007 are taken and maintained constant for comparisons with data from 2001 and 2008, given the FONCODES indicator aims at representing structural poverty and has been calculated based on different datasets from the previous years.

is considerably below that of Banco de la Nación, NGOs, CMACs, and CRACs, but at the same time significantly higher than the presence of banks and finance companies. By 2008, banks had increased their presence in marginalized districts somewhat and finance companies a little more. Banco de la Nación still had the most significant presence in marginalized regions, especially in districts of the lowest quintile, followed by NGOs, CRACs, and then CMACs and EDPYMEs (see graph 6.3.4-B).

Graph 6.3.4-B: Distribution of branches of types of financial institutions by structural poverty at the district level, 2001 and 2008

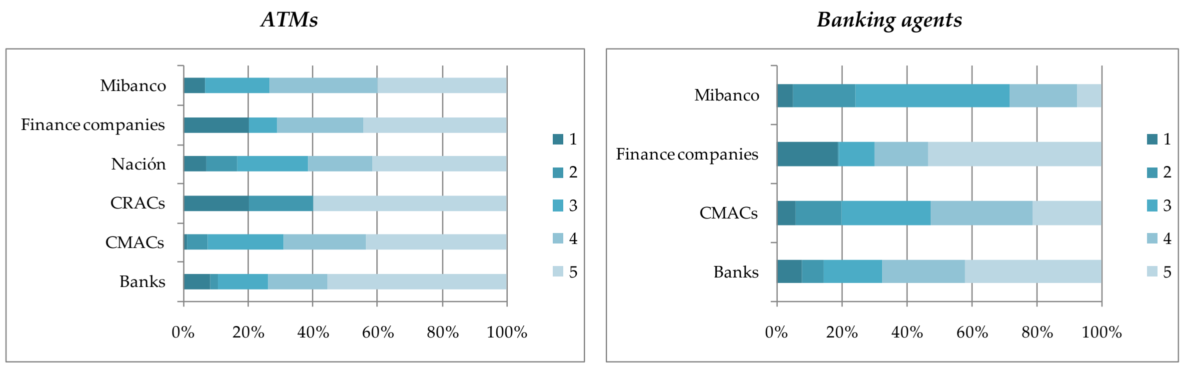
Source: Data from SBS, COOPACs, NGOs, FENACREP, and COPEME (financial data) and FONCODES (structural poverty); own elaboration.
Note: Data from COOPACs and NGOs are available only for 2008

Considering the location of branches in the most marginalized but least moderately populated areas (see Appendix 6.3.3-A, maps 6.3.3-A2, 6.3.3-A3, 6.3.3-A5, and 6.3.3-A6), it can be seen that, in 2001, wide areas of the Andean region with the highest structural poverty rate were served only by Banco de la Nación. By 2008, this situation had changed considerably, with a widespread presence of MFIs in these areas. The location of nearly all the branches of banks and finance companies within the larger cities located in the more developed areas can also clearly be observed. Thereby, the data at district levels would show whether banks were present in many urban districts with high poverty levels, those located in cities where the high poverty rate cannot be determined from the map, but as shown in graph 6.3.4-B, this is not the case. The concentration of bank and finance company branches in highly developed districts and the presence of Banco de la Nación and MFI branches in minimally developed districts become even more obvious when comparing maps 6.3.3-C1 through 6.3.3-C20 (Appendix 6.3.3-C) to the map with the structural poverty indicator (Appendix 6.3.3-A, map 6.1.1-B3).

Among MFIs, CMACs have the largest branch network reaching into marginalized regions, followed by CRACs and, recently, EDPYMEs. NGOs also have a significant presence in marginalized regions while COOPACs have a limited geographic coverage in poor regions and Mibanco even less.

Considering the proxy for economic strength of expenditure at the district level, the branches of banks and financial companies are clearly concentrated in the areas of higher degrees of local economic strength, and the other institutions' patterns of presence are similar to the patterns in terms of the structural poverty indicator analysed (see Appendix 6.3.3-A, maps 6.3.3-A4, 6.3.3-A7, 6.3.3-A8 and 6.3.3-A10). However, this impression changes if the distribution of branches is analysed relative to the district population or the economic strength of the district. In these cases, the less developed regions with a low total number of branches present appear to be highly banked (see Appendix 6.3.3-A, maps 6.3.3-A9 and 6.3.3-A11). The pie charts per district might, however, overstate this effect because districts are smallest in the central Andean region, which appears to be the most 'overbanked' in the maps because financial institutions might serve several of the small surrounding districts while the financial institution is related only to the one district the branch is located in (see also section 6.3.3.1). Accordingly, the ratio per district population or economic strength appears erroneously high because many of the small central Andean districts do not have any branches (see Appendix 6.3.3-C, maps 6.3.3-C1 through 6.3.3-C6). Still, banks, finance companies, and, recently to a less degree, Mibanco have a very low number of branches in marginalized areas. Comparing the distribution of branches by poverty level with the distribution of districts by poverty level shows that most districts are either poor or very poor (see graphs 6.3.4-A and 6.3.4-B), thus underscoring the persistent absence of bank and finance company branches in large parts of the country—which is certainly critical only for the inhabited areas (see Appendix 6.3.3-A, maps 6.3.3-A2 and 6.3.3-A5).

Graph 6.3.4-C: Distribution of banking agents and ATMs by types of financial institutions and banks according to structural poverty at the district level, 2008



Source: Data from SBS (financial data) and FONCODES (structural poverty); own elaboration.

The distribution of both ATMs and banking agents is highly concentrated in the main cities of the countries and largely dominated by the presence of banks and finance companies.

However, their presence in structurally poor areas in the southern Andes is larger than the presence of branches, especially for banks and finance companies (see Appendix 6.3.3-D; see also Appendix 6.3.3-A, maps 6.3.3-A4 and 6.3.3-A7). In this case, it is interesting to analyse whether financial institutions reach into more marginalized districts within the urban areas, which could be expected, especially in the case of banking agents. In the case of ATMs, they are more concentrated in the less poor districts for all institutions, but in the case of banks, ATMs reach slightly more into poor and even some very poor areas (graph 6.3.4-C). For banking agents, this tendency of reaching into poorer districts is much more accentuated among all financial institutions working with this distribution channel. Especially Mibanco uses banking agents in poorer districts, but also banks and finance companies show a considerably higher presence in poorer districts of banking agents than of branches.

Considering the accessibility of different types of distribution channels within marginalized areas, branches, largely from Banco de la Nación but lately also MFIs, are the distribution channel more widely present. Because branches are the entry point for financial services and clients can obtain personalized information and consulting, branches provide the most access opportunities to clients. ATMs and banking agents are largely provided by banks and finance companies and are predominantly located in the large cities, however, with a greater presence in the poor southern *sierra* and within poorer districts than the branches of banks and finance companies. This presence could mean lower transaction costs for poor urban populations, which initially open accounts or obtain loans from a branch, but later might use ATMs and, especially, banking agents closer to their homes and work places for frequent transactions, like withdrawal of money, payments or repayments of loans. Furthermore, both ATMs and banking agents are low-cost distribution channels compared to the branches. The advantage of both branches and banking agents is that they can be used by those with limited literacy, ATMs being more difficult to use in such cases. Still, there are vast poor and sparsely populated areas in the Peruvian Amazon that are virtually without any kind of access point available.

6.3.4.2 Market coverage among the poor

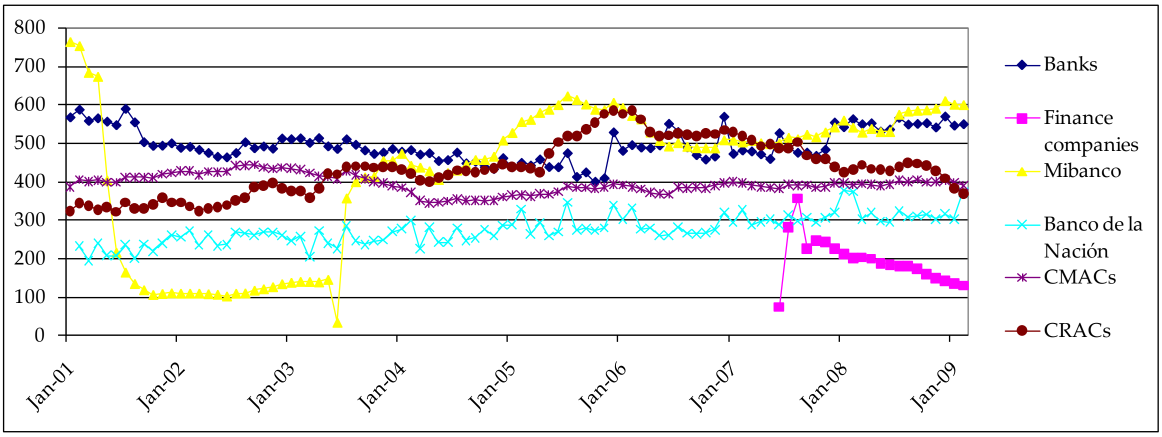
In order to assess the extent to which poor people use financial services and how this use has changed without being able to evaluate directly the socioeconomic situation of clients,[188] different proxies exist. One indicator analysed in the following is an analysis of the number of financial services used compared to relevant values for poor populations. At the financial institutions level, the size of the financial products used and the period, number, and the size of instalments of loans or the average monthly amount saved constitute further indicators that help to identify small clients (see section 5.1.3). At the financial system level, these data are not reported and could not be collected. Hence, analysing the distribution of savings and loans in

[188] The socioeconomic situation of clients can be evaluated through user-related data, like household surveys, or through provider-related data, such as socioeconomic situations of clients, which are, however, not collected in systematic ways by the large majority of financial institutions, except for some microfinance NGOs or MFIs. These institutions collect data on the clients' socioeconomic situation mostly for assessing social performance.

terms of size ranges or averages, then comparing them to averages of balances saved and outstanding loans by the poor, is the most feasible approach for this analysis at the market level. A second indicator used is financial flows in and out of marginalized regions, given that poverty is characterized by geographic lines of marginalization in Peru.

Regarding small deposits, only the averages can be considered because the entire range of savings and fixed-term deposits consist of the lowest size range available for usage data. Average balances of small savings accounts have been very low during the whole research period. With amounts between 100 and 600 PEN, the averages were considerably lower than the upper limit of the size range considered, about 8500 PEN. The averages have been relatively stable within the indicated range, showing only a slight variation across the entire range. The lowest balances were held generally by Banco de la Nación but lately also by finance companies, which hold only a very tiny market share. Comparing these averages with the amounts 'saved up and down' by poor populations between balances of over 1,000 PEN for poor rural marginalized Andean women to about 3,000 PEN 'saved down' by poor households (see section 6.2.2), they are clearly below the savings potential of poor populations in Peru. Accordingly, the savers within the lowest size range could well be poor or have other reasons for saving very little. However, these very low averages might also be understating the 'real averages' if inactive accounts are not closed and removed from the statistics regularly. The relatively uniform averages among all financial institutions, which also differ considerably from the averages for the lowest size range for small fixed-term deposits, turn however such a bias less probable.

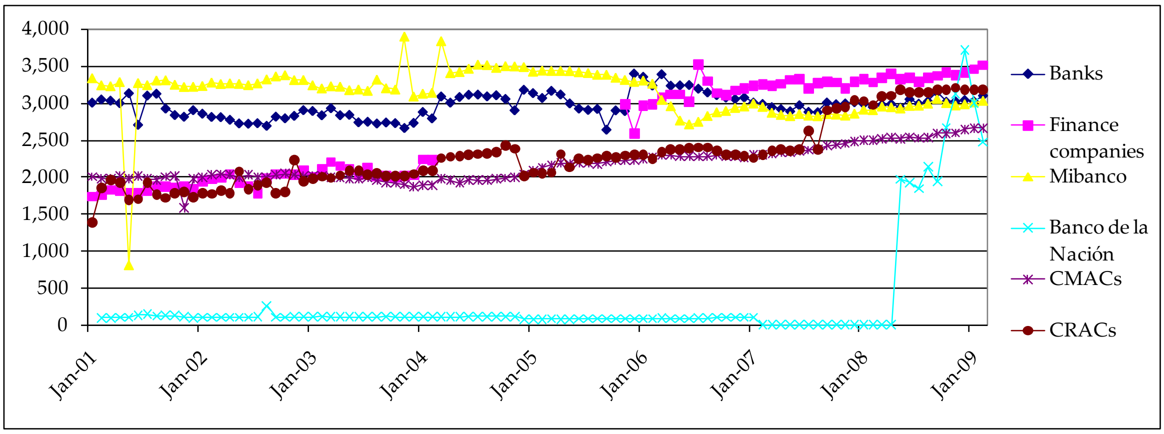
Graph 6.3.4-D: Average sizes of small savings by type of financial institutions, 2001-2008 (in PEN)



Source: Data from SBS, own elaboration.
Note: Averages weighted with the number of accounts and by banks, monthly data of 10% FDS.

The averages of small fixed-term deposits are significantly higher than those for savings and have been slightly increasing from a range of 1,700-3,400 PEN to a much narrower range of 2,500-3,500 PEN in all financial institutions except Banco de la Nación. Most of the small fixed-term accounts were held within Banco de la Nación until 2007, though with very low average balances (cf. graphs 6.3.4-E and 6.3.3-E). Those extremely low balances raise doubt about inactive accounts reported in the case of Banco de la Nación. The averages reported by other institutions within the given size range are much higher than the ones observed with small savings accounts, but considering that poor women living in the rural Andes managed to save nearly 2,500 PEN at median during a longer period of 4 years (see table 6.2.3-A) and some women even managed to deposit much more,[189] these averages can be saved by poor populations.

Graph 6.3.4-E: Average sizes of small fixed-term deposits by type of financial institution, 2001-2008 (in PEN)



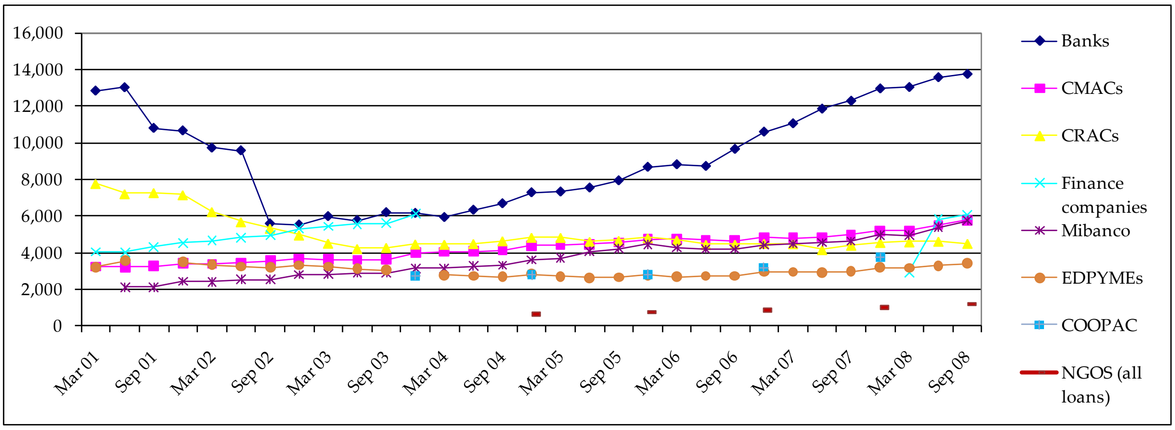
Source: Data from SBS, own elaboration.
Note: Averages weighted with the number of accounts, monthly data of 10% FDS.

Analysing the average sizes of microenterprise loans, three different groups of institutions can be differentiated. The first one is banks with initially and currently far higher averages (more than double) than all other institutions. All MFIs except NGOs constitute a second group with moderate balances currently around 4,000-6,000 PEN, having been increasing from 2001 on. The third group is NGOs with still lower balances, considerably under 2,000 PEN, although they also show tendencies towards increasing. Among banks, the averages of the banks with significant microenterprise portfolios differ largely, with Banco del Trabajo and Banco Financiero being close to the averages of MFIs and Banco de Crédito and Scotiabank showing considerably higher averages, currently around 20,000 PEN (see data from SBS). Comparing these averages to the averages of around 5,000 PEN held within households led by microentrepreneurs (see table 6.2.3-D) at the beginning of the decade confirms, for all types of financial institutions except banks, that microenterprise loans are of the size held by households led by microentrepreneurs. The average amounts by NGOs are far below the amounts of formal loans of about 3,000 PEN held by poor populations, being closer to the average of informal loans of around 1,000 PEN (see table 6.2.3-D). This finding might indicate that NGOs serve not only poor but also very poor clients and that their services constitute alternatives to informal borrowing. In the case of banks, their much higher averages indicate that microenterprises as well as small and medium-sized enterprises are served. Finance companies that lately joined the microenterprise market show averages close to those of the CMACs (see graph 6.2.3-F). In summary, all institutions together seem to serve a very broad

[189] Maximum values of around 5,000 PEN were still held after end of *Proyecto Corredor* by poor women and around 10,000 PEN was the maximum that had been deposited during the four years (data from section 6.2.3-A).

range of clients, with most average MFIs showing mid-sized averages, and banks considerably higher and NGOs considerably lower ones.

Graph 6.3.4-F: Average size of microenterprise loans by type of financial institution, 2001-2008 (in PEN)

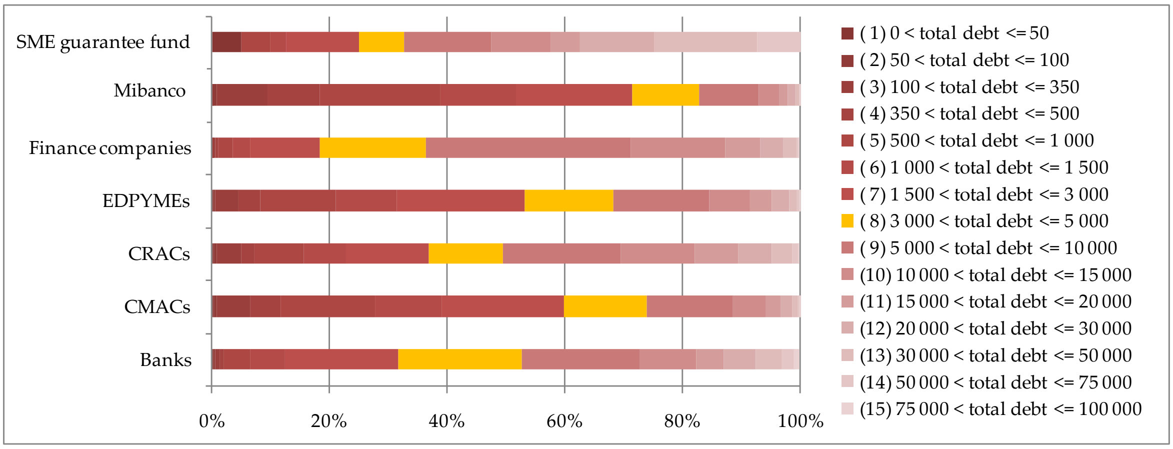


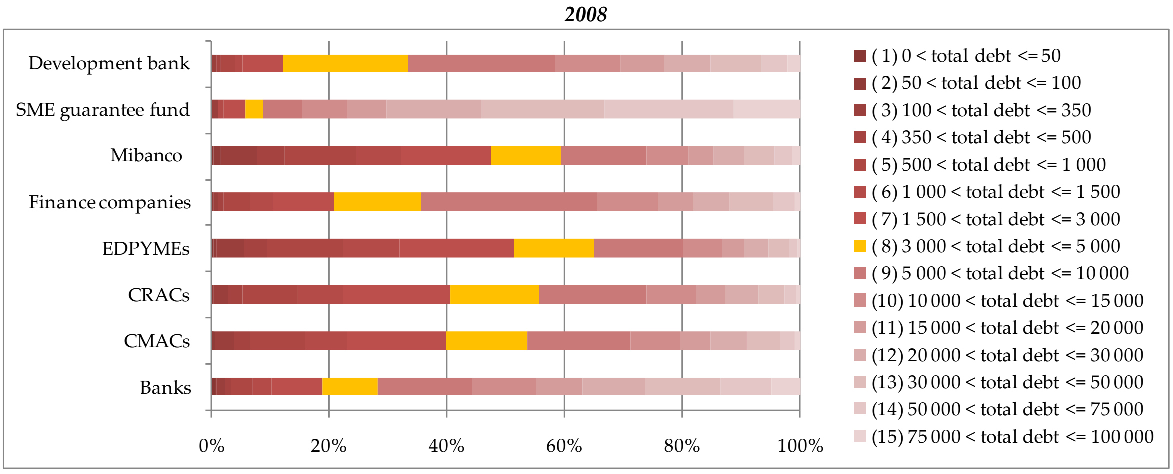
Source: Data from SBS, FENACREP, and COPEME; own elaboration.
Notes: Averages weighted according to the number of microenterprise loans of each institution and by banks quarterly data in PEN of 2001. For NGOs only the average size of all loans was available.

The analysis of the distribution of microenterprise loans according to size range is another more detailed and reliable way to assess the size of microenterprise loans. However, in the present case, the data are not reliable for interpretation at the financial institution level. Accordingly, the information in the graph 6.3.4-G can be understood only as another broad approximation of the sizes of microenterprise loans, confirming the tendencies already discussed but that cannot be further explored.

Graph 6.3.4-G: Ranges of microenterprise loans by type of financial institution, 2001 and 2008 (in PEN)

2001





Source: Data from SBS; own elaboration.

Beyond the usage data of individual clients, the balances of financial flows at the district level are another interesting indicator for analysing how financial institutions act at the district level in terms of reducing financial centralization. Financial flows into marginalized regions can contribute to the processes of local economic development and are, thus, relevant to the largely poor populations living in marginalized regions. The presence and balances of MFIs have changed strongly since 2001, showing that, through these institutions, more money is invested in the provincial districts than there are deposits taken, excluding the institutions that are not allowed to take deposits. Data for COOPACs were not available, and Mibanco shows a much less important geographic coverage than CMACs or CRACs. Banks generally take in more in savings than they provide through loans to the much lower number of provincial districts where they are present (Appendix 6.3.4-A, maps 6.3.4-A1 through 6.3.4-A10, graphs 6.3.4-A1 and A2). For banks and finance companies, there is a much higher number of districts with money outflow, which are predominantly located in the province (see Appendix 6.3.4-A, graphs 6.3.4-A1 and 6.3.4-A2; maps 6.3.4-A1 and 6.3.4-A3), indicating financial centralization receiving more deposits locally than allocating loans—in contrast to CMACs, CRACs, and Mibanco. The distribution of loans and deposits between Lima and the province (see Appendix 6.3.4-A, tables 6.3.4-A1 and 6.3.4-A2) and the many districts with money inflows show that not only CMACs fulfil their stated purpose of financial decentralization but also CRACs and, to a more limited extent, Mibanco contribute to the same objective. Among banks, Banco de Trabajo is the only bank with a larger share of deposits and loans in the provinces, contributing a higher share of loans than savings in the province and, thus, assisting in financial decentralization in terms of inflows into the provinces (see data from SBS).

6.3.5 Length of outreach

The present dimension of length of outreach aims at assessing the extent to which the financial services offered constitute a base for long-term service provision and sustainable market developments in terms of supply, demand, and client relationships. The present section focuses on the continuity of service provision after a brief discussion of security of deposits, reliability of service provision, and indebtedness of clients.

6.3.5.1 Security of clients' deposits and reliable service provision

One fundamental element of a sustainable long-term provision of financial services is the security of clients' deposits. In Peru, there are different situations relevant for microfinance clients. First, if they are saving within any type of commercial, microfinance, or development bank; finance company; CMAC; or CRAC, their savings can be considered secure. The mentioned financial institutions regulated and supervised by SBS are members of the Peruvian deposit guarantee fund *Fondo de Seguro de Depósitos* (FDS), which was established based on the General Law of the Financial System no. 26,702 (Fondo de Seguro de Depósitos 2009). For microfinance clients, the guarantee provided by FDS can be considered a full guarantee because the upper limit is far above the amounts saved generally by microfinance clients.[190] The second situation is that savings within COOPACs are, in most cases, supervised by FENACREP[191] but are not members of the FDS or another deposit guarantee fund (Fondo de Seguro de Depósitos 2009, interview FENACREP 2010). Considering the unprotected deposits of the considerable number of members of COOPACs, SBS has transmitted a legal project suggesting not only the creation of a deposit guarantee fund in cooperation with FENACREP and COOPACs but also regulation and supervision of COOPACs directly. Missing minimum capital regulations and other guidelines for conducting COOPACs is considered to be a systemic risk, especially in the case of larger cooperatives, where the members do not control the business and are de facto rather clients of SBS (law project 3324-2009-SBS, letter 21375-2009-SBS). The third situation is savings that are not taken directly by a financial institution but are 'organized' and partly administered by NGOs. NGOs are not members of the FDS, but most institutions work with solidarity group and village bank approaches. These approaches require the clients to hold compulsory savings as cash guarantee for loans in the 'internal account' of the group, and clients might add further voluntary savings (see COPEME 2008). The money of the internal account is either deposited at a commercial bank account for the group and the NGO or used for lending within the group. Accordingly, the part of the savings deposited with regulated institutions is covered by the FSD. Because access to savings is not on an individual base, a member's savings might be taken by the president of the group or a NGO employee in order to repay a due loan in the external account through access to the group account with the savings. The NGO network Consorcio de Promoción de la Mujer y la Comunidad (PROMUC) gathers twelve NGOs working at least partly with village banking technology and tries to enforce savings as 'sacred' without NGO employees taking them to repay loans. In the long run, such practices have also been shown to cause increasing PAR (interviews Peru, 2006, 2010). Besides the formally granted money in the group's bank account, the security of group members' savings depends

[190] Over 75,000 PEN per person and per financial institution is the amount adapted to the changes in the consumer price index every trimester (upper limit as of December 2008; for current information see http://www.fsd.org.pe).
[191] Some smaller financial cooperatives do not permit FENACREP to implement supervision (FENACREP 2010, option 2c).

on the correct management of the internal account of the group, which is supervised by the NGOs. Considering that NGOs serve the lower and more marginalized client segments especially, it is critical to note that the savings of the smallest and poorest clients are lacking a formal guarantee.

Furthermore, regulations on reliability of services can also mean fundamental changes to the clients—if they promote a more client-friendly provision of financial services and are also supervised. In terms of deposits, the previously discussed coverage by a deposit guarantee fund is fundamental, and for loans, transparency of prices and conditions is fundamental and regulated by the transparency regulation (law 28587-2005, resolution SBS 1765-2005). However, it is important to explore further to what extent clients understand the information communicated to them and analyse whether their choices can be considered well-informed and do not carry 'negative surprises'. Insurance products are another particularly delicate type of service, due to possible exclusions that are not readily evident or other reasons for denying a client's claim. In addition, the advantage of the different insurance products accessible to microfinance clients depends on how claims are handled and how reliable the insurance products are in the eyes of the clients. The microinsurance regulation of SBS that not only limits premiums but also indicates that policies should be simple, with minimal exclusions, flexible payment options, and fast payouts, are important criteria for this end—and surely makes service provision more reliable for microfinance clients because not only are registered policies reviewed but the specific requirements are also supervised *in situ* (resolutions SBS 215-2007, 14283-2009). These are, however, only initial considerations in terms of reliability of service provision, which need to be further understood through asking clients for their perceptions about different types of financial services they use.

6.3.5.2 Indebtedness of clients

Another analytical category for sustainable provision of financial services is the control of the level of indebtedness of clients. In the long run, only loans that are within the debt capacity of clients and their families might be beneficial to them. In the short run, there might be imbalances beneficial to the client—for instance, in situations of urgent needs, which justify an increased debt level for a limited period. However, if high levels of debt become persistent, the household can be considered as highly indebted or even over-indebted. A first indicator for analysing the risk for unsustainable indebtedness levels of clients is the relevant regulation (see below) for the type of loan evaluations applied and the potential for controlling clients' indebtedness (see section 6.3.1). Besides these indicators for the over- indebtedness risk, the sustainability of the *de facto* levels of client indebtedness needs to be assessed. Such assessment is possible based on different types of user-related data. Based on survey data, levels of indebtedness can be measured by comparing the amount of debt contracted to the disposable income at the personal and household levels. Another commonly used indicator is negative characteristics of due debts collected by credit bureaus. These indicators should be compared to the clients' own perceptions about the sustainability of their level of indebtedness because, according to culture and the socioeconomic situation of the people, their perceptions of certain debt levels may vary largely. Hence, the same level of indebtedness might be felt as a burden or not by different households—which finally determines their freedoms if the high level of debt does not constitute a reduction of future freedoms.

Based on negative risk information on clients, SBS has noted increased levels of indebtedness with multiple clients (data from SBS 2006), a finding that is also reflected in the related regulation (as discussed below). There are, however, no detailed data on levels of indebtedness available, and collection of such data did not fall within the scope of the present study, thereby marking it as a need for further research.[192] Although the development of non-performing loan (NPL) ratios like portfolio at risk (PAR) measures late repayment in terms of institutions rather than clients, they can be taken as a very broad proxy for the indicator, but only on past levels of severe structural over-indebtedness. They do not measure the sustainability of the indebtedness levels because very high debts, which can be considered unsustainable in the long run, might still be served. As discussed in the following, NPLs have decreased, in general, in Peru during the last decade.

Regulation and supervision of microfinance includes two important perspectives: that of microfinance providers and that of microfinance services and products. In the case of insuring that clients do not contract debts that are beyond their repayment capacity, thus leading to a structural level of indebtedness, the latter matter. The former will be analysed below in terms of continuity of service. For preventing over-indebtedness, all loans allocated and credit lines given to microfinance and other clients and their repayment status must be reported to SBS. They are subject to the provisioning rules set by the regulator (resolution SBS 11356-2008). For the prevention of structural indebtedness and unhealthy practices like 'loan cycling', the alignment rule of risk classification of multiple clients to the riskiest classification on a monthly basis is very important (resolution SBS 11356-2008: I.5.2). Accordingly, financial institutions have to care for the repayment capacity of the client regarding all her debts. Lending more to over-indebted clients becomes less attractive due to the increased provision linked to such a loan because financial institutions have to lower their classifications to include the worst classification of a client in the system. For clients, it becomes difficult to do 'loan cycling' or only repay some of their loans. The related provisioning is an important incentive for financial institutions to keep their loan portfolios 'healthy'. Hence, the regulation can be seen as favourable to preventing increasing levels of debt, both with single and multiple clients. Furthermore, financial institutions can prevent indebtedness with multiple clients because both public and private credit bureaus provide for risk information about any debt from one Nuevo Sol on (see section 6.2.1). The private provider Infocorp even includes information from microfinance NGOs (SBS 2009b, COPEME 2005: 19). Financial institutions use the available risk information intensively in selecting microcredit clients, with many loan officers equipped with access to the risk information of clients through their cell phones. Thus, when

[192] For instance, SBS does not count with this information and the association of banks in Peru, ASBANC (*Asociación de Bancos del Perú*), is supporting the Peruvian central bank BCRP with a study on indebtedness of natural persons (data SBS; ASBANC 2007: 42ff.).

first meeting with potential clients, they can access their status and decide whether to proceed with the evaluation (interviews and participatory observation Peru 2006). However, in some cases, MFIs reported having had clients who contracted new loans in such short periods of time that the risk information available from SBS had not yet been updated (interviews Peru 2006). Such cases underscore the importance of fast—at best, real-time—actualization of client-related risk information.

6.3.5.3 Continuity of service provision

To assess the continuity of service provision from the perspective of the client, different analytical categories and indicators will be reviewed. First, the diversity of providers and regulation and supervision preventing institutional default and regulating transition are analysed briefly as conditions that can contribute to the continuity of service provision for the client. Then the resilience of financial institutions is analysed, based on ratings as comprehensive indicators of the present situation of financial institutions, aiming at providing insights into their future development. Because ratings are based on the analysis of quantitative and qualitative characteristics, including financial data and 'soft factors' such as governance of the rated financial institution, they should provide a more detailed picture about the reliability of the financial institutions than an analysis of single financial indicators. However, the global financial crisis of 2008-2009 has shown that ratings might also indicate tendencies that later prove to be wrong. In order to include the full range of institutions—given that ratings are not conducted or published by all microfinance providing institutions—and in order to illustrate the results from the ratings, the three most common indicators for comparing the performance, resilience, and stability of MFIs are further analysed (see Mix Market, CGAP 2004b). Profitability will be measured with the return on assets (ROA), which indicates the ability of the financial institution to generate income based on the institution's asset base. The institution's efficiency is another indicator of the future resilience of a financial institution because high efficiency can help an institution to adapt to a changing environment, for instance, to higher competition with decreasing interest rates. Certainly, high efficiency is not a guarantee of an institution's permanence in the market, which also depends on many more factors, among them positioning in the market. Portfolio quality indicates the current sustainability of the lending operations and possible related risks to the profitability and solvency of the institution in the future. Finally, the performance and resilience of the financial institutions in the past will be related to changes for breadth, depth, and scope of outreach. Moreover, it is essential to assess how institutional changes themselves—beyond the question of service provision—affect clients, for instance, whether they lose deposits or membership quotas. Furthermore, it is important to consider indicators of the permanence of the financial institutions in the microfinance sector along with their resilience because they might well move into other client segments. Finally, relevant changes in competition and cooperation in the sector are reviewed because they can influence both resilience and permanence.

For the continuity of service provision in terms of pro-poor financial sector development, the diversity of providers is relevant in the Peruvian case because different types of providers have shown to serve different client segments and provide different types of services. Accordingly, it is continuity of the diversity in terms of different types of providers that matters. Because this diversity is relevant for the different client segments, it is positive for the continuity of service provision that, within the different provider categories, various institutions exist and might replace exiting institutions. Until recently, mergers and acquisitions had taken place only between the same type of institution (see table 6.3.5-A). In terms of specialized institutions providing microfinance in Peru, all different types of institutions have a minimum of 10 institutions, except for the microenterprise bank Mibanco (with 13 CMACs, 10 CRACs, 14 EDPYMEs, 161 COOPACs, among these about 17 with microfinance focus, and 22 microfinance NGOs). Among other financial institutions, there are six downscaling banks and two or three downscaling finance companies among 13 banks and four finance companies (see section 6.2.1).

Considering regulation and supervision preventing default, there is a comprehensive regulation of microfinance institutions within the general regulation of the financial system, and the supervision of SBS can be considered as proactive on microfinance (see General Law of the Financial System, no. 26702; see section 6.2.1). This situation, in a context where detailed and up-to-date risk information on clients is available through public and private credit bureaus, has surely contributed to the soundness of regulated MFIs and the increasing soundness of all regulated financial institutions. Furthermore, the regulation provides concrete rules for the intervention of the regulator in case of solvency and liquidity problems within financial institutions, which also applies to regulated MFIs (law no. 26702, articles 95 and 123). This guarantees well organized liquidations or other changes if necessary, which is crucial for the protection of the clients' assets and data. The same, however, does not apply to COOPACs, which are currently supervised by FENACREP; and NGOs, which do not adhere to a joint regulation or supervision body besides their internal norms; voluntary membership in the networking institutions COPEME and PROMUC; and in the case of affiliates of international NGOs, the supervision of their 'mother NGO'. In the case of the COOPACs, the implementation of supervision functions by FENACREP seems not to be satisfactory because single cooperatives have successfully rejected the payment of supervision fees and sanctions in court, with COOPACs furthermore not having binding minimum requirements such as minimum capital regulation. This situation has led SBS to proposing a law project with the objective of SBS being the regulating and supervisory body of COOPACs. The project includes specific rules and regulations different from other cooperatives, in addition to the establishment of a deposit guarantee fund for COOPACs (law project 3324-2009-SBS, letter 21375-2009-SBS). Thus, the future development of the Peruvian cooperative banking sector depends partly on the decision of the congress on the suggested law. In the case of NGOs, adhering to voluntary reporting schemes, such as with COPEME; reporting data to the Mix Market; conducting ratings with public results, and the membership within further networking institutions like PROMUC point to a preoccupation of NGOs with their financial performance and soundness, clearly without constituting a substitute for being regulated and supervised in terms of their status as non-deposit receiving institutions (see section 6.2.1, Appendix 6.3.5-A).

The resilience[193] of financial institutions providing microfinance will be assessed based on the results of ratings and further illustrated with selected financial indicators that are available for the whole range of microfinance-providing institutions, which is not the case for ratings. The overview of rating results in Appendix 6.3.5-A shows good and very good rating results for most banks. The ratings have improved gradually, and from 2004 on, all institutions have shown results of *B+* at minimum. One of the troubled banks also receiving *C* marks was Banco de Comércio, not a bank with a relevant microfinance portfolio. The other was Banco del Trabajo, the bank most specialized in low-income consumption and microfinance loans. However, from 2004 on, the bank has received *B+* grades. Rating results and, hence, the perspective on resilience among microfinance-relevant banks have been good and very good. The finance companies that have remained in the market after the consumer-lending crisis of the 1990s (see 6.2.1) show stable ratings largely *B*s. Mibanco has obtained ratings over *B+* through the whole period, lately earning ratings of *A*. The ratings of other MFIs are lower and differ considerably by type of financial institution. CMACs and NGOs are the types of institutions with the higher ratings among MFIs, generally showing results around *B* with only some single marks of *C*. Considering, however, that some of the most solid and efficient CMACs have not obtained *A* grades and that often inherent limitations on small institutions, such as the small equity base, are criticized, it seems that MFIs experience structural difficulties in reaching high rating results, at least with mainstream rating agencies. Accordingly, the good ratings of NGOs could perhaps partly be explained by having been rated only by rating agencies specializing in microfinance. However, among CMACs, the metropolitan Caja Municipal de Crédito Popular (CMCP) even received a *D+* rating in 2002, but appears to have improved since then, receiving a *B* rating in 2009 (Class & Asociados 2009). The results for CRACs and, especially, EDPYMEs have been much more mixed, with largely *C* ratings of EDPYMEs until 2006 and very mixed results for CRACs between *B* and *C* ratings. The ratings of COOPACs with microfinance focus have been *B* for the larger and *C* for the smaller institutions; however, it should be noted that only very few COOPACs in general as well as among those with microfinance focus have participated in ratings and shared the results.

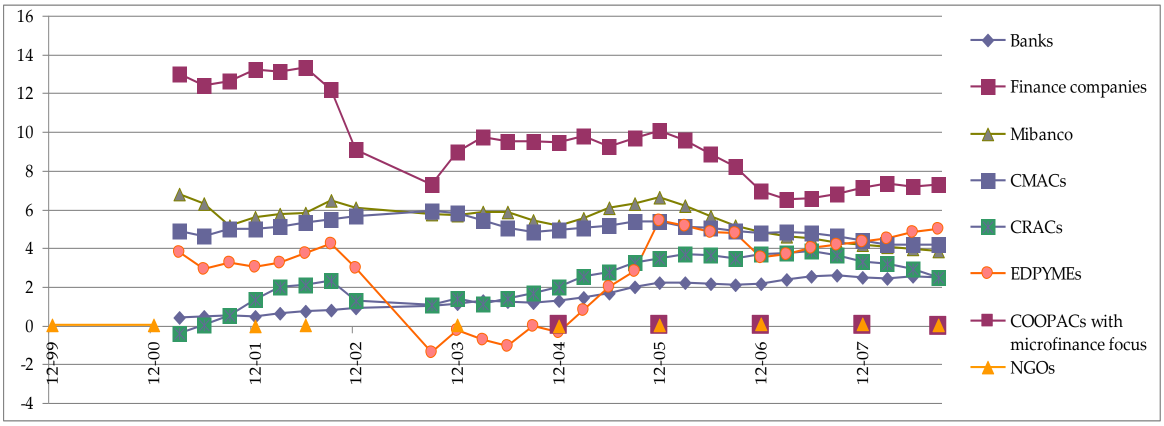
Because ratings are optional for COOPACs and NGOs, it should be considered that the most active and best-performing institutions are more likely to be rated, so many lower performing institutions are most probably not rated or have not published the results. Although the rating results of most MFIs have been and are clearly not as good as those of banks, finance

[193] The analysis of the resilience of different types of financial institutions is done by excluding the very new financial institutions in order not to bias the results of some types of financial institutions with their initial losses. Banks are analysed without considering HSBC, Banco Santander Perú, Banco Azteca del Perú, and Deutsche Bank Perú and EDPYMEs without considering EDPYME Micasita and EDPYME Credijet, which all entered the market between 2006 and 2008.

companies, and the microenterprise bank Mibanco, it should be taken into account that they have been evaluated primarily by mainstream rating companies (see Appendix 6.3.5). Concerning their performance in the past, MFIs have been the more stable institutions in terms of market exits during the last decade and even more so since the 1990s (see table 6.3.5-A and analysis below).

As far as the profitability of the financial institutions—in terms of their ability to generate income based on their asset bases in the past—, the following tendencies could be observed. Finance companies, the institutions with the least significant microfinance commitment, have been the type of institutions with the highest ROA. However, specific microfinance providers have also reached high profitability during the last decade, which is case for CMACs and Mibanco with relatively stable return on assets of 4-6%. Also among CMACs, the profitability has been very stable at these high levels, and only since 2006 has one of the smaller CMACs, CMAC Pisco, not attained positive results (data from SBS, graph 6.3.5-A). In 2001, banks and CRACs started at low levels of profitability or, for CRACs, even losses and have shown increasing profitability of about 2.5% by 2008. Among the banks with considerable microfinance involvement, Banco Financiero and Scotiabank had negative results until 2002 and Banco de Trabajo since 2008. In general terms, the results of the banks have been close to the weighted average. Until 2004, the ROA of many CRACs was negative, sometimes alternating with positive results on a quarterly basis, but since 2005, all CRACs have been reaching positive results relatively close to the weighted average (data from SBS, graph 6.3.5-A). The profitability of EDPYMEs has been very mixed both during the last decade as a group and at the institutional level. There are EDPYMEs with positive and negative return on assets of over 10% and under -10%. The negative results as a group in 2003 and 2004, however, were caused largely by one of the larger EDPYMEs and two smaller ones, EDPYMEs Raíz, Solidaridad, and Pro Negocios (data from SBS, graph 6.3.5-A). Although NGOs show very stable results with around 0% ROA as a group, this figure also changes at the institutional level with both highly negative and positive results. Until 2004, the data represent only the results for Finca and Promujer. Recently, only three of the smaller NGOs have shown negative results (data from Mix Market, graph 6.3.5-A). For COOPACs with microfinance focus, the ROAs have been around 0%, also with significant differences among institutions. For all COOPACs together, the return on assets since 1995 has been between 0.5% and 2%. During recent years, the ratio stayed close to 1.3% (data from FENACREP, as of 31 December 2008). Accordingly, CMACs and Mibanco are clearly the financial institutions with the most stable and very positive results in the microfinance market, based on verified information from SBS. Banks and CMACs showed increasing profitability, and EDPYMEs, NGOs, and COOPACs have shown significant differences among institutions. For NGOs, the results could still be worse because the data available from Mix Market are based on self-reporting and the institutions with the worst results might not have reported them. Data by COPEME confirm the tendency of mixed but largely positive results, thus, with a more positive average (data from COPEME, as of 30 September 2008).

Graph 6.3.5-A: Return on assets by type of financial institution, averages weighted by loan portfolio, 1999-2008

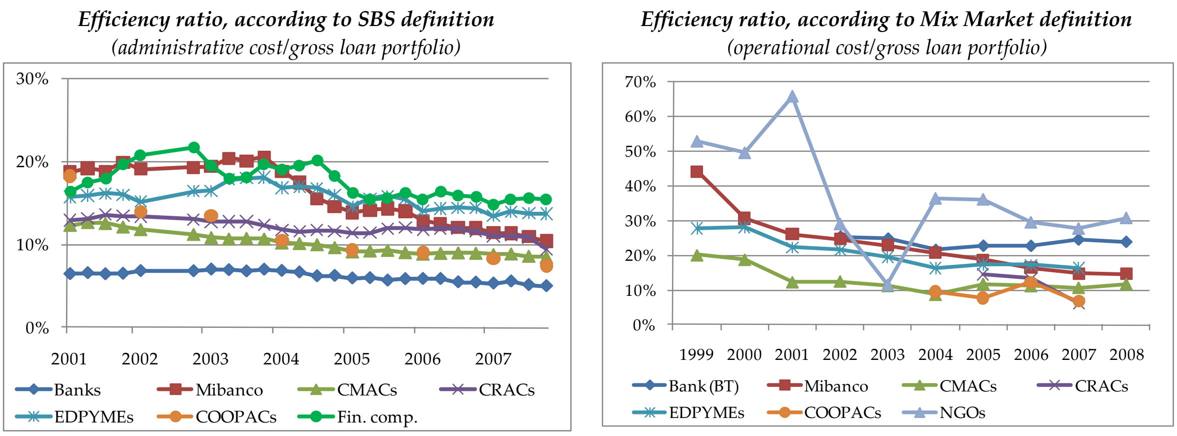


Source: Data from SBS, the Mix Market, own elaboration.

The efficiency of financial institutions can be fundamental to their resilience in terms of an institutional capacity to lead amidst challenges like increasing competition. Related ratios measure the cost of providing financial services offered. Accordingly, the operational or administrative costs are evaluated relative to the gross loan portfolio in the case of credit-only institutions and to the total assets in the case of institutions that also take deposits. In the following, only the ratios relative to the gross loan portfolio are considered in order to compare deposit receiving institutions with non-deposit receiving ones. Because the deposit-receiving institutions also incur costs for doing so, their efficiency ratios might be higher at the same level of efficiency. Although loan size and loan period influence the efficiency ratios, making it difficult to generalize, the comparison of efficiency ratios within the market provides some information on the competitive power of different financial institutions, especially in terms of being able to adapt to lower levels of interest. Considering the efficiency ratios of the different types of financial institutions in Peru, these show increases in efficiency with all types of institutions, with ongoing large differences between different types of institutions (see graph 6.3.5-B). NGOs show clearly the lowest efficiency ratios and banks the highest. However, in the case of NGOs, it should be considered that only from 2004 on are the data representative of the entire group of NGOs because before 2004, data only from Finca and Promujer are available, showing very high operational costs in relation to their loan portfolios in these years. In 2008, the ratios of Finca dropped to 48% and of Promujer to 25% (graph 6.3.5-B). Still, their efficiency has remained lower than that of most other MFIs, which is related to their much lower loan amounts, considering that fixed costs turn the smallest loans into the most expensive ones in terms of relative cost. Additional consultation and training services offered and additional costs NGOs face due to value-added tax (see section 6.3.2) further explain the large differences.

Mibanco's and the EDPYMEs' efficiency ratios have decreased from much higher ratios to very low levels. Mibanco's ratio has even declined close to the ratios of CMACs and CRACs, an especially remarkable development considering the smaller loans issued. CMACs, CRACs, and COOPACs also increased their efficiency considerably, but starting from much lower levels than the other MFIs. The banks' efficiency remained relatively stable at a ratio of around 8%, however, falling to around 5% for most of their business other than microfinance. As expected, the only bank with a portfolio concentrated in microfinance, Banco del Trabajo, shows higher ratios than other banks. However, the bank's efficiency is very low, even worse than that of most MFIs, except for NGOs. The ratios of finance companies have been among the highest besides NGOs and Banco del Trabajo and decreased to only about 16% (see graph 6.3.5-B). The observed increasing efficiency is certainly a positive tendency for pro-poor financial sector development because it enables institutions to lower their prices. Certainly, until competition or other factors bring pressure on the institutions, they probably will not lower the cost as much as they could. Nevertheless, falling prices could also be observed in the central microfinance loan products during the last decade (see section 6.3.2). The persistence of large differences in efficiency among different types of financial institutions is also consistent with the picture of large persistent differences in prices, which also points to the segmentation of the Peruvian microfinance market with different types of institutions targeting certain client segments. Accordingly, their ability to serve different types of clients with differently priced products seems to be an important element of their long-term business success or resilience, which is essential to maintaining the diversity of financial services offered and different types of clients served. This topic will be further discussed in the section on competition.

Graph 6.3.5-B: Efficiency ratios according to different concepts, averages weighted by loan portfolio, by different types of financial institutions, 1999/2001-2008



Source: Data from SBS, FENACREP, and COPEME; Mix Market; own elaboration.
Note: Bank (BT) indicates that, in the Mix Market sample, only Banco de Trabajo is included. Even though operating costs include more costs, such as provisions, amortizations and depreciations, than administrative costs, which refer mainly to the cost of staff, both efficiency indicators show similar tendencies, being understood as different measures of efficiency.

Portfolio quality and its development constitute another indicator to illustrate resilience of financial institutions. The accounting standards used for classifying non-performing loans by SBS are defined by resolution SBS 11356-2008, IV.9: A loan is considered late *(crédito vencido)* after 30 days for microenterprise and consumption loans, and after 60 days for commercial loans, only the amount due is considered late, whereas after 90 days the whole amount is considered. After 90 days, all loans are considered to be in judicial collection *(cobranza judicial)*.

Given the shorter duration of microenterprise and consumption loans, they move into riskier categories earlier (Ebentreich 2005: 5). The period of 30 days for these loans is also in line with the common definition of PAR in microfinance at the international level. Besides the PAR,[194] which indicates the current quality of the loan portfolio of a financial institution, a second concept of a high risk ratio[195] is how it is managed. The latter includes the 'burdens from the past'—refinanced and restructured loans from arrears in the past—, which are still held within the portfolio of the financial institution. The second indicator can understate the performance of smaller financial institutions because their possibilities for dealing with NPL and write-off losses are restricted both in terms of operational agility[196] and in terms of financial capital.

In Peru, this effect can be observed especially with CRACs, which are still 'carrying' restructured agricultural loans dating from the government scheme for restructuring non-performing agriculture loans (*Rescate Financiero Agropecuario*, RFA) in 2001 (see graph 6.3.5-A). Back then, an important concentration of their loan portfolios in agriculture could be observed, but portfolios have been more diversified since then. However, portfolios of most financial institutions are concentrated in trade, which is not considered to be a particularly risky sector, at least in the short run (see Appendices 6.3.1-E and 6.3.1-F). Considering the development of overall PAR and high risk ratios, a general tendency toward decreasing or stable low PAR ratios can be observed for all financial institutions (see graph 6.3.4-C). The declines have been very important because, within only a decade, PAR ratios for CRACs and COOPACs have been reduced from around 14-16% to around 6%, which is a more acceptable ratio. In the years of bad performance of EDPYMEs according to their profitability and solvency, portfolio quality deteriorated and rose up to 10%, but currently PAR ratios have also come down to about 5%. Banks also show significant decreases in their general PAR ratios from about 10% to the lowest ratio of 2%. Portfolios at risk of CMACs and Mibanco have been relatively stable during the last decade and at significantly lower levels than the other institutions, with still lower values for Mibanco. If high risk ratios are considered, all institutions show generally higher values than PAR, but also with a decreasing tendency. The most elevated high risk ratios could be observed with CRACs, at about double those of other institutions; however, they have come down to the level of the other institutions (see graph 6.3.5-A). Accordingly, portfolio quality has improved significantly across all institutions, a very positive sign for the resilience of the institutions. The strong decreases are surely based on efforts of the different financial institutions but should still be seen in the context of the mentioned regulation and proactive supervision implemented since the late 1990s and the period of economic stability and prosperity after the financial crisis of 1999-2000 (see section 6.2.1).

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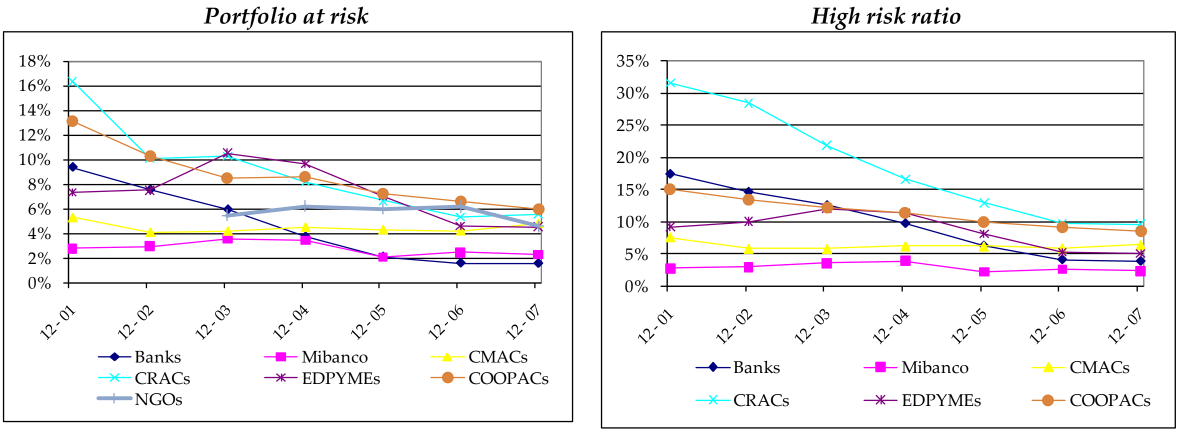
[194] PAR = loan portfolio in arrears (delinquent and in judicial collection) / gross loan portfolio. For microenterprise loans and consumption loans, PAR is defined over 30 days (see resolution SBS Nº 11356-2008, IV.9).
[195] Ratio of high risk = loan portfolio in high risk (delinquent, in judicial collection, refinanced, and/or restructured) / gross loan portfolio.
[196] Big banks even have clearing departments or might sell packages of bad loans.

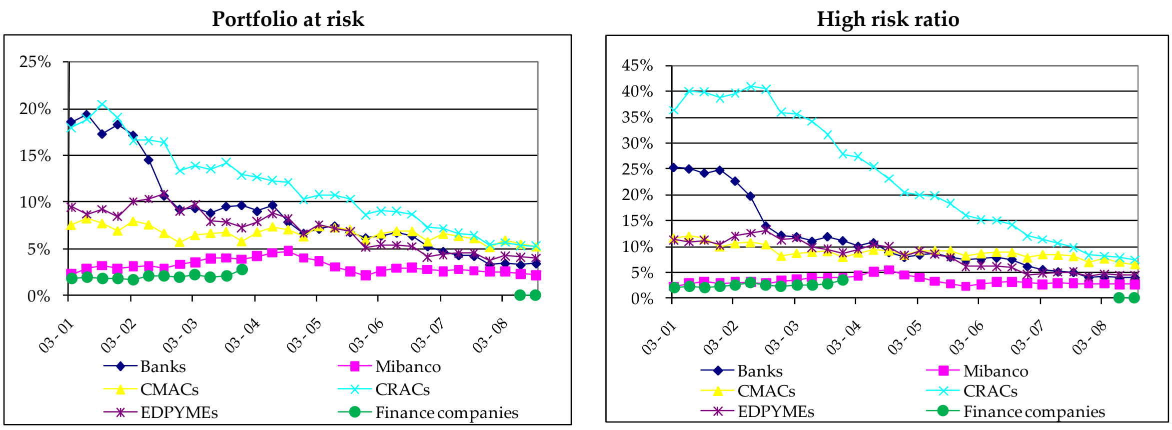
Graph 6.3.5-C: Ratios of non-performing loans overall, by type of financial institution, averages weighted by loan portfolio, 2001-2008



Source: Data from SBS, FENACREP and COPEME; own elaboration.
Note: Data as of 31 December of each year. For NGOs, the ratio of the total debt in arrears (> 30 days) in the total loan portfolio is given. No consistent data for finance companies.

This first tendency of a generally improving portfolio quality within Peruvian financial institutions can be further analysed at the level of the financial products relevant for microfinance clients. The quality of the microenterprise loan portfolio has improved dramatically with banks and CRACs since 2001, from arrears of about 15-20% and especially high ratios of high risk portfolio in CRACs down to around 5%. Within CMACs and EDPYMEs, the portfolio quality improved a little from low arrears of about 7% and high risk portfolios of around 10% to around 5%, and non-performing loans were low over the whole period within Mibanco, around 3% (see graph 6.3.5-D). Among banks, institutions with larger loan sizes appeared to have relatively lower NPL (see graph 6.3.5-D).

Graph 6.3.5-D: Ratios of non-performing microenterprise loans by type of financial institution, averages weighted with microenterprise loan portfolio, 2001-2008

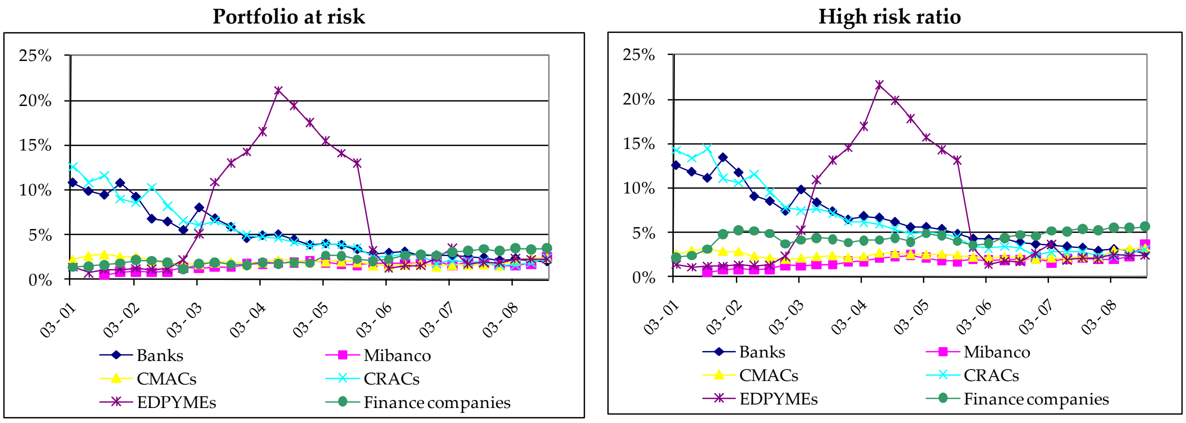


Source: Data from SBS and FENACREP; own elaboration.
Note: Quarterly data as of last day of respective months.

The patterns of NPL in consumption loans[197] are similar to the general tendencies and those in microenterprise loans, having decreased fundamentally in banks and CRACs from 2001 on, but at lower levels in general (see graph 6.3.5-E). Among all other institutions, arrears had been very low, even very low at about 2-3% during the whole period, having increased very slightly over time. These increases have been the most accentuated with finance companies. The only significant difference is the performance of EDPYMEs ,with sharply rising and then falling NPL between 2003 and 2006, which was mainly due to the bad portfolio quality of consumption loans of three EDPYMEs: EDPYMEs Raíz, Solidaridad, and Pro Negocios. The lower levels of NPL compared to the microenterprise loans might be because a considerable part of the consumption loans are allocated *por convenio*, enabling the financial institution to discount the loan repayment from the salary payment of the credit client, which is a very secure way of lending, but only of very limited relevance for microfinance clients.

For a final evaluation of PAR ratio observed, write-off ratios should be further considered because the PAR depends on writing off due loans. However, official write-off data from SBS are not publicly available but indicate around 1-3% per year and do not show significant variations among different institutions (interviews SBS 2006). The data on write-offs published by the Mix Market show values of write-offs for most institutions at about 2-6%. NGOs show strong variations with periodically negative write-off ratios, as does Banco del Trabajo. Accordingly, this information cannot be considered to be very reliable (see graph 6.3.5-F).

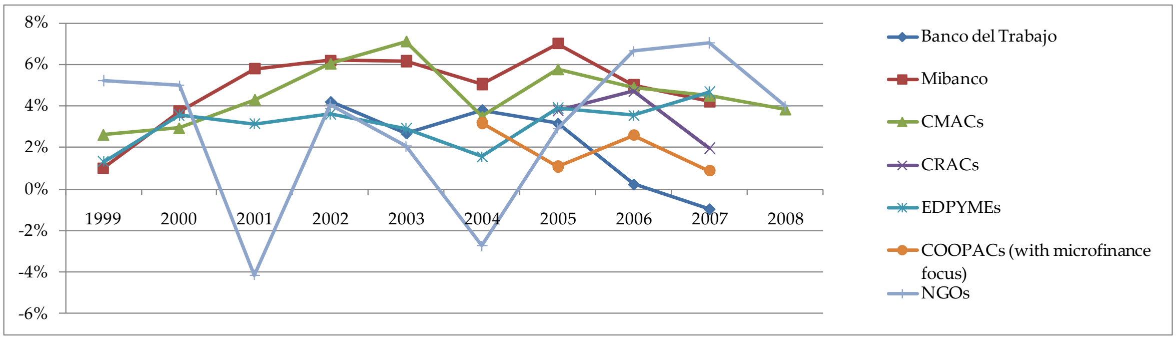
Graph 6.3.5-E: Ratios of non-performing consumption loans by type of financial institution, averages weighted with consumption loan portfolio, 2001-2008



Source: Data from SBS and FENACREP; own elaboration.
Note: See graph 6.3.5-B.

[197] In this case, only the weighting with numbers of loans is used in order to make the performance of institutions with high numbers of loans and smaller size more visible, given that no NPL data on small consumption loans were available.

Graph 6.3.5-F: Write-off ratios by type of financial institution, averages weighted with loan portfolio, 2001-2008



Source: Data from Mix Market, own elaboration.

Summarizing the reviewed tendencies in NPL, it can be stated that the growth of microenterprise and consumption loans was not linked to a decay in portfolio quality, but was accompanied by significant improvements of portfolio quality as measured by NPL ratios among all financial institutions, not only the ones supervised by SBS. In the case of microenterprise loans, banks showed much worse portfolio quality in 2001 than most MFIs, but improved dramatically up until 2008. Among banks with considerable microenterprise loan portfolios, Banco de Crédito is, however, the only financial institution with a healthy microenterprise and consumption loan portfolio—although it could not be differentiated for small consumption loans. The most important downscaler in terms of numbers of accounts, Banco del Trabajo has shown periodically a significant decay in portfolio quality, which might be linked to its different organizational approach. As opposed to other banks, it works with a combination of personnel credit agents and recuperation teams as a 'line of production', instead of the model of the credit agent being the person responsible for the entire process of microenterprise loan allocation and recovery (see Appendix 6.3.4-A, table 6.3.4-A1).

In terms of resilience, ratings have shown generally improving results for all types of financial institutions, however, with considerable differences between the higher ratings of banks, finance companies, and Mibanco in comparison to those of other financial institutions, but with still better results for CMACs and NGOs. However, the latter have been rated only by specialized rating agencies, which might restrict comparability of the results with other MFIs that have been rated largely by mainstream rating agencies. In terms of the additional illustrating indicators, generally increasing efficiency and falling NPL ratios point to the stability of microfinance-providing institutions in Peru. Nevertheless, both tendencies are accompanied by persistent and significant differences between the results of different types of financial institutions, which also mark their profitability, having positive results in general during the last years. Especially in the case of NGOs and COOPACs, their low profitability is not a negative in terms of their resilience because they were conceived as 'not for profit' institutions operating 'for the benefit for the members', a purpose that is generally improved directly through low-cost services than through the apportionment of profits. Persisting negative results can, however, challenge the existence of all types of microfinance-providing institutions, even if they receive some kinds of subsidies, such as NGOs.

Considering the institutional changes in the past, it can be observed that most changes at the institutional level happened in the 1990s and that, in the present, decade there have been fewer institutional changes. In the 1990s, institutional changes were linked to a negative performance of financial service providers, such as liquidations and related absorptions, whereas in the present decade, institutional changes have been linked to the successful performance of financial institutions. Table 6.3.5-A shows further that, among banks, generally only those without relevant microfinance business left the market. Only in the case of the absorption and transformation of Banco del Trabajo will it be important to analyse in the future whether the microfinance focus of the bank is maintained and how its scope, cost, breadth, and depth of outreach will change. Considering MFIs, most changes happened near the end of the 1990s among CRACs, which experienced serious difficulties linked to unfavourable climate and a high concentration of agricultural loans in their portfolios (see also RFA in 2001). The fact that nearly all MFIs have been absorbed by their 'sister institutions' indicates that the continuity of service has been guaranteed in most cases. Furthermore, institutional changes have been well-organized transitions under the supervision of the SBS in the case of the regulated institutions. In these cases, the coverage of the FSD also guaranteed the deposits of clients of closing financial institutions. In the case of COOPACs and NGOs, the situation is less transparent,[198] however, and smooth transitions cannot always be guaranteed. For COOPACs, the situation has been very calm, with only a few market exits and entries during the last decade. In the early 1990s, however, the last crisis of financial cooperatives nearly defeated financial cooperativism in Peru causing members to lose their savings or membership quotas and leave the movement with little public trust, especially in the provinces (see table 6.2.1-A). Currently, voluntary liquidations are supervised by FENACREP in order to guarantee orderly market exit, but judicial liquidations are managed by liquidation committees formed among the members of the cooperative. In these cases, liquidations are often not smooth processes for the members, considering that there are still pending liquidation processes from market exits of financial cooperatives in the 1980s. Although there have been few liquidations during the present decade—single-digit numbers among more than 160 cooperatives—and no major scandals, ultimately, there still might have been some small cooperatives in the province exiting the market, even without informing FENACREP (interviews Peru 2006, 2010). In the case of NGOs, there have not been major scandals, but the liquidation of about four NGOs that were rather well organized. Still, in most cases it can be expected that some clients lost their savings while others did not repay their loans. In the case of NGOs, there is no superior authority to organize liquidations, and the way the market is exited depends on the institution and, eventually, its donors (interviews Peru 2006, 2010). Generally, market exits are smooth and without the possibility of losses by clients in the case of the financial institutions supervised by SBS, but with potential losses in the case of COOPACs and NGOs, even though institutional changes have been smooth and without

[198] Information about the liquidation or market exit of institutions not supervised by SBS is very rare, and there are no official sources that can be referred to for information on this rather delicate subject.

major losses for clients during the last decade. In terms of the consequences of breadth and depth of outreach, the market exit of some existing institutions was clearly absorbed by the strong increase in banking outlets in the country, with most institutions being absorbed by the same type of institution.

Table 6.3.5-A: Overview of market entries, mergers, acquisitions, and transformations of financial institutions supervised by SBS, 1993-2008

1994	Banco del Trabajo (consumer lending) enters the market. Finance company Financiera Nacional transforms into a bank.
1995	The bank Solventa and the finance companies Orion and Solución (all consumer lenders) enter the market.
1996	Bank Boston (multiple bank) and Serbanco (consumer lender) enter the market. Finance company Daewoo initiates operation. Banco Libertador is absorbed by Banco del Sur del Perú, Banco del Libertador by Bancosur, and Banco Mercantil by Banco Santander Central Hispano.
1997	Banco del País and finance companies CMR, Porfin, and Volvo Finance (all consumer lenders) enter the market. Finance company Orion transforms into a bank. CRAC Valle del Río Apurimac y Ene, CRAC Tumbay, and CRAC Selva Peruana are liquidated.
1998	Dissolution and liquidation of Banco República. CRAC Ucayali and CRAC Mantaro are liquidated. Mibanco is created (through upgrading of NGO Acción Comunitaria del Perú, ACP).
1999	BNP Paribas enters the market acquiring the licence of Arlabank. Banco de Lima Sudameris is absorbed by Banco Wiese, creating Banco Wiese Sudameris (BWS). NBK bank absorbs parts of Solventa and Banco del Progreso. Banco Nuevo Mundo absorbs Banco del País, Nuevo Mundo Leasing, and Coordinadora Primavera. Bancosur is absorbed by Banco Santander Central Hispano. Banco Solventa transforms into the finance company Cordillera. Banco Bánex is liquidated. Finance company San Pedro is absorbed by Banco Continental, the finance company del Sur (Finsur) by Banco de Comercio, and the finance company Peruana by Interbank. CRAC Majes, EDPYME Credinpet, and CRAC Selva Central are liquidated.
2000	SBS intervenes with the banks NBK and Nuevo Mundo. Dissolution and liquidation of Serbanco and Orion. CRAC Cofinor is absorbed by CRAC San Martín.
2001	When Banco Santander Central Hispano leaves, its assets are bought by Banco de Crédito. Banco Latino is absorbed by Interbank.
2004	Finance company Solución is merged into Banco de Crédito.
2005	Scotiabank enters the Peruvian market buying Banco Wiese Sudameris (BWS). Bank Boston leaves Peru and its assets are bought by Banco de Crédito (self-liquidation).
2006	Banco Sudamericano is acquired by Scotiabank. Hong Kong Shanghai Bank (HSBC) enters the market. CMAC Chinca is merged through absorption into CMAC Ica.
2007	Banco Santander Perú initiates operations. Finance company CMR transforms into a bank.
2008	Deutsche Bank Perú and Banco Azteca de Perú initiate their operations. Financial company Cordillera transforms into bank Ripley. CRAC NorPerú, CRAC Del Sur, Y EDPYME Crear Tacna are merged into the CRAC Nuestra Gente under their new principal shareholder BBVA Fundación Microfinanzas. EDPYME Edyficar transforms into a finance company. The troubled CRAC San Martín is merged through absorption into CMAC Piura (resolution SBS 352-2008). Banco del Trabajo is sold to Scotiabank.
2009	Banco del Trabajo is transformed into finance company CrediScotia, and EDPYME Edyficar is aquired by Banco de Crédito.

Source: Results from analysis of financial indicators in the SBS data base (*series históricas, boletín estadístico*, and the respective resolutions by SBS, http://www.sbs.gob.pe/PortalSBS/estadistica/index.htm (accessed 23 March 2009); Ebentreich (2005): 8; El Comercio (2009).

Note: Market entries of CRACs and EDPYMEs are not included in the 1990s because these types of entities were created in 1992 and 1994, and the first institutions were created in 1994 and 1996. For NGOs and COOPACs, there is no such detailed information available from reliable sources.

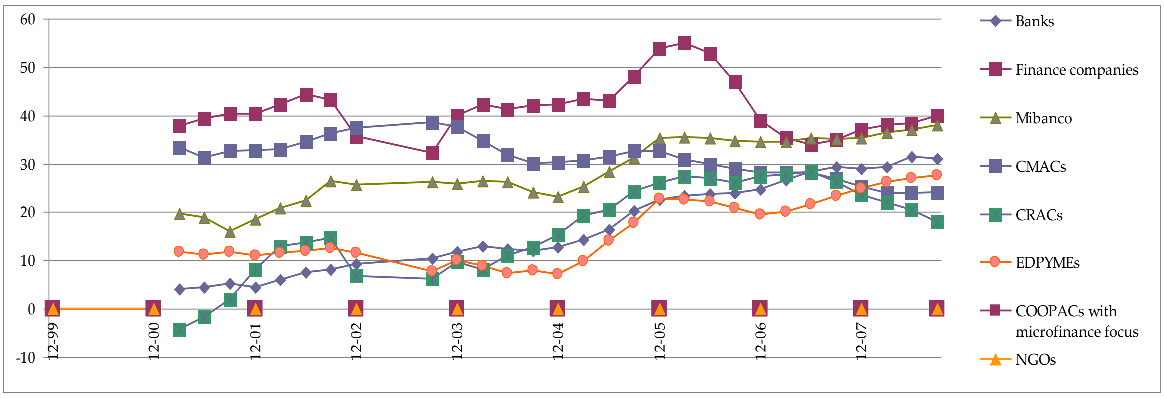
Once a financial institution remains in the market, the permanence within the market segment is still insecure. This situation raises the question of whether the financial institution stays within its previous microfinance market segment or moves into other client segments. Because marginalization in Peru can be observed both along geographic and social lines of marginalization, permanence can be considered in terms of both dimensions. For identifying possible incentives serving poor populations and communities in marginalized locations, an in-depth analysis of mission, governance, and ownership structure, as well as current orientation and situation of the business and the strategic orientation would be important; however, such an analysis is not possible within the scope of the present study. Still, there are some indicators that can serve as proxies. For assessing the degree of geographic outreach into the poor areas of the province, the location of the institution's headquarters can be taken as a simple indicator.

Although the location is bound to the history of the different institutions, it generally has a strong effect on future development, given that most strategic decisions, including decisions on financial products offered, service conditions, and even campaigns, are made at headquarters and then communicated to the branches as set policies. Furthermore, withdrawing from a location where a financial institution has its roots and where the headquarters are located is not very likely in any country, as well as Peru (interviews Peru 2006). Headquarters of banks and finance companies are exclusively concentrated in Lima, which is logical because Lima is the economic and financial capital of the country. CMACs, CRACs, and NGOs are the institutions with the most headquarters within the provinces. The headquarters of EDPYMEs and COOPACs are more concentrated in Lima, but still have a significant share of their headquarters in the province. Although they are generally located in the more populated areas, some are among the less developed areas (see Appendix 6.3.5-B, maps 6.3.5-B1 and 6.3.5-B2, table 6.3.5-B1). Except for the microenterprise bank Mibanco, most MFIs have their roots and headquarters, at least in part, in provincial capitals outside of Lima. Additionally, many of them (still) operate at the regional or local level (data from SBS, see Appendix 6.3.3-C, maps 6.3.3-C7 through 6.3.3-C20) and have the vast majority of their loans and deposits in the province, whereas banks and finance companies have these concentrated in Lima. Among the latter, only Banco de Trabajo has a higher share of loans, but not savings in the province (see Appendix 6.3.5-B, tables 6.3.5-B3 and 6.3.5-B4), thus pointing to a long-term presence in many marginalized regions and a further contribution to financial decentralization. Local ownership might be a further indicator of links of the financial institutions to their home regions with a lower probability of moving to other regions, as can be observed with CMACs and CRACs in Peru. In the case of EDPYMEs and NGOs, ownership is not local, but they are largely owned by social investors—generally the international 'mother NGO'—, which, first, created the microfinance arm of the NGO and, later, supported its conversion into EDPYME or microenterprise bank, as in the case of Mibanco. In this case, both the orientation of the microfinance and the donor NGO determine the focus of further development of the institution, which might be into more urban or rural and poorer or less poor segments. In the case of the banks, these kinds of structural ties to certain areas do not exist, except for the ties to the economic and financial capital of the country. Accordingly, their presence in the provinces—which is still restricted to the larger urban centres—may not necessarily be on a long-term basis beyond strategic business decisions.

The question whether a financial institution remains close to its clients in terms of higher or lower market segments that are served is the second dimension of permanence. Although applicable to all institutions, it is most relevant in the case of banks and finance companies because most of these institutions have their main business in other market segments, whereas for MFIs, it would be difficult to withdraw from the microfinance segment because it constitutes their main business segment. Still, all financial institutions might move up or down within the microfinance market. Considering the risk of a total withdrawal of banks and finance companies from microfinance, a first positive characteristic is the fact that downscaling occurred without government pressure or support and it was not based on international cooperation (except for Interbank). Downscaling has developed due to strategic decisions of the management and owners of the banks, and has partly been enabled by cost-cutting technological innovations in the retail business (interviews banks Peru 2006). Furthermore, an increasing institutionalization of microfinance within the core business of the bank can be observed: Most banks have been integrating their microfinance services into the banks, many after extended periods of indirect provision of microenterprise loans first through NGOs and later through largely bank-owned finance companies since the mid-1980s (see section 6.2.1). The integration of microfinance into the banks' main business has been implemented either through the creation of internal microfinance or small business units (Banco de Crédito, Scotiabank, Interbank, Banco Ripley, and to a limited degree, BBVA Banco Continental) or through the integration of microfinance as a main business line of the bank (Banco del Trabajo, Financiera TFC). Only Banco Financiero still serves its microfinance clients through a finance company, which is, however, partly integrated into the bank's processes (see graph 6.2.1-A). This trend points towards a long-term engagement of banks because the integration of microfinance into the banks' core business constitutes a significant investment and withdrawal becomes much more difficult than in the case of an outsourced microfinance company. Nevertheless, there is no formal barrier against withdrawal from the microfinance sector, which remains a feasible option for all banks that do not have their core business concentrated in microfinance, such as Banco del Trabajo. BBVA Banco Continental constitutes a special case because microenterprise loans are not offered by the bank, but through the MFI of the group's foundation BBVA Fundación Microfinanzas. Because such loans are managed within a foundation with the specific mission of promoting microfinance, length seems to be granted within the foundation, but it is uncertain for other services the bank offers directly to small customers, such as savings, consumption loans, and insurance. Although Fundación Microfinanzas is not currently working directly with Banco Continental, it will be interesting to observe whether this separation of the group's corporate social responsibility and its banking activities will be maintained, especially with microfinance constituting an interesting business case.

Although the tendency points to permanence in the market, banks can always move out of the microfinance segment again, and MFIs can reorient their business in the long run, which also applies to NGOs, which eventually might even focus on a different type of development. In the case of banks, the high profitability of MFIs has surely been one of the major reasons for the banks' move into the microfinance segment. Graph 6.3.5-G shows the return on equity (ROE), the profit made in relation to the invested capital. Because the main business of Mibanco, CMACs, CRACs, and EDPYMEs is microfinance, their very good results show the profitability of the market segment. The increasing profitability of banks is also partly due to the new client segment served, which can be shown in the case of Banco de Crédito. Due to the large size of both loan and deposit portfolios of the bank, the relative shares of microfinance are rather low, but the contribution to the bank's profit is significant, especially in the case of microenterprise loans (Banco de Crédito 2006: 21; 2008: 62). Furthermore, a strategic interest in good microfinance clients that can be migrated to other areas is pronounced, which is consistent with Banco de Crédito's focus on higher client segments (interviews Banco de Crédito 2006). The very high utilities generated within the microfinance sector indicate, however, that the costs of microenterprise loans to the clients are still elevated, compared to related expenditures within the financial institution, especially within institutions providing larger loans. This finding points to limited levels of competition or barriers to competition on prices.

Graph 6.3.5-G: Return on equity by type of financial institution, averages weighted by loan portfolio, 1999-2008



Source: Data from SBS, the Mix Market, own elaboration.

Competition and cooperation are further factors that influence both the resilience of financial institutions and their permanence in a specific market segment. Since 2001, the Peruvian microfinance segment has been growing at a fast pace with an increasing number of involved players, but high profits could be maintained for most microfinance institutions and microfinance portfolios of banks (see graphs 6.3.2-B and 6.3.2-D; tables 6.2.1-A, 6.3.5-A, and 6.3.5-G). Market coverage has been increasing and is most pronounced within the segment of microenterprise loans (see table 6.3.3-B). However, prices for microenterprise loans have not decreased for loans in USD, but for loans in PEN, they have decreased from around 60% annually to around 40%, however with persistent large differences between providers of nearly 20 percentage points (see graphs 6.3.2-A through 6.3.2-E). The prices of consumption loans have decreased less, although starting from lower levels for all consumption loans. EDPYMEs have even shown increasing interest rates for consumption loans, and large differences of interest rates have persisted or even increased between different types of financial institutions (see graphs 6.3.2-G and 6.3.2-I). During the same period, interest rates paid to clients for their savings have decreased, both in national and foreign currency (see graphs 6.3.2-M and 6.3.2-N). Although interest rates have been decreasing for some types of loan products, the persistent large differences between providers in terms of the cost of loans and the decreasing interest rates for deposits, point to the fact that competition is probably limited within the microfinance market, even though the coverage has increased, more significantly, in some segments than in others. Because the competitive situation can have effects on the resilience of financial institutions and their permanence in the microfinance segment, it needs to be explored further.

Among the large number of heterogeneous institutions, only a few enterprises are working at the national level in microfinance (only the banks and Mibanco), and other MFIs do not cooperate beyond the membership in a federation or networking organisation.[199] Providing services jointly at the national level as a group has not been attractive option to these institutions (interviews Peru 2006). The outreach of institutions operating at the national level is limited, however, both in geographic and social terms (see sections 6.3.3 and 6.3.4). This limitation contributes to the geographic segmentation of the market into regional markets, which have different degrees of development and competition. Portocarrero and Byrne (2004: 49ff.) suggest the following categorization of the different regional microfinance markets in Peru. Markets are classified according to a sequence of three stages of market development and competition:

1. Presence of a reduced number of microfinance institutions attending clients not served by banks, which leads to high levels of concentration and market power of the respective institutions and high interest rates.
2. Consolidation of the most important enterprises leading to reduced costs and increased benefits within the enterprises, which invites new players to enter the markets. The market is led by the enterprises first present in the respective market, maintaining high prices, however, with more developed and heterogeneous products.
3. Competitive market showing new strategies of growth attracting clients of the rivalling enterprises. The market saturation leads to competition in prices, then to falling interest rates.

Comparing the present situation of the microfinance market in Peru to the findings of Portocarrero and Byrne in 2004, many small urbanizations and rural areas (still) appear to be within the first level of development of the microfinance markets, if there is any access at all (see Appendices 6.3.3-A and 6.3.3-C). In 2004, the Lima microfinance market was still considered to be

[199] CMACs, CRACs, EDPYMEs, and COOPACs are organized in federations, NGOs within the two NGO network organisations COPEME and PROMUC, and CRACs, EDPYMEs, CMCP, and Mibanco further in the networking organisation Asociación de Instituciones de Microfinanzas del Perú (ASOMIF).

in the first stage because there was low coverage of the market with high interest rates and a rather monopolist market power of the financial institutions due to the significant demand-side difficulties regarding changing financial intermediaries (Portocarrero & Byrne 2004: 51). Downscaling has contributed to the change in this situation because banks have entered the microfinance market of the capital, with increasing presence in areas where poorer populations live and work, such as in Gamarra[200] (see graph 6.3.4-C; interviews Peru 2006). In 2004, most larger and medium cities in the provinces were already involved in the consolidation phase, with the leading financial institution generally being the local CMACs. Until now, the last stage had only been reached in a few places, those being province capitals. The respective competitive strategy of the market leaders appears to have had strong impacts on the development of the interest rates and the further development of the market. In the case of Arequipa, interest rates have remained high and have not been put under pressure by the local market leader CMAC Arequipa. In Huancayo, the local CMAC reduced its interest rates significantly in order to maintain its market share amidst multiple different competitive strategies of other providers present in the local markets (Portocarrero & Byrne 2004: 50ff.). With the entrance of banks in the microfinance markets of the regional capitals and other larger provincial cities, competition has moved from the second into the third stage for many markets. In most local markets, this development has not led to a generalized competition over prices, although some cases have been reported. For instance, in the city of Moquegua, Banco de Crédito entered the market with an aggressive strategy trying to drive out the competing CMAC Arequipa by offering very low interest rates on loans, but the CMAC stayed, and Banco de Crédito left the city. Within the bank, in 2006, its limited knowledge of the provinces where NBFIs are strong and of microfinance technology were still perceived as a weakness in competing with NBFIs, especially CMACs, in 'their regions' (interviews financial institutions, Peru 2006).

Besides this geographic segmentation of the Peruvian microfinance market, it is segmented by types of clients, with banks focussing generally on higher client segments, as reflected in the recent averages of 14,000 PEN for microenterprise loans, although with significant differences among banks. The three largest banks (Banco de Crédito, Banco Continental, and Scotiabank) still focus on the higher microfinance client segments among banks, and Interbank, Banco de Trabajo, and Banco Financiero focus on the lower ones. Mibanco, CMACs, CRACs, EDPYMEs, and COOPACs show middle-sized averages for microenterprise loans around 4,000-6,000 PEN, with EDPYMEs below the lower limit. The averages of NGOs lie far below the averages of the other institutions at about 1,000 PEN of microenterprise loans (see graph 6.3.4-F; data from SBS). Besides the segmentation of microenterprise loan sizes, broadly, three kinds of credit technologies can be attributed to the different loan size segments. In the highest segments, clients are usually served on an individual basis, in the case of banks, generally with revolving credit lines, in MFIs, generally with loans with fix instalments. In NGOs, the clients

[200] Gamarra is Lima's most famous neighbourhood of microentrepreneur activity, with a high concentration of family-led MSMEs (Gonzales 2001).

are usually served through a group-based methodology, and the financial services are linked to other non-financial services (see section 6.3.1).

This segmentation creates market niches for the different kinds of providers serving different types of clients, so it is another competition-reducing characteristic of the Peruvian market, especially in combination with a geographically segmented market, where the presence of often only one institution per type of institution within one market creates additional ‘market spaces’ for different institutions. For instance, the institutions serving clients within the lower market segments, such as NGOs and EDPYMEs, would, theoretically, have difficulties competing with banks. In practice, banks are not able—or not willing—to compete with them because they do not reach down to the lowest client segments. Accordingly, in particular NGOs, Mibanco and some EDPYMEs focus on this niche of the very small and new clients. Different CRACs try to find sustainable ways for serving the sectoral niche of rural populations and financing for agriculture, which is another little-served niche. Within the institutions serving the middle and more developed microfinance clients, increases in competition are felt by MFIs, related to increasing doubts about possible over-indebtedness of clients and the future reduction of financial margins. In terms of competing in the higher client segments with banks, leaders of CMACs, CRACs, and EDPYMEs see a number of structural weaknesses in their institutions (results participatory SWOT analysis and interviews Peru 2006). These include the weak equity base, governance problems, the lack of highly qualified managers with financial background, the limits regarding permitted operations, the lack of economies of scale, a limited use of communication and information technologies, and the lack of lower cost refinancing and strong back offices at banks. Moreover, the banks’ competition is not only felt in terms of good clients but also in terms of employees, especially loan officers and branch managers. The recruitment of MFI staff has been explicitly used for acquiring microfinance knowledge in a ‘practical’ way (interviews Peru 2006). Especially within CMACs, the specific regulations of these institutions as public entities are perceived to be strong disadvantages in competition because they limit basic investment in human resources (higher salaries for maintaining staff) and infrastructure in the form of opening centres to attend client and improving technology (results participatory SWOT analysis and interviews Peru 2006).

Until now, all different types of financial institutions could maintain their profitability levels or even increase them through both market niche strategies and local leadership positions in MFIs. These local leadership positions in certain market segments—like the limited middle and higher client segments—could be challenged in the medium term. Besides an increasing presence of banks, the expansion of CMACs and formerly only regionally operated MFIs into other areas is also likely to contribute to such a change.[201] One recent event, however, might confound basic short-term changes in the much-segmented Peruvian market structure: the acquisition and merger of three MFIs by BBVA Fundación Microfinanzas. It was the first

[201] For example, plans of CMCP to expand into provincial capitals with CMACs (Class & Asociados 2009: 2) and expansion of CMACs, CRACs, and EDPYMEs into other cities and regions during the last years (see data SBS as of Appendix 6.3.3-A).

merger within the microfinance sector involving successful MFIs, unlike previous mergers that arose from solvency and liquidity problems. This first acquisition and merger of two CRACs and one EDPYME[202] in 2008 might have had a demonstrable effect in the market, even though it was accomplished by a foundation. In 2009, the acquisition of the finance company Edyficar by Banco de Crédito could be considered to be the first purely market-based acquisition of a MFI based on success. Although Banco de Crédito aims at maintaining the separate corporate identity and widely differing business orientation, according to its general manager Walter Bayly (El Comercio 2009), the recent mergers and acquisitions may lead to profound changes in the market setting with a possible reduction in diversity of the institutions providing microfinance. In the current situation, such a reduction in diversity of providers would also lead to losses in scope of outreach and eventually also losses in depth of outreach because it is currently the diversity of providers serving very different clients with different types of products and services in different parts of the country that guarantees the present level of pro-poor financial sector development.

In terms of the length of outreach, the outlook is generally positive. The more detailed results depend, however, on the main characteristics of the different types of financial services. The security of deposits is almost entirely guaranteed for all savers of financial institutions that are members of the FSD, excluding COOPACs and NGOs. This situation is especially problematic for poorer female clients who are often clients of NGOs. In terms of reliable service provision, the specific microenterprise loan and microinsurance regulations contribute to this aim, in addition to the general prudent regulation that is basic for all deposit clients. Regulation and supervision guarantee smooth market exits but only apply to the institutions directly supervised by SBS. FENACREP tries to contribute to smooth transitions if they are not in court and managed by member-based liquidation committees, and for NGOs, there is no superior authority, only network NGOs. Because there is neither an official deposit guarantee—although one for the COOPACs is being planned—and no comprehensive regulation and supervision of market exits, clients may lose their deposits and, in the case of COOPACs, their membership quotas, a situation, however, that has not been happening during the last decade except in some small incidents. Losses in NGOs might instead be due to irregularities of the management of the group's internal accounts.

The resilience of financial institutions serving microfinance clients has improved in general terms for all types of institutions. Financial institutions have maintained rather high levels of profitability, generally increased their efficiency, and improved their portfolio quality in general as well as in microfinance-relevant types of lending. Thereby, significant differences persist among the different types of institutions, with banks, Mibanco, CMACs, and some CRACs showing more institutional strength according to the mentioned indicators and finance companies, EDPYMEs, COOPACs, and NGOs somewhat less. Still, a considerable

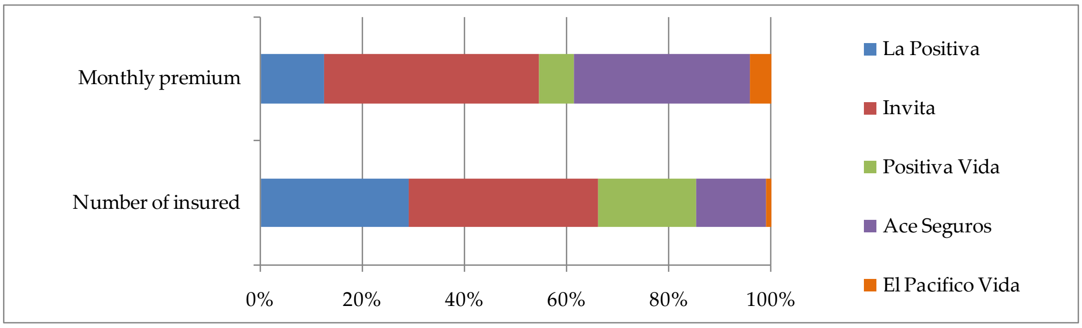
[202] After Fundación Microfinanzas BBVA became a major shareholder of CRAC Nor Perú, CRAC del Sur, and EDPYME Crear Tacna, these MFIs were merged under the common brand Caja Nuestra Gente, continuing to operate initially under their own identities (MIX 2008: 8).

number of NGOs have obtained relatively positive ratings. Regarding the market results, MFIs have shown to be stable institutions, with increasing institutional stability during the last decade in the whole sector. In case of institutional changes, it is rather the missing institutionalized transition mechanisms and the supervision of a superior authority that make clients vulnerable to changes among COOPACs and NGOs.

Thus, considering the good results, especially profitability in terms of ROE, not only the institutions whose main business is located in microfinance but also banks that entered the market voluntarily can be expected to stay at least in the medium term. Cooperation and competition are characterised by no cooperation and increasing but still limited competition. The latter is largely due to the segmented market structure at the geographic level, client segments, institutional approaches, and types of services. Until now, the different regional markets and client segments or niche markets have offered different providers the opportunity to charge different prices within different segments of the various microfinance markets. This flexibility has contributed to the resilience of very different types of providers, of which many could not persist if they were serving the same client segments. In the middle term, this situation is unlikely to change, unlike large mergers and acquisitions change the market structure fundamentally. Currently, the large diversity of many providers seems to guarantee the continuity of service provision, which might otherwise suffer in certain client segments or regions if the diversity were reduced and new institutions not cover the same spectrum of types of services and access points. On the contrary, the tendency is rather toward a future growth of the microfinance market with an increasing number of access points and types of services offered by a large variety of healthy institutions. Thereby, levels of client indebtedness seem to be controlled, partly due to the rigid rules of risk classification of multiple clients and the availability of risk information. For the clients, this general positive development of the market might still have negative consequences if their deposits or membership quota is lost through market exits of NGOs and COOPACs or even within existing NGOs due to bad management of internal savings, either by other group members or NGO staff taking internal savings to repay loans on external accounts.

Finally, the length of some financial management tools not only depends on the financial institutions themselves but also on the partnering institutions providing service or even on completely different providers of specific services. These cannot be assessed in-depth within the scope of the present study, but some basic thoughts about length regarding these institutions are given. Insurance can be sold by financial institutions, but the insurance policy needs to be provided by insurance companies. Currently, the tendency regarding length is positive, given that in June 2009, five of thirteen insurance companies had been involved in providing microinsurance, and nine had registered microinsurance products, thus, were the largest market players among them, with a trend toward more companies entering the market (see graph 6.3.5-H; data from SBS, as of 30 June 2009 and 31 September 2009). Although other commercialization channels, such as store chains, are not partners with financial institutions, they can also influence length of microinsurance provision, both as competitors of financial institutions and as institutions that can help form opinions about microinsurance, possibly having negative consequences in terms of loss of confidence, which is critical to insurance products.

Graph 6.3.5-H: Distribution of official microinsurance products by insurance companies



Source: Data from SBS, own elaboration, data as of 30 June 2009.

Other financial management tools for microfinance clients that depend fundamentally on partnering institutions are remittances if the financial institution does not have its own branches in other countries or is part of a multinational bank or group. The latter case applies only to banks, so length in the case of Banco de la Nación and MFIs depends on MTOs. Given the diversity, international orientation, and size of the MTOs serving Peru (see Appendix 6.3.1-C), it is not likely that the service to the country will be stopped, but changes in prices and conditions are always possible. An important case of a specific type of microinsurance provided entirely by another type of provider that is not part of the financial sector is basic health insurance. Although the aim has been to universalize basic health coverage since 2009, it will take the government a while to implement such coverage, considering that most of the Peruvian population are eligible for free or semi-subsidized insurance.

6.3.6 Different dimensions of outreach and insights into the value to clients, their families, and their communities

In this last section of applying the proposed framework to the case of Peru, initial conclusions on pro-poor financial sector development in Peru and related changes during the last decade are drawn. Considering that the framework has not been applied entirely, these conclusions constitute only initial insights into pro-poor financial sector development in Peru. The fact that central analytical categories were analysed allows for a summary, review, and comparison of the different dimensions of outreach. In the following, real access opportunities are reviewed in terms of the various types of financial management needs of poor populations that are considered as relevant to the Peruvian case (see sections 6.2.2 and 6.2.3).

Liquid savings possibilities or current accounts are widely available for microfinance clients with financial institutions authorized to receive deposits in the form of basic savings accounts. In general, they do not have any entry barriers and are, hence, open to all clients. Access to savings accounts is easy and flexible due to the different existing distribution channels and the additional debit cards provided with most savings accounts. However, the different types of distribution channels in addition to the counter, including ATMs and banking agents, are only offered by banks, Mibanco, and some major MFIs. Thus, the availability of these additional distribution channels is important in considering the cost of frequent transactions involving pay-ins and pay-outs of cash, which might be necessary for clients living and working in cash-based family economies. Because transactions at the counter carry a considerable cost at most institutions, it results in a restriction on liquid savings possibilities. Furthermore, interest rates paid are very low so that real interest rates have been negative with all institutions offering liquid savings accounts, except for COOPACs. The latter offer generally much higher interest rates but offer only savings opportunities that do not carry any formal guarantee and are, hence, subject to the risk of being lost. All other institutions offering financial services directly are FDS members and offer full coverage of the deposits of microfinance clients. Another possibility of saving is offered indirectly by NGOs to their clients for group-based microfinance, in which savings are held within the internal account of the groups. These savings are, however, only partly voluntary but, in part, are used as cash-collateral for loans issued and, thus, are not liquid. Additionally, the access to these savings is little flexible because it is bound to fortnightly or monthly meetings of solidarity groups or village banks. Furthermore, savings are also subject to the risk of loss, not only in the case of the disintegration of the group or an uncontrolled market exit of the NGO, but also due to mismanagement of the internal account by group leaders or the usage of savings for the repayment of due loans by NGO personnel. The access to emergency loans linked to savings accounts is, however, only possible in the case of NGOs, through which group members can issue emergency loans from their internal account, even at low interest rates at the group's discretion, depending on the liquidity of the internal account. Other financial institution receiving savings do not offer such emergency loans linked to liquid savings accounts but to fixed-term deposit accounts.

Breadth and depth of liquid savings opportunities have increased significantly in the last decade, considering that Banco de la Nación also offers liquid savings accounts in many locations where it is the only financial institution, thereby enhancing breadth and depth of outreach in geographic terms. However, Banco de la Nación is one of the very few financial institutions charging a maintenance fee, although very small, on savings accounts. The broad branch network of MFIs complements the banks' branch network further, most importantly outside of the urban areas of the country. Within the latter, banks, Mibanco, and the largest MFIs have also significantly increased their outreach through banking agents. ATMs are less relevant for flexible access to savings accounts because most machines do not receive cash. The fact that EDPYMEs do not offer savings opportunities does not reduce outreach in geographic terms because they serve only about 1% of the UOB locations, but it is affected in terms of clients segments and scope of services offered. Because EDPYMEs generally focus on new and smaller or more marginalized clients, offering generally only loans, these client segments are offered a very restricted variety of financial services. Because only 'saving down' instruments are offered to them, the decision might be biased towards this financial instrument, even in cases where the expenditure need of the client could have been met through a much less costly 'saving up' opportunity or insurance. Besides these limitations, liquid savings accounts are generally open to all types of clients because they do not have relevant entry barriers or prohibitive costs on small amounts. Considering the significant increase in access points for all kinds of financial service providers, access to liquid savings accounts has improved during the last decade and related products are easily available at no cost, a situation that changes, however, if frequent transactions involving cash are necessary and if the negative real interest rates paid on all savings with FSD cover are considered. Nevertheless, they provide an additional way to manage money, especially sure, flexible storage for money, and facilitate payments and transfer of money.

Money transfer options are generally available with all banks, Mibanco, Banco de la Nación, and the larger MFIs, except for NGOs. At the national level, being able to send money without having an account is offered only by some banks, but it is usually linked to a savings account, which is also the case for Banco de la Nación, which is the institution with the branch network having the largest geographic coverage, serving most UOB locations. At the international level, the Peruvian remittance channels to the most relevant migration destinies are among the cheapest channels worldwide, with costs considerably under 7% for these destinations, for an amount of 200 USD, which can be considered typical, even though monthly remittances average about 100 USD. Furthermore, access points for receiving remittances are well distributed in urban areas throughout the country because all downscaling banks and some larger MFIs offer the reception of international remittances. For outreach into rural areas in the province, the fact that Banco de la Nación offers remittance services is essential. NGOs, which also serve a considerable number of UOB destinations, do not offer remittances services, however.

Structured long-term savings options are generally offered with a large variety of terms and considerably higher interest rates in comparison to the liquid savings accounts, thus offering an incentive for long-term saving and asset building. Another advantage for microfinance clients is the fact that these savings can be accessed in the case of an urgent expenditure need without losing part of the money or having the interest rate lowered to that of a liquid savings account. Insuring schemes are generally not offered in combination with structured long-term savings opportunities in terms of fixed-term accounts, but are offered separately. Only one CMAC offers a burial cost insurance if a certain balance within the fixed-term deposit account is held. Generally, fixed-term deposit accounts are offered free of cost by all kinds of authorized financial institutions, paying considerably higher interest rates than for liquid savings, even for relatively short periods such as 90 days. Real interest rates are thus positive at all financial service providers. COOPACs offer far higher interest rates, however, not covered by FSD. Another exception is Banco de la Nación, which offers only very low interest rates for fixed-term accounts, which would have resulted in negative real interest rates during recent years for periods longer than 90 days, such as 360 days. Moreover, fixed-term accounts are not easily accessible at banks because of the high minimum amounts that are five to ten times more than typical incomes for microfinance clients. This situation reduces breadth of outreach for small clients in terms of the large number of banking outlets held by banks. Furthermore, geographic outreach, especially in terms of depth of outreach, is quite reduced because Banco de la Nación offers only very low interest rates on fixed-term deposits, and charges additionally a small fee. Because MFIs offering microfinance loans in shared offices of Banco de la Nación cannot offer deposit services in these locations, in all UOB locations with the presence of Banco de la Nación no long-term savings options that constitute an option for building assets are offered to microfinance clients. However, the limited access to the bank's fixed-term accounts does not reduce depth of outreach in a significant way because banks serve only very few UOB locations. Considering the client preference for saving in banks, as reported by clients, their choice of a saving opportunity is limited. Especially in urban areas of the country, banks offer a very large network of access points, especially with banking agents, but microfinance clients cannot access fixed-term accounts due to the high minimum amounts.

The availability of simple insurance mechanisms is, first of all, limited considering the types of risks that are relevant to microfinance clients in Peru in comparison to the insurable risks. Covariant risks, which are especially relevant for the many microenterprises in agriculture and fishing, are currently not insurable. In line with the new microinsurance regulation of SBS, it is planned to offer insurance for covariant risk, but they are not yet offered to the clients. Also other business-related insurance, such as protection against fire or theft, is also not (yet) available. Insurance for covering idiosyncratic risk is much more developed, currently with an increasing offer of products registered as microinsurance products. The registration carries for the clients the advantage of the revision of the policies by SBS and in situ supervision if the requirements of microinsurance—basically simple products without long lists of exclusions and fast payouts—are met. Such a specific regulation and supervision of microinsurance products is an important contribution to pro-poor financial sector development because insurance is an especially sensitive service due to the formalities that might be necessary for a payout and related difficulties of microfinance clients in receiving a payment the moment they sustain damage (Mahalanobis 2010: 64f.). The microinsurance products registered with SBS have accordingly the potential to provide real opportunities to clients in terms of fair, fast, and responsible service provision. However, until now, these products have been sold only in a very limited variety by a very limited number of financial institutions, mainly NGOs and one or two providers of other type of products.

Although NGOs are present in many regions of the country, their geographic outreach is very limited, with 166 branches, as is their outreach in terms of client segments served, given their focus on the lowest segments. Until now, registered microinsurance products generally covered only life, accident, and sometimes burial cost. Banks largely offer small insurance products without having them registered as microinsurance. These products generally consist of 'life plus' insurance, covering incapacitation, severe diseases, and burial costs with a range of low priced and accessible products with ample coverage offered by banks. These services are available however only to populations in the urban areas of the country, not in rural, semi-rural, or marginalized areas where banks have very few access points. In these areas, different types of MFIs and Banco de la Nación are present, but only a very limited number of larger

MFIs with considerable geographic outreach offer insurance for microfinance clients and, then, providing only coverage for death and burial cost.

Half of all COOPACs are members of Serviperu and generally offer more comprehensive insurance products in the form of solidarity funds, which include, besides death and burial costs, some health costs, usually for specific hospitals related to the respective COOPAC, or coverage of other exceptional positive and negative events affecting the member. Although such insurance seems to be very beneficial to the member, the length of such a broad insurance based on very low premium payments seems insecure. Otherwise, the benefits might be provided in a cost-saving manner, or the premiums might be cross-subsidized from income from regular membership fees. Regarding the development of the large number of insured microfinance clients by COOPACs, the future decision of the congress concerning potential regulation supervision of these institutions directly by SBS will be relevant and could then lead to registration and supervision of microinsurance products by COOPACs. Considering the recent changes within the microinsurance regulation which facilitate the commercialization of these insurances, it is to be expected that the number and variety of insurance products for microfinance clients will increase and lead to increases in the market coverage for registered microinsurance products. Another important change in terms of covering the insurance needs of the poor is the recent law to universalize basic public health care, especially taking into consideration the high indices of human and structural poverty with severe health problems like undernourished children in specific regions and segments of the population. However, a government-provided health insurance with subsidized access for the poor is more of a social security programme than a financial sector development, but it is certainly the preferable solution for the poor if the availability, range, and quality of the services are adapted to their needs.

The access to emergency loan facilities, which can help clients to cover immediate expenditure needs generally for consumption use, is a type of financial management need that is generally not offered in a way to meet the clients' needs and possibilities. This is especially true for easy and fast access and requirements adapted to the clients' possibilities. Generally, minimum amounts of loans for emergencies—in the form of consumption loans—are generally higher than the monthly income of microfinance clients and even much higher in the case of banks, Mibanco, and some CMACs. Furthermore, consumption loans are generally bound to guarantee requirements that cannot easily be fulfilled by microfinance clients. Only in the case of institutions from which clients can borrow against a liquid guarantee—like against their deposits in CMACs, Interbank, Mibanco, and NGOs and against their quota in some COOPACs—is the access to loans more feasible for microfinance clients. Furthermore, these loans can also be considered as emergency loans because the previous existence of the cash guarantee facilitates the process. Only in the case of NGOs might the consumption loans from the internal account be too slow to be considered as emergency loans, considering the fortnightly or monthly rhythm of the group meetings. The cost of these consumption loans is usually close to the cost of microenterprise loans, except at some of the banks offering smaller amounts, such as Banco Azteca and Scotiabank, which charge predatory interest rates of over 200% yearly. Loans from NGOs might be much cheaper because the interest rate for lending from internal group accounts is determined by the group members. Another possibility for emergency loans from formal financial service providers is pawn loans, which are offered by CMACs and CRACs. These loans can be considered to be another type of adequate loan for emergency purposes in addition to the loans against liquid guarantees. In terms of access points where these loans can be obtained, breadth and depth of outreach have increased significantly during the last decade. On the one hand, there has been a significant increase in the number of banking outlets by CMACs and CRACs, as well as Mibanco. Furthermore, CMACs and CRACs are increasingly present in former or present UOB locations, both with their own agencies and serving microfinance clients with loans in shared agencies within Banco de la Nación. Mibanco's presence is more concentrated within the urban centres of the country. Still, pro-poor financial sector development can be considered as restricted regarding this financial management need of the poor.

Loans for short-term financing primarily for working capital of businesses are widely offered. All downscaling banks and all MFIs offer these loans. The only institution that does not directly offer microenterprise loans is Banco de la Nación, which provides the opportunity to CMACs, CRACs, and EDPYMEs to offer these loans within its UOB branches. Most loans are offered with an adaptable repayment schedule and—most importantly—are allocated after a character-based loan evaluation. Thereby, the debt capacity of clients is assessed within the context of their family, taking into account the joint cash management within the family and the family-led enterprise. Because only loans that fall within the debt capacity of the clients can be considered as opportunities in the long run, such an assessment is crucial for clients, for they are much more likely to obtain loans according to their repayment possibilities. Furthermore, credit officers are experienced and often have PAR-related targets within their salary structure (interviews Peru 2006). Thus, it can be observed that banks copied the individual microfinance technology of CMACs or other larger MFIs, partly by employing their personnel (interviews Peru 2006). Although doing so might be difficult for MFIs and, especially, CMACs bound to the public salary level, it has contributed to distributing the specific microfinance technology within the Peruvian market and can be considered an important contribution to a healthy development of microenterprise lending with a methodology adapted to the microfinance clients' characteristics. Until now, the number and portfolios of microenterprise loans have risen significantly, especially during the last decade, with decreasing levels of PAR and without important changes in write-offs, and no major crises in microenterprise loans have occurred so far. Still with low PAR, the level of indebtedness could raise up to unsustainable levels, although clients keep on spending large parts of their income for paying back loans. Yet, since data on indebtedness and the sustainability of debt at client level was lacking for more accurate conclusions on the levels of indebtedness of households and enterprises, this could not be finally examined.

Requirements for accessing microenterprise loans are adapted to this kind of loan. However, there are large differences among different institutions, with the most difficult requirements by some banks, lower requirements regarding minimum amounts, guarantees, business experience, and status of formalization by CMACs, CRACs, Mibanco, some COOPACs, and EDPYMEs. Furthermore, many MFIs offer specific loans for very small enterprises or entrepreneurs with little business experience. NGOs are specialized within the lowest client segment, working primarily with group-based lending in which the guarantee consists of liquid guarantees and peer pressure and often indicating low maximum amounts of loans, which guarantees their focus on the most marginalized, new, or poor clients. These differences are also reflected in the average loan amounts and in the cost of microenterprise loans. NGOs offer the smallest loans with the highest interest rates, most other MFIs are within a middle range in terms of average loan size and interest rates, and banks generally reach the higher client segments, offering their microenterprise loans at lower cost, except for Banco del Trabajo and Banco Financiero, which work with smaller loans at higher costs. Generally, levels of cost of microenterprise loans have decreased significantly within all types of institutions[203] and reached levels that can be considered medium to low internationally, but are still considerably higher than the levels in the well-developed microfinance market of the neighbouring country Bolivia. Among the different financial management needs of poor populations and microfinance clients, microenterprise loans are the type of financial service offered by most institutions. Thereby, different types of financial institutions have specialized in certain client segments, adapting the loans to the specific needs of these client groups. The larger banks offer their microenterprise loans in the modality of 'revolving credit lines', generally with more exigent requirements, but providing also additional facilities and services to clients with growing businesses. These institutions are also the only institutions that provide specific products for investment in business, as opposed to the multi-purpose microenterprise loans of most MFIs. Larger MFIs, especially CMACs and CRACs, also offer additional services to their business clients, and at the same time, most MFIs offer specific business loans for small or new entrepreneurs.

Considering long-term loans for investment, there are virtually no loans for education, but widely available loans for business investment and fewer for housing. Microenterprise loans for investment have generally adaptable repayment schedules and requirements and work with character-based loan evaluation. Accordingly, the entry requirements are largely attainable and very similar to short-term microenterprise loans, and in the case of most MFIs even identical because microenterprise loans are offered as multi-purpose loans for both working capital and investment use. The prices of these loans are, however, very similar to the prices of short-term microenterprise loans. Accordingly, these loans do not seem to be very convenient options for financing longer term investment in the business, due to prices too similar in comparison to working capital, which is financed, in general, for a much shorter term. They could

[203] This decrease can be validated for all kinds of financial institutions, except NGOs and COOPACs, because there was only actual information available.

constitute a serious barrier to the modernization and growth of MSMEs because investment becomes too expensive to finance except within very profitable businesses or in sectors that do not require large investments. Therefore, microfinance does not appear to strengthen investment-intensive sectors, such as manufacturing, but rather favours sectors with little or low investment needs, such as trade.

Considering the sectoral distribution of microenterprise loans in Peru, the most important concentration to observe is the one in trade, and the sector with least participation in microenterprise portfolios and numbers of loans is that of agriculture and fishing, although the majority of microenterprises work in these sectors. Still, this concentration could also be related to lower financing needs within the latter, but the disequilibrium seems too large to be due only to that. Small housing loans are available from very low amounts on and with a much lower cost, both with and without a mortgage. All financial institutions, unlike NGOs, offer these loans, again with the largest amounts offered by banks, but not with fundamentally differing conditions. In terms of geographic outreach, investment loans, especially, are offered throughout all banking access points within the country of downscaling banks, MFIs, and Banco de la Nación with shared counters in UOB. However, the coverage is more restricted if the needs and possibilities of specific client groups are considered. For the largest clients, the diversified offers of banks might not be available due to the restricted geographic coverage of banks and their concentration in urban areas. Accordingly, the more sophisticated services offered by MFIs—especially CMACs and CRACs and, in part, COOPACs—gain new importance in stimulating local economic development, especially in semi-urban, rural, and more marginalized areas.

Medium-sized clients receive the greatest number of offers of microenterprise and housing loans within all financial institutions except for NGOs. Smaller clients also have access to a large number of access points and wide geographic coverage due to the increased presence of CMACs, CRACs, EDPYMEs, Mibanco, and COOPACs throughout the country. The poorest and most marginalized clients might, however, still lack access to tailor-made microenterprise financing and other types of loans because only NGOs, Mibanco, and some CRACs offer loans without any kind of collateral except social capital and savings accumulated within the solidarity groups and village banks. Although NGOs have together a considerable presence in the country, there are still many locations in the inhabited areas of the country that do not benefit from the presence of NGOs. Accordingly, the introduction of financial services tailor-made for the poorest clients by Mibanco and some CRACs has already increased the breadth and depth of these services. The services for the poorest clients offered by CRACs and Mibanco in rural areas are also group based; in urban areas, Mibanco offers specific small loans at individual base. Although EDPYMEs also focus on smaller clients, they do not offer any group-based products for the most marginalized clients.

In the case of complementary services, the geographic outreach is also largely limited to the locations served by NGOs and other group-based microfinance activities. Especially among the member organisations of PROMUC, group-based microfinance is accompanied by complementary services in the form of regular training on basic accountability, financial management, and business training and awareness raising about health and family-related issues and other subjects considered to be relevant for their clients by the NGOs. Mibanco and the CRACs offering group-based microfinance are the only other institutions, besides NGOs, that offer entrepreneurial training at a relevant scale. Although Banco de Crédito offers further business management courses and organizes meetings and fairs with clients, these programmes have a very small coverage. As has been shown by Karlan and Valdivia (2008) in the case of Finca, Peru, entrepreneurial skills training can contribute to improved business knowledge, practices, and revenue. These changes were even more accentuated in the case of persons with less interest in the training, thus underscoring the importance that training can have for certain client segments. Although training also carries a cost for financial institutions, a further finding of the study shows that training improved repayment practices and client retention rates. It is also positive for clients because it could contribute to the financial sustainability of such training translating into less costly financial services if offered as a 'package'. Still, fundamental if the manner in which complementary services are linked to microfinance activities so that they constitute an opportunity for clients, instead of forming an additional burden, a result that depends both on the complementary services offered and the clients' needs.

Furthermore, there are not only complementary services, but also different schemes of service provision, for instance, group-based and individual schemes, which are important to offering diversified financial services to the very different client segments that exist in the Peruvian microfinance market. As discussed previously, the availability of group-based approaches that can enable financial inclusion of the most marginalized populations are currently offered only by NGOs, with Mibanco and two CRACs having started to do so during recent years. Besides being the possible choice of the clients, microfinance groups can develop a platform for social interaction and client empowerment if these groups are conceptualized not as simply 'loan repayment groups' and, thus, guided and strengthened constantly, as has also been shown in the case of Peru (Marr 2006).

Besides the different methods of service provision, the range of products offered to clients and the access to a differentiated range of products without compulsory 'packages' are also important for analysing pro-poor financial sector development. In Peruvian microfinance, financial services are generally not linked in an obligatory way to other products. For individual financial services, the only exceptions are loan insurance products that are generally compulsory or even included in the loans. Because such insurance has a very low cost if offered in a standardized way and protects the family of the client from further losses in the case of her death, they do not present a further burden to clients and their families, but reduce the loan-related risk for the whole family. The second exception is group-based services that are inherently offered as a 'package' because they offer a holistic concept of savings and credit to clients. In the case of these services, it is essential that clients not be forced to take loans when they do not need them or to save on a schedule that is not feasible for them. Accordingly, the professional accompaniment of microfinance groups is fundamental in order to convert them into an opportunity for all members and not just for some (see Marr 2003, 2006). Regarding the training linked to the group-based method, additional related costs and training needs of inexperienced clients need to be carefully pondered.

In summary, on the basis of the information that has been available or could be collected and has been analysed in the present chapter, it can be concluded that, during the last decade, the development in Peruvian microfinance can be considered as being pro-poor financial sector development overall—taking into account that this general impression has limitations with respect to geographical coverage and client segments though. During the last decade, scope, breadth, and depth of outreach have increased significantly in terms of product and service diversity, of market coverage of geographic outreach, and of diversity of banking access points. This increase is, however, only true for the areas in central and western Peru, with a certain minimum population density. Within the large areas of the eastern Amazon region, there are few banking outlets except those in the major cities in this area. Taking into account the very low population density and the specific way of living of the largely indigenous people within this region, further research is needed to determine the extent to which these populations are in contact with a cash and money-based economy what their financial management needs are. Some financial management needs, such as insuring relevant risks, probably do not depend on such a presence of money or cash-based economic systems.

Currently, there is a highly diversified panorama of solid and growing institutions that offer microfinance and other related services to different microfinance client segments. Thereby, it could be shown that the diversity of the different types of providers is important both to having a diversified scope of financial services offered to microfinance clients and, even more, to offering opportunities to all microfinance segments. Due to the presence of microfinance NGOs, COOPACs, EDPYMEs, CRACs, CMACs, Mibanco, and the different downscaling banks within the Peruvian microfinance sector, tailor-made services are offered to new clients, very marginalized and poor clients, clients with more experience, and different sizes of MSMEs. Furthermore, in the Peruvian market there is no 'SME hole' between microenterprise financing and services to larger enterprises like in other markets. This is particularly due to the more sophisticated services of CMACs, CRACs and COOPACs and the microfinance services offered by the big banks. Additionally, the largest clients can 'migrate' to other segments within the bank if they need more sophisticated services.

This situation of pro-poor financial sector development in Peruvian microfinance is, however, much less positive if the access opportunities are considered for the different types of clients and within different locations, taking into account the range of services and the product mix available to the different client groups in specific locations. Because some products, like micro-insurance, are offered only by specific types of providers, the availability of these services is also restricted to the geographic outreach of the type of providers. Furthermore, most types of financial institutions serve only a limited range of types of clients and are only present in specific regions or areas such, as urban areas in the case of banks. Consequently, although there are providers with very complete and very diversified ranges of services in many locations and for many groups of clients, *de facto* opportunities related to finance are still very restricted. For instance, UOB locations with the sole presence of Banco de la Nación limit the product choice to liquid savings accounts, fixed-term deposit accounts with negative real interest rates, and remittances opportunities. With the presence of a CMAC, CRAC, or EDPYME offering microenterprise loans within this UOB location, clients still lack the access to fixed-term accounts, which are a real opportunity for asset creation, and insurance. Furthermore, there are specific sectors, such as that of small-scale agriculture and fishing, or investment-intense sectors with few tailor-made offerings, considering the lack of covariant risk-covering and business insurance and the low share of microenterprise loans in these sectors and taking into account the high cost of long-term loans.

Other relevant dimensions of pro-poor financial sector development—such as possible contributions of microfinance-providing institutions to local institution building, more detailed information on sustainability of indebtedness, clients' perceptions of the financial products offered, or cost and scope of informal and semi-formal financial arrangements—would be essential to drawing further conclusions about the situation of pro-poor financial sector development in Peru. They constitute areas of further research on pro-poor financial sector development in Peru, which could complement the findings of the present chapter. Additionally, it would be interesting to study the effects of the first mergers of successful MFIs in the Peruvian market, considering changes at the market level in order to determine the related changes for microfinance clients and potential microfinance clients.

PART D - CONCLUSIONS

7 Insights into Pro-Poor Financial Sector Development and Research Gaps

The first section of this final chapter revisits the main topics analysed, discussed and developed throughout the study. In the second part of the chapter, important findings of the study will be discussed further, reflecting the results in the light of current tendencies in microfinance, research gaps, and perspectives for pro-poor financial sector development.

7.1 Summary of the elaboration and application of the pro-poor financial sector development framework

In this chapter, the main topics and related findings of the study will be reconsidered and discussed. The first section elaborates on the motivation for the present study and provides an introduction into current trends in microfinance. Based on these trends and the need for research identified, related research is revisited in the second section, pointing to the lack of approaches for the planned research. In the third section, the research approach and the methods employed to develop and apply the proposed pro-poor financial sector development framework are evaluated.

The present study is motivated by the fact that increasing interest in microfinance, both from public and private actors, meets rather generalized and exaggerated expectations on the impact of microfinance and the lack of reliable information on the impact of microfinance, as discussed in Chapter 1. Accordingly, despite significant funds flowing into microfinance during recent years, it has been pointed out that there is little certainty of the kind of institution-building model or intervention most beneficial for the poor. The enthusiasm for microfinance is partly based on the recognition that financial services can be delivered in a financially sustainable way to the poor. This enthusiasm has converted microfinance through the commercial approach into a market-led development instrument with the potential of reaching out to a large number of poor people. Taking into account that it is often the majority of the population in developing countries who live in conditions of poverty, this potential for mass outreach of microfinance without a constant dependency on subsidy has increasingly fascinated development actors. Since the financial viability of microfinance has been recognized and demonstrated by an increasing number of microfinance institutions, commercial actors, such as mainstream banks or commercial MFIs, have begun to enter the market. With the recognition that microfinance might be offered in a cost-effective way, some commercial providers have started offering microfinance as a profit-maximizing business. Such an approach has led a few institutions to take usurious interest rates from the poor—far above cost coverage—making the loans very costly to the clients. The related profits of these institutions, as those in the case of Compartamos en México, have been fast increasing. Such abuses are, first of all, problematic for the concerned customers. Within the microfinance 'community', such abuses have contributed to the rise of critical voices and publications, pointing not only to the problems of a profit-maximizing approach but also to the much more profound problem of lack of scientific evidence and clarity that this kind of financial sector development is or can be beneficial for the poor. The doubts about the contribution of microfinance to poverty reduction had been building before the Compartamos incident and have been increasingly debated, for instance, in the collection of essays *What's Wrong with Microfinance?'* (Dichter & Harper 2008). These doubts are based in the recognition of persistent high poverty rates countries with well-developed microfinance markets such as Bangladesh, Bolivia, Bosnia and Herzegovina, and Peru and the increasing recognition of the lack of sound evidence. The case of Compartamos has probably contributed only to more public recognition of the voices in the critiques.

Furthermore, the lack of reliable information on possible negative and positive impacts of microfinance on the living situations of the poor has not led to expectations that are more modest or to an especially careful use of microfinance as a tool for pro-poor development. Instead, the lack of sound empirical evidence has been 'substituted' for by assumptions about the effects of microfinance. These have led to a generally uncritical generalized enthusiasm about the pro-poor impacts related to or, rather, expected from microfinance. Besides conceptual and methodological difficulties in measuring the impact of microfinance in a sound way, assumptions of cause-and-effect chains predicting the most differentiated effects related to microfinance have filled in for the missing information on impact. The expected related impacts refer, for instance, to those like increasing incomes, enhanced family well-being, or empowerment of women. These expectations are often based on the systematization or generalization of anecdotal evidence, consisting largely of success stories about women rising out of poverty 'because of' a microloan they received. Thereby, it can be shown that the expected results are initiated by different paradigms that influence the expectations of different actors within the field of microfinance.

The flow of funds to microfinance have been significantly increasing during recent years, partly from commercial investors, but (still?) predominantly under 'soft conditions' or donations to microfinance, both for enhancing the development of the institutions themselves and the environment they operate in. Accordingly, significant funds from international development cooperation or national development budgets flow into microfinance, making it critical to assess its benefits to the poor, both in comparison with other interventions and in terms of different kinds of institution building and microfinance strategies. The recent abuses by profit-maximizing actors within the field of microfinance have probably helped to make the critical discussion of microfinance as a development instrument more important within the microfinance community, pointing to the need to understand related effects and monitor them. Knowledge on possible effects is also necessary in order to determine which method of providing microfinance can be the most beneficial to clients, considering the large differences in terms of service, service scope, and access conditions, as well as distribution channels. Microfinance in terms of group membership in a savings and credit group or access to a bank account and small business loans might have very different effects on the different clients, as well as their families and communities. However, effects at the community level are generally not included in any (impact) assessments, which might include, if any beyond the client, only the impact at the family level. Considering that most possible effects related to microfinance, such as increasing incomes due to business activities or women empowerment, depend on and have an impact on the economic and social context, the effects on nonclients also need to be included in an assessment. After all, if financial sector development aims to be pro-poor, it needs to provide all people with a chance for a better life, not only clients. Thus, the present study points not only to the need of in-depth research but also to the inclusion of the aggregated market or community-level perspective in research. Such an aggregated perspective complements the micro perspective at the individual or household level by considering economic and social interaction, dynamics and trade-offs clients and nonclients. Furthermore, this study points to the fact that risks and possible negative impacts should always be considered within the discussion on impact of microfinance and more restraint is needed regarding the predicted impacts, which need to be analysed more, but in terms of possible effects.

Therefore, the present study aims at taking a more holistic and critical look at what pro-poor financial sector development might look like, considering the increasing commercialization of microfinance. As a case to study, the Peruvian microfinance market, being one of the most diversified and developed microfinance markets worldwide and showing increasing degrees of commercialization, has been chosen for analysis. The analysis of available frameworks for such a research shows that these frameworks carry either conceptual or methodological problems and cannot be applied for a market-level analysis. This finding is based on the review of different types of approaches and frameworks that could be used for assessing pro-poor financial sector development. As relevant related research fields, the research on access to finance and on impact assessments are identified. The research on access to finance is crucial, first of all, in order to clearly separate access to finance from usage of financial services. Considering the many demand- and supply-side barriers that lead to involuntary exclusion from financial services, the gap between *de facto* usage and expected access beyond voluntary nonusage becomes clear. Accordingly, the approaches for assessing pro-poor access to finance tend to suffer from conceptual problems of defining the kind of access desired by the poor and do not provide frameworks for assessing pro-poor access to finance. They do, however, provide fundamental insights into how to assess access for the poor—exploring increasing usage related to existing alternatives, as suggested by Porteous (2004), and categories for deepening the understanding of access or outreach, as suggested by Schreiner (2002). By analysing studies reviewing the current situation of access to finance, it can be shown that they generally use simple indicators in order to assess the existence and usage of some kind of financial services offered without a deeper look into the demand side of microfinance. Even though very basic indicators, such as the number of bank accounts or distribution channels per capita are assessed, cross-country studies (still) continue to suffer from practical obstacles in terms of data availability.

The second line of research reviewed was comprised of different kinds of methodologies, approaches, and studies assessing the impact of microfinance. These frameworks also do not appear to be adequate for the present study for various reasons. First, important conceptual problems can be identified with impact assessments, linked, on the one hand, to the application of business-originated impact assessments for assessing the success of development interventions. Because impact assessments first need a clear goal to evaluate against, it constitutes generally the first and fundamental difficulty for applying such assessments to social projects, considering the multiple agendas of different actors. Besides further conceptual and methodological challenges, the possible additional agenda of the evaluator should also be taken into account. In the case of impact assessment in the field of microfinance, fungibility of money makes an impact assessment more difficult, especially measuring additionality of microfinance. Moreover, assessing the counterfactual is methodologically challenging because necessary control groups often suffer from some kind of bias if chosen after the intervention being evaluated has started. Recently, new frameworks have emerged providing either practice-relevant or scientifically sound insights. The first are particularly linked to Social Performance Management (SPM) approaches focussing on 'improving practice' instead of 'proving impact'. The latter use Randomized Control Trials (RCTs) for assessing impact in a scientifically sound manner. Both approaches are, however, designed and applied for evaluating components or services of microfinance institutions or the impact at the programme or institution level and do not consider effects on the aggregated community, regional, or financial system level.

Considering the need to elaborate a framework for assessing pro-poor financial sector development at the market or community level, the fundamentals of why and how poor people use financial services needs to be determined. In the last part of the review of relevant research approaches in Chapter 4, recent evidence on usage patterns and preferences regarding financial services and arrangement by poor populations was introduced and explored.

In a last section of the first chapter, the research design and methods were outlined, underscoring recognition that the complexity of the world, its plurality, and the perspective-bound character of its analysis lead to the need to take into account different perspectives and types of knowledge relevant to the researched subject. In the present study, such perspectives are included through the 'voices of the poor' (Narayan, Patel et al. 1999) and the poor people's understanding of poverty and financial management, as well as the opinions and perceptions of practitioners and other involved stakeholders and related experts. Based on insights from explorative field research, the pro-poor financial service development framework was developed by analysing different theories on the topics of poverty and the role of finance in the lives of the poor. With this theoretical basis, related empirical evidence was analysed, sustaining the dimensions and analytical categories of the framework both through a theoretical foundation and empirical insights. Mixed methods and the triangulation of methods and sources were also used in applying the framework, working with qualitative and quantitative data from different sources, and applying quantitative and qualitative analytical approaches in order to gain a deeper understanding of the pro-poor orientation of the Peruvian microfinance market. Both the conceptual openness and multidimensionality are considered to be fundamental in working with development-related subjects in order to prevent a debate on externally determined preconditions of a certain kind of development, which may not even be desired by the poor. For the application of the framework, the approach of mixing methods and triangulating information of different kinds and from different sources proved to be important, not only for coping with partly missing information, but also for comparing, complementing, and discussing different kind of information.

The adopted worldview translates into an understanding of poverty and development that acknowledges different visions of what development should look like and recognizes that the aim of development should be bound to the preferences and visions of the people. Hence, the concept of human development undergirded the understanding of poverty and was explored in the second chapter. In the first section of Chapter 2, the results of asking poor people what they feel about their situation were discussed, examining the common characteristics of the painful experience of poverty that emerged from their answers, even though well-being and ill-being are always context-bound. Poverty is felt by the people as a heavy burden as they suffer from pressing needs and feel that they have few freedoms or opportunities for changing this situation. This description points to the voicelessness and vulnerability that the people feel, both as sources and characteristics of their situations. Further dimensions of poverty mentioned by the poor are the dynamic and multidimensional character of poverty.

Amartya Sen's (e.g. 1999) capability approach builds on the importance of the human experience of poverty and relates his understanding of poverty to the kind of life the individual would like to live. This concept frames the theoretical understanding of poverty used in the present study. Hence, poverty is understood as being deprived from the kind of life that one wants to live—or the beings and doings valuable to the individual—and not having the opportunities to change this situation. Thereby, the life a person wants to live is understood holistically: poverty or an improvement of the situation—development—needs to be seen in terms of the economic and social dimensions of life, including access to information, political voice, and security. At the same time, the desires and life of the individual are modelled as embedded in society, and the whole approach is seen as incomplete considering the plurality and complexity of life. Sen's understanding of poverty and development is considered fundamental because it puts in the centre of the debate the people themselves and their need to lead a good life in terms of their aspirations. Furthermore, not only are the kind of life realized—the functionings—analysed, but opportunities are considered to be of equal importance. Accordingly, the capabilities of people can be assessed both by analysing the functionings or the opportunities people have access to, that is, access in terms of real or *de facto* options. The usage of these options is then a choice of the individual, according to his or her preferences.

This approach is considered fundamental to analysing pro-poor financial sector development: The central question related to pro-poor financial sector development is whether financial services are offered to poor populations in a way that provides them with accessible and valuable opportunities, not that these services necessarily need to be used. Thus, it is not any kind of access but opportunity-providing access that matters in terms of pro-poor market development. Hence, the central point of this kind of market development, also as stressed by Sen (1999), are real opportunities for all. The proposed pro-poor financial sector development framework also builds on this fundamental insight and assesses whether and to what extent a certain type of financial sector development provides the poor with valuable options—valuable because they help the poor to live the lives they aspire to live. Sen's principle of incompleteness is also one of the basic characteristics of the presented framework. As the world and possible opportunities related to financial sector development are complex, interdependent, and multidimensional, it is important to stress this incompleteness in the proposed framework. Although a comprehensive range of categories and indicators for assessing financial sector development have been developed, these can and should always be complemented with other dimensions and indicators, depending on the specific purpose of the study and the particularities of the local context.

In Chapter 3, the theoretical foundations of how financial services matter to the poor were discussed. Most research has concentrated on the importance of finance for spurring growth, which might have further impact on the poor but is, however, uncertain. The second channel of how finance can matter for the poor is the direct link through financial inclusion. Within the present study, pro-poor financial sector development was analysed only in terms of possible changes in the lives of the poor related to access and usage of financial services. Although the underlying understanding of money and its relevance to the economic process are based on a Monetary Keynesian understanding in which money is created 'from nothing', theories about the relevance of finance to the economic process, with other underlying understandings of money, are considered. The barter-based understanding of money in (neo)classical economics is also useful to the analysis in terms of its relevance in family-led economies, although this concept of money misses the fundamental role of money in a monetary economy. This conclusion is based on the fact that, in the family-led mode of production, which constitutes the dominant socioeconomic form that poor populations live and work in, money is generally used for exchange in spot markets. Levine's (1997) and related functional approaches open interesting categories for analysing the relevance of finance in the economic process. The fundamental categories of financial communication, risk mitigation, pooling of savings, financial leverage, allocation and monitoring of resources, and capital pooling and appreciation are considered useful for further analysis because they are also relevant in the economies of the poor.

In his analysis of the role of finance in the economic process, Schumpeter (1911/1997) differentiates between different types of business persons and different types of loans in terms of their importance to the economic process. The central actor for driving economic growth is the innovative entrepreneur *(Unternehmer)*, who depends on entrepreneurial loans for realizing new combinations of means of production, thus leading to making the banker an important actor in economic growth. However, most people owning and conducting business do not realize new combinations and implement innovations but are, rather, 'normal business owners' *(Wirt)*, who might profit from working capital loans that are important only for facilitating circulation in the economic process, as well as consumption loans, such as modelled by Schumpeter. This differentiation between different types of economic actors and different economic dynamics in the economic process was discussed and developed further based on Nitsch's (2002a) approach to coexisting modes of production or socioeconomic forms that give rise to economic process and changes in society. Based on the recognition of structural heterogeneity as a generalized characteristic of the social, societal, and economic situation in developing countries, Nitsch introduces the family-led mode of production *(Familienwirtschaft)* along side the capital-market-based or monetary economy *(Geldwirtschaft)* and the state-led economy *(Staatswirtschaft)*. The former constitutes the dominant way of living and working in development countries, given that most people do not have formal employment and are usually only partially active in the monetary economy. Each mode of production is characterized by different ways in which economic transactions and social relations are lived and managed. For determining how poor populations might need and use financial services, the family-led mode of production is of special importance.

The family-led mode of production is based on household-based businesses that are generally managed and run by the household members, thus implying a lack of societal division of labour from a macro point of view. Furthermore, the equity base of the firm also consists of the family's tangible and intangible assets. For managing their small-scale family-led businesses, family members generally use their social networks intensively, as well as their market-based relationships. Hence, the family-led enterprise is largely run based on family labour, which provides the enterprise with a specific resilience, while having a self-exploiting tendency: The budget restriction for the family-led businesses is its wealth , and its objective fuction is dominated not by a certain level of profit but is governed by the family's consumption needs. The arduousness of labour, and the limited availability of alternatives for income generation constitute further characteristics of this mode of production. Besides the equity base constituted of the family's assets, the primary source of finance, according to Nitsch (1995, 2004), is reciprocity-based finance, building on social contacts, complemented further by basic financial services from a financial institution, financing by business partners like suppliers, and probably some high-risk finance from moneylenders or partners of joint business deals. The financing needs change, however, with the size, sector, and type of market environment of the business. Joint money management between the household and the business also marks the family-led mode of production. Accordingly, not only do financing or financial services for the business matter, but also those for the whole, sometimes even the extended household(s). Within the family, financial needs are largely governed by consumption needs and the gap between irregular income streams and expenditure needs, which is also the fundamental financial management need of consumption smoothing, according to Financial Diary research results (e.g., Collins, Morduch et al. 2009). Larger expenditure needs can be due to life-cycle needs, such as maternity or old age, but also due to emergencies. Furthermore, both the family-led business and family members are exposed to idiosyncratic and covariant risk, which can be covered by different types of insuring mechanisms that do not always need to be insurance-based and can also consist of other types of financial services. Based on the theories reviewed, especially that of family-led mode of production, a differentiated range of financial needs for both business and household use was finally formulated, with financial services within all the categories suggested by the functional approach discussed previously. The analysis of recent empirical evidence, presented in Chapter 4, showed that the established categories are consistent with the types of financial management needs of low-income people.

In the Chapter 4, the relevance of financial services for the poor and possible related effects of microfinance for the poor were analysed. Discussing possible effects related to microfinance, it is, first, fundamental to separate different kinds of effects microfinance can have in order to prevent erroneous assumptions about a wide range of effects related to microfinance. The differentiation that has been proposed and used in the present study is between three different types of effects: direct, indirect economic, and wider social effects. Direct effects of microfinance are linked to devices for financial management within family-led economies. Thereby, access to financial management can enhance coping with an emergency due to a small loan or insurance, that generally helps to smooth consumption for the family and its members or improves the 'income conversion ability' conceptualized by Sen (1999). The kind of impact most often mentioned in the discussions on microfinance are increasing income levels. However, in the present study, increasing incomes were modelled as insecure indirect effects of microfinance linked to economic opportunities. Financial services might support the process of taking advantage of economic opportunities, with the results in income dependent on many other factors. The last kind of effects are wider social effects, which are linked to social or cultural changes related to microfinance interventions, such as better networking linked to group-based financial service provision. Possible changes within the different categories might be positive and negative. Because impact is often discussed only from the perspective of positive changes, it is crucial to keep in mind that, in all categories of effects, negative changes can also occur. Such changes might consist of over-indebtedness of households, MSME failure linked to a microfinance-led investment strategy, or social isolation from a group after repayment problems. In assessing the effects, it was determined that only direct effects can be analysed at the micro level, given that both indirect economic and wider social effects depend on the interplay of the respective economic and socio-societal contexts. Thus, considering the aggregated level in the analysis of pro-poor financial sector development is also very important.

For exploring direct effects, it is crucial to understand further why, how, and when poor populations use financial services. Recent detailed evidence on usage patterns, purpose categories, and client references—largely from Financial Diary research and Finscope survey data—were used to gain a better understanding of the usage patterns of financial services of poor clients. Showing very complex financial portfolios, constituted by multiple small and often informal transactions largely among the family and kin network, the empirical evidence is consistent with the theory on family-led economies, which stresses the importance of reciprocity-focused finance. Furthermore, a different range of household and business-related purpose categories emerged, with the family-related life-cycle uses emerging as the category of the most frequent use for small amounts and the categories indicating taking advantage of opportunities—both business and non-business related—and coping with emergencies—usually health issues—having larger amounts but less frequent use. Financial communication and dealing with seasonal changes emerged as further purpose categories. In general, these purpose categories pointed to the importance of considering the financing needs of family members, given the frequency and the differentiation of related financial services and transactions mentioned. Investment or business-related financial management needs were mentioned less often, although generally in terms of higher amounts. For dealing with their varied financial management needs, the poor employ a diverse range of mechanisms for managing finance and coping with risk. Regarding the former, most informal and formal arrangements target building up—through 'saving up, down and through'—larger lump sums for meeting expenditures that cannot be met through current and usually quite irregular income streams. Considering both the findings for the purpose categories and the ways in which kinds of financial arrangements are used, the following types of financial services relevant for poor populations—if delivered with adequate conditions—could be distinguished: liquid or instant savings accounts with easy access money transfer options; structured long-term savings options, eventually linked to hybrid micropension products; short and long-term loans for taking advantage of opportunities; emergency loan facilities; and insurance, especially for larger life-cycle events, emergencies, and covariant risk.

Furthermore, exploring the advantages that might be related to the provision of formal financial services, given that informal financial arrangements are used widely, presented different arguments. First, managing a large number of very small financial and informal financial transactions is felt as a burden by the people. Not having to contract different kinds of services from different kinds of providers facilitates financial management for the poor, if a differentiated range of financial services is offered by the same institution to the microfinance clients. Personalized and comprehensive attention—for example, in the form of a house bank relationship—can support poor populations in managing their financial services. Moreover, even though informal arrangements might be practical, they are unsteady in terms of timing and occurrences of payout. This unreliable state is important especially for savings, and people using informal savings arrangements report having lost money, but also for lending and borrowing. With informal lending, often the moment of repayment is insecure and for borrowing, the payout may also not be possible in the moment the lump sum is needed, due to lack of liquidity with the lender. Informal or semi-formal money management may have furthermore considerable and little transparent cost, especially with financial services from the kid network in terms of high opportunity costs. Some providers of informal financial services, such as moneylenders or providers of agricultural inputs might have high monetary cost, more evident in the first and partly included in the goods sold in the second case. For financial communication, such as remittances or payments for purchased goods and services, formal financial services might be both easier to handle and more secure, especially if travelling and hand carrying money would be the alternative option. A lack of diversity of services might further lead to a usage of financial services that do not effectively resolve the money management need of the people, such as taking loans to deal with emergencies due to a generally very limited offer of informal and semi-formal insurance schemes, in addition to burial societies, common in some cultures. In the case of covariant risk, the kin or business network might be affected in the same way, making coping with larger, community- or region-wide shocks very difficult and possibly pulling entire families or communities into poverty, for example, in the case of strong natural calamities. Finally, the existence of a provider of formal financial services might facilitate access to other services, such as additional business- or health-related training, or provide clients additional information on developing their businesses, if assessed thoroughly by and discussed with their loan officer.

For analysing direct effects related to the availability of adequate money management services, a further analysis from the aggregate perspective is fundamental in addition to a micro-level analysis. Access possibilities for financial services need to be assessed in order to analyse whether all potential microfinance clients have *de facto* access to financial services or whether specific barriers related to the place they live, their living conditions, or specific characteristics of marginalization like ethnicity or illiteracy exist. Formal financial services can then be more inclusive than reciprocity-based services because the individual does not depend on having a well-developed social network. In this sense, the poorest or most marginalized people have often further reduced financial management options if members of their social network live in similar conditions. Hence, formal financial services can be more democratic or universal in this sense. Usage patterns also need to be assessed at an aggregated level in order to control for structural indebtedness or other structural tendencies in usage that might harm clients. Especially for preventing indebtedness and for consumer protection, adequate regulation and strict supervision are also important. Service scope needs to be assessed in terms of the services judged as relevant, within the respective context, evaluating which kinds of services are especially relevant. Although main categories of financial services relevant to microfinance clients have been developed based on empirical evidence from widely varying countries and contexts, these categories need to be compared to local preferences and financial management needs, considering also cultural particularities, such as the importance of large (and hence expensive) weddings or the preference for certain forms of financial management. Other direct effects that can be assessed at the aggregate level relate to the question of whether additional financial flows circulate in the local economy and community. Thereby, it is important to analyse inflows, outflows, and related patterns. Finally, microfinance development might also influence the financial sector development at the local, regional, or national level, both through competition and demonstration effects. These effects, in turn, affect real opportunities of the poor, especially in the long run.

Moreover, from the aggregated level, indirect economic effects can be assessed. Therefore, it is essential to be aware of the indirect character of these effects, which depend on much more than the provision of microfinance. Different channels for income effects related to economic opportunities that microfinance might help to take advantage of were identified. Still, the assessment of indirect economic effects should be considered as explorative, considering the limited availability of related theories and evidence. The entrepreneurship channel deals with income gains in the largely family-led MSME of a client. The labour channel addresses additional labour hired and the income effects of the workers employed in clients' MSMEs. The third channel addresses market dynamics, which might lead to increased demand for products or services produced by client or nonclient MSMEs, with further possible employment effects on the poor. However, the possible income effects through all three channels depend on the potential of MSMEs to generate profits, the development of local markets, and the conditions for MSME development and growth. Microenterprise loan providers might support the profitability, growth, and development of MSMEs by offering products tailor-made for the specific needs of their clients, as well as through additional services. These may be target increasing the potential of the clients' MSME or developing local or new markets for the products and services of their clients. The former might be implemented through training courses and capacity building in basic or more specialized business skills, the latter through the moderation of value chains, coordination efforts for cooperation among enterprises, and cluster formation or cooperation with other institutions stimulating local economic development. Enhancing the capacities of the individual microentrepreneur might also lead to cooperation gains among market partners. Nevertheless, income effects will always remain dependent on MSME profitability, development, and growth, which depend crucially on external factors, such as macroeconomic conditions and the general market context, for example, free-trade arrangements or other measures influencing the development potential of local MSMEs.

The third category of effects as proposed in the present study are wider social effects, referring to gains in human, cultural, symbolic, and social capital; political participation; and other areas related to social change and empowerment gains of poor populations. In the case of wider social effects, the existing evidence for effects in social dimensions at and beyond the client level is scarce, even more so than in the case of indirect economic effects. Thus, the section addressing this category of effects first explored the subject of wider social effects, which need to be delved into more deeply by further research. Analysing different types of wider social effects, different channels for these changes emerged. The first channel is group arrangements, where social intermediation and meeting with other people regularly might contribute to increasing social capital, both within the group and through the relation of the group and its members with other actors, such as local governments. Most examples of group-linked social effects reviewed can be characterized as anecdotal evidence from southeast Asia and, mainly, India, where women participating in self-help groups reported large social effects, but this evidence cannot be generalized. From experiences like these and other group-led approaches—also in Peru—, it can be seen that social effects require stable and well-formed groups, which generally need assistance or training to develop into a meeting and exchange point for poor populations and can develop into platforms of social change. Groups that are merely formed for supporting credit repayment seldom show such wider social effects. A second identified channel is integrated approaches, in which complementing non-financial services and specifically adapted financial services can help the clients to attain wider changes. Training might be related to basic business administration, health, or the situation of women or children in the society, which often are applied in group approaches, together with training on leadership, which might lead to important social effects. A third type of channel is local institution building and the effects of having a reliable institution in marginalized areas. Local member-owned cooperatives, village banks, savings banks, or self-help initiatives providing microfinance depend on the development of the local context for their own development. Accordingly, these institutions are likely to contribute to local development in partnership with other institutions. Finally, the mere existence of an institution that delivers professional services and is trusted and applies ethical business practice can contribute to changes in the local social and economic climate if such practice is rare.

However, the analysis of different types of effects was been conducted simply to give a general overview of possible effects of microfinance but to identify analytical categories for assessing pro-poor financial sector development. Based only on the client's preferences and needs for financial services and insights into the different types of positive and negative effects possible, the analytical categories of the proposed pro-poor financial sector development were developed. The framework finally presented in Chapter 5 was built on the theoretical base and insights from reviewed empirical evidence in Chapters 2, 3, and 4. For assessing pro-poor financial sector development, the framework was based on Sen's (1999) understanding of development as increasing degrees of freedom, which can be assessed through either real opportunities or functionings. For the present analysis of market-development, opportunities were chosen as a basic analytical category. Assessing which kind of opportunities are valuable to the poor customers, the categories of increasing usage and existing alternatives, as introduced by Porteous (2004), helped to structure the analysis, but still do not indicate which kind of services can be beneficial to the poor. Schreiner's (2002) aspects of outreach for assessing the social benefit of microfinance provide useful dimensions for structuring the analysis of pro-poor financial sector development— scope, cost, breadth, depth, and length of outreach—and the final and summarizing category of the worth of the financial services provided for the client, her family, and her community. Schreiner's framework is, however, conceptualized for analysis at the institution level and does not operationalize the rich qualitative categories in a convincing way. Thus, the last step in the elaboration of the framework consisted of combining the elements from existing frameworks considered as relevant and transferring them to market-level analysis to conceptualize analytical categories of the dimensions of outreach suggested. Based on insights from the previous chapters, types of financial services that matter to poor populations, usage patterns and preferences, risks, and structural dependencies were considered. The related analytical categories were explained and further detailed with indicators or fields of assessment. The structuring dimensions of the framework are scope, cost, breadth, depth, and length of outreach. The proposed framework aims at providing analytical dimensions and categories and some first indicators for assessing the real opportunities that are offered to the poor. Thus, the analysis started with scope of outreach, in which the financial management needs of the poor within their respective contexts are related to financial services and products offered in the specific contexts. These elements were then assessed according to provider or provider type for cost, breadth of outreach, and outreach to the socially and geographically marginalized. The fifth dimension assessed length in terms of sustainability of client relationships, the security of deposits, reliability of service provision, and continuity of service provision. The analysis by providers or types of providers (if similar providers were grouped) enabled, in a last step, in the analysis of how far the financial management needs of the poor can be satisfied through tailor-made, accessible, and available formal financial services, including in a long-term perspective.

In Chapter 6, the elaborated framework was applied to the case of Peru. Given that the main focus of the study is on the development and foundation of pro-poor financial sector development, the framework could not be applied entirely because it would have made necessary another period of data collection. The analytical categories chosen for assessment constitute fundamental categories that make analysis possible, enabling an overview of the situation and changes in financial sector development in Peru during the last decade. The application of the framework itself was preceded by a contextualizing analysis of the main lines of poverty and marginalization in Peru and an overview of the development of Peruvian microfinance.

After decades of macroeconomic instability and changing periods of depression and prosperity, the Peruvian economy has stabilized since the beginning of the new millennium, with considerable growth rate and macroeconomic stability. During recent years, monetary poverty as measured by the national poverty line has also started to decrease, but over a third of the Peruvian population is still under the poverty line. Human or structural poverty is widespread, especially in the *sierra* and the little populated Amazon region. Indicators of human poverty, such as children being undernourished, indicate very high levels of poverty locally, with people suffering from lack of important basic needs. Different indicators of human poverty, including access to information, literacy, and basic amenities, also point to the characterized lines of marginalization among the coastal areas of the country and the *sierra* and the Amazon, except for some more prosperous regions in the *sierra*, around some larger cities in this area.

The situation of employment is generally characterized by very little formal employment because the large majority of the population works as self-employed in micro and small enterprises, with most of the employment in these enterprises informal. The lack of formalization of employment might be problematic for the workers because working conditions and protection of workers is probably not according to standards of 'good labour', and they lack social benefits and the security that formal employment might provide. However, the most important problem regarding employment in Peru is that more than half of the economically active population suffer from the situation of underemployment. Thus, the income-generating activity provides such a low income that the basic consumption basket defining the national poverty line cannot be purchased. Underemployment is the highest among the self-employed, people working in microenterprise, and those in rural areas. Large parts of the Peruvian population do not manage to escape poverty, although they have some kind of employment.

The Peruvian microfinance market is one of the most developed, based on its institutional diversity, the regulation both of microfinance services and specific microfinance institutions, the proactive supervision, the development of microfinance technology, and its size. Savings and credit cooperatives (COOPACs) were the first institutions founded and have increased since the 1950s, however, with a reduced number of institutions serving microfinance clients. Since then until now, a large number of microfinance NGOs have been founded; in the 1980s, municipal savings banks (CMACs) were created; and in the 1990s, rural savings banks (CRACs) and specialized microcredit institutions (EDPYMEs) were born out of the formalization or upgrading of NGOs. Banks have been piloting their entry into the microfinance market intensively since the 1980s and have started to enter the market more aggressively since 2000. This, however, is not the case for Banco del Trabajo, which reoriented its business in the mid-1990s toward the microfinance market, coming from consumer finance. During the years to follow, many finance companies started to lend to low-income populations, a practice that ended, however, in a debt crisis at the end of the 1990s due to the increasing over-indebtedness of many clients and the economic crisis following the Asian crisis and a strong *El Niño* incident. Most of these consumer-lending enterprises disappeared during these crises. Since 2000, both the financial sector and its microfinance segment have been stable, and the microfinance market has grown strongly, not only in terms of some of the microfinance services, especially microenterprise loans, but also small savings accounts. Microinsurance has started to grow only very recently.

On the demand-side of the market there is little evidence because there is only very limited information from representative surveys, for relevant questions are not included in the general household surveys (ENAHO), and there are only a few minor more detailed surveys on usage and access to financial services. Furthermore, no Financial Diary research has been conducted in Peru so far. The existing evidence points to the persistence of considerable demand-side barriers to access, based on mistrust, lack of information, and fear of abusive contracts among poor populations. Still, the existing evidence shows that microfinance clients in Peru use a diversified range of formal and informal financial devices. Most financial arrangements used are from informal sources, both from social and business networks. Because of the similarities to the insights from the Financial Diary research and the fact that these insights from very different countries provide a common picture of usage patterns, similar usage patterns and preferences are assumed for Peru. Accordingly, the service range defined as relevant for microfinance clients, including different financial products and size ranges relevant for Peruvian microfinance clients, are defined, based on the demand-side insights and a comparison with existing supply-side categories of financial services and choosing the categories relevant to microfinance clients.

Finally, in the investigation of pro-poor financial sector development in Peru, it could be seen that scope of outreach and related conditions and costs vary fundamentally by different types of providers, by types of financial services, by client segment served, and by depth and breadth of outreach. In section 6.3.6, the concluding category of the framework, a detailed summary of the findings is included, which will be shortly resumed in the following. Liquid savings possibilities are provided by most institutions authorized to receive deposits with accessible conditions. The related nominal interest rates are, however, very low, leading to negative real interest rates during recent years, even though inflation has been relatively low. Money transfer options are offered by all institutions with interconnected accounts at the national level and by some banks even without the requirement of owning a bank account. International remittances are offered at a relatively low cost at the international level and with a considerable geographic outreach, even though many MFIs do not offer remittance services. Long-term structured savings services are offered by nearly all financial services authorized to do so, in most cases with considerably higher interest rates for short periods of 90 days and offering ways to access the money if it is needed before the end of the term. Considering that banks have relatively high minimum requirements and Banco de la Nación pays much lower interest rates, the diversity of providers and depth of outreach for deposits is limited. For all types of deposits, there is, furthermore, a lack of security in terms of a guarantee fund covering deposits held with COOPACs and differentiated risks with NGOs because savings are held within the internal account of the group and only indirectly administered by the NGO. Coverage for insurance needs is (still) not met for covariant risk and is increasingly offered in the case of idiosyncratic risk. The supply of microinsurance is currently increasing, with changes in regulation and an increasing number of MFIs starting to provide insurance to their clients in addition to the small insurance products offered by banks and COOPACs and the microinsurance provided by NGOs, but market coverage is still at a low level. Furthermore, the products provided still focus on basic idiosyncratic risk, such as death and burial cost, sometimes complemented by coverage for accidents or severe health matters, the latter due to the existence of public subsidized health care.

Microenterprise loans for short-term business use in the form of working capital loans are widely available. Interest rates have come down in general terms, but access conditions and types of microenterprise loans provided differ significantly among providers. NGOs generally offer products for the least experienced clients and entrepreneurs, and Mibanco, EDPYMEs, CMACs, CRACs, and COOPACs for a wide range from small to middle and larger clients and entrepreneurs. Banks, except Banco del Trabajo and Banco Financiero, offer products more for larger microfinance clients. Loans for investment are offered only for business use and in the form of housing loans to microfinance clients. The former are also offered by most providers and appear to be very similar, and in the case of MFIs, they are nearly identical to working capital loans. Furthermore, these loans have high costs to the borrowers if a long-term investment is planned, which could make micro, small, and medium enterprise growth and development difficult. Housing loans are offered from quite low amounts on and also for incremental construction and renovation, which are very common among microfinance clients.

Interest rates are much lower than for all other loans and the loans are offered by a considerable number of institutions. Flexible and easily accessible emergency loans are a type of service which is rather restricted for the poor, especially due to the characteristics of the products offered. Complementary services are offered on a regular basis only by NGOs, in the form of training and capacity building addressing business and family-related issues and in the form of value chain moderation and financing by some MFIs, especially CRACs and COOPACs. Only Mibanco offers business training to a significant scale to its clients, along with NGOs. Considering schemes of service provision, individual microfinance services are generally not bound in packages and offered by the large majority of financial institutions providing microfinance. Group-based schemes are offered by NGOs and some CRACs and Mibanco, however, only to rural clients by the latter.

Considering cost in more general terms, the tendency has been toward falling costs for the client. However, large differences among the services offered to higher and lower client segments in the microfinance market have persisted. Considering breadth and depth in a very broad overview, it can be said that breadth of outreach has increased significantly, however, only in specific types of financial services, most notably in the case of microenterprise loans and small savings and, recently, in microinsurance. Depth of outreach has been increasing in terms of outreach to marginalized areas, with an increasing scope due to the presence of MFIs in addition to Banco de la Nación, which offers only a very reduced scope of services to the general public in locations with no other banking offer (UOB). Length of outreach is generally positive in terms of the continuity of service provision, but deposits held in COOPACs and NGOs cannot be considered secure.

In terms of the methodology of the framework, the analysis of the different dimensions of outreach and the combination of the results provide much more and deeper insight into financial sector development than a single perspective. On the base of the information reviewed, the financial sector development in Peru can certainly be seen as increasingly pro-poor. This process has been largely driven by the diversity of providers serving different client segments, the growth and increasing breadth and depth of the outreach of MFIs, the introduction of new microfinance products, the increased number of access points, the types of financial services offered with generally decreasing costs, and the approaches aiming at including marginalized populations. Downscaling banks have increasingly complemented the service range at the upper end but are not the main drivers of pro-poor financial sector development in Peru, considering especially their limited geographic outreach and limited scope of clients served. Thus, it is rather the combination of different types of providers that has contributed to pro-poor financial sector development in Peru. For an absolute statement, important user-related information—such as the clients' perspectives on the financial services and products offered, data on usage patterns, and levels of indebtedness—as well as information on informal providers would still be needed.

7.2 Important findings and perspectives for pro-poor financial sector development

In this section, important findings of the study are discussed within the context of current tendencies of microfinance and related research. Therefore, important topics for further research and possible methods of improving pro-poor financial sector development, as well as related risks, are discussed.

The theories reviewed and discussed in the present study are considered as fundamental for increasing understanding not only of the way poor populations earn income or are integrated in the labour market but also for modelling the economic, social, and societal patterns they live in. A first group of theories is based on the recognition of structural heterogeneity within countries or national economies, especially within the economies and societies of developing countries. The theory of the coexistence of different modes of production under conditions of structural heterogeneity, as proposed by Nitsch (2002a), offers the possibility of differentiating between distinct socioeconomic patterns within the same space. Analysing different modes of production such as the monetary economy, the state economy, family-led economies, or other locally varying economies such as indigenous *minga*[204]-led economy, presents the possibility of 'getting closer' to the way people live and work across the national economy. For the present study, it is the family-led economies that offer the social and labour relationships among the poor population. Considering the theoretical modelling of the way family-led enterprises, finance, and assets are managed in such a setting has provided important insights, which are consistent with the evidence from Financial Diaries. Thereby, the importance of considering the business within the economic and social relations of the family, including the kin network, business partners, suppliers, and others is stressed. Hence, pro-poor financial sector development and related research need to contextualize microfinance within the families and their social and economic networks. Thus, there is a need to consider the financial management needs not only of the family-owned enterprise but particularly of the family members. Although the approaches of distinct modes of production and especially the family-led mode of production are of fundamental importance in modelling microfinance and the ways clients use and can benefit from financial services, there is little theoretical research besides the cited works on this topic. In addition to further theories on usage patterns and direct effects, theories exploring local economic development and social change in relation to microfinance under the conditions of structural heterogeneity would strengthen related research.

Another fundamental part of the theoretical foundation of the study is the understanding of poverty as multidimensional and interlocking, which is felt as painful by poor populations. Other commonly felt characteristics are dependency, voicelessness, and vulnerability in terms of being aware of risks without being able to prevent possible consequences of a shock (Narayan, Patel et al. 1999: Chapter 2). Considering the perceptions of poor people themselves about

[204] *Minga* is a pre-colombian tradition of collective or communal work with a social purpose.

poverty, Sen's (1999) capability approach appears to be consistent with these experiences. It relates both to multiple dimensions and the lack of opportunities as well as adequate living conditions in the present. Opportunities—framed as real opportunities that are also *de facto* accessible by the poor—are introduced as relevant to market-development-related analysis. This approach has proven to be useful in the present study because a focus on the opportunities for analysing pro-poor market development stresses what market development for the poor consists of. At its best, it provides the poor opportunities to improve their lives, but it does not directly change the lives of the poor in terms of functionings. Accordingly, Sen's approach appears not only to be very comprehensive and non-determinist in stressing its openness and incompleteness but to provide a fundamental understanding of poverty that can structure different kinds of analysis. According to the topic studied, functionings, opportunities, or both can be chosen as an analytical perspective. In terms of further insights regarding pro-poor financial sector development, both the perceptions of poverty by the poor and Sen's capability approach point to the importance of considering the multiple dimensions of poverty and its interlocking dimensions or the lack of opportunities to change such a situation. Accordingly, it is essential to recognize that microfinance is a development instrument that aims at changes in one very specific dimension of human life and development: the economic dimension of life and, more specifically, the facilitation of money management. Only in specific cases can different kinds of wider effects, such as empowerment or social change, be related to microfinance. In addition, the latter are generally linked to the provision of additional services such as offering training, or very specific approaches. From the point of view of human development, microfinance is, consequently, not a tool for reducing poverty in terms of functionings, but it provides opportunities for improving lives, linked to the improvement of money management, which might eventually lead to further social or economic changes.

Another fundamental characteristic of Sen's understanding of poverty and development is that poverty is a gradual phenomenon and development a process of enhancing freedoms by reducing poverty. Development is, accordingly, very different from a modernization theory race of underdeveloped places or countries towards a uniform predefined goal of modernization or industrialization. It refers to a process in which people can increasingly realize the lives they aspire to and have access to opportunities that allow them to realize changes important to them. In this sense, pro-poor market or financial sector development is not bound to certain countries or places but is relevant for all people who are constrained in their opportunities in terms of business and private financial management. Thus, the framework could also be applied in the context of so-called developed countries, focussing on the analysis of opportunity-constrained clients or potential clients. Thereby, it is also both supply- and demand-side barriers that limit the levels of access to finance, as discussed in the present study.

Considering the methodologies reviewed and applied in the present study to assess pro-poor financial sector development, it was shown that it is essential to analyse usage patterns in terms of financial management. Hence, it is crucial to analyse how poor populations manage their finances, that is their preferences regarding financial management and which types of formal financial services can help them to improve individual or family-based financial management. Thus, demand-side information and data, both qualitative and quantitative, were reviewed in order to extend this basic knowledge. Besides a large number of small qualitative studies and a few surveys, one qualitative and one quantitative methodology and type of empirical research were identified as being of fundamental importance to having scientific demand-side insights into microfinance and pro-poor financial development. The Financial Diary methodology is a year-long in-depth study of financial management at the household level. Finscope surveys are representative surveys especially designed for assessing the demand-side perspective. The latter approach is currently applied in an increasing number of countries in Africa and repeated yearly. The Financial Diary method has been applied only in three countries in Asia and Africa, however. Although the results have been essential to deepening the understanding of financial management by and for the poor, there exists the need for further research, applying the Financial Diary method in other cultural, economic, and social settings. Furthermore, it is important to broaden knowledge about the social and economic relations tied to informal and formal devices. Accordingly, possible effects of the usage of formal financial services on the contexts of the clients—including the family and kin network and the business networks and relationships—could be explored. Such an analysis would certainly provide further insights into the consequences of microfinance for nonclients and the social and economic context of clients. An application of the Finscope survey in other countries would surely be beneficial to developing a solid and representative database on the demand side. For analysing pro-poor financial sector development, the availability of both types of data can be judged as very important, deepening the understanding of financial management of microfinance clients and enabling the development of truly client-led microfinance.

Regarding methods for assessing pro-poor financial sector development, research on access has remained at a rather general level, analysing access without specifying the adequacy of financial services that allow them to be considered as truly opportunity providing. In the case of impact assessment of development cooperation and non-profit-oriented projects and enterprises, they have been initiated with few convincing results, with even fewer in microfinance due to additional difficulty in assessment related to the fungibility of money. Only recently, the application of the approach of RCTs to microfinance has shown to be a method for scientifically sound impact assessment in microfinance, although only applied in short-term institution-level assessments. RCTs have been successfully applied in reviewing and developing product design or analysing the impact of additional services offered. Thus, RCTs can support the design of tailor-made products with specific aims, such as providing incentives for people to plan their financial resources better or to save. How far the method can be considered to be practice-relevant in a wider sense will, however, depend on innovations for decreasing related costs and strict ethical policies. RCTs are being applied increasingly at the global level, promoted by the Abdul Latif Jameel Poverty Action Lab (J-PAL) and the NGO Innovations for Poverty Action (IPA). The other type of new methodologies that focuses explicitly on improving microfinance in terms of making the MFIs' services more client-led are the social performance management approaches. These approaches aim at helping financial institutions better understand their clients for mutual long-term profit. SPM approaches have been largely developed by the Imp-Act consortium and are being used by an increasing number of institutions. Still, both approaches focus on institution-specific analysis related to clients only. Further research would be useful, including the impact on the social and economic context of the clients, considering that pro-poor interventions and client-led microfinance should be beneficial not only to the clients but also for the entire context by not leaving other poor people 'worse off'.

Because any existing approaches for analysing pro-poor financial sector development at the market level could not be identified, the proposed pro-poor financial sector development framework was conceptualized, taking into account not only the micro perspective but also the essential aggregated perspective. First, the understanding of pro-poor financial sector development as a specific type of market development and the related choice of real opportunities for the poor as an analytical focus, which had been derived from Sen's (1999) holistic understanding of poverty, were shown to be useful within the analysis. Putting the *de facto* opportunities of the poor in the centre of the analysis oriented it toward what can be assessed at the market level and what is most fundamental in analysing a specific type of market development, that is the provision of accessible options to the poor to improve their lives according to their own criteria. The focus on opportunities prevents the assumption of specific impacts and trying to determine a specific desirable usage of financial services and related changes from the outside. Furthermore, the application of the proposed concepts has shown that the inclusion of different dimensions of outreach and their joint discussion is fundamental to grasping pro-poor financial sector development within the most relevant dimension. The analysis needs to start with a comparison of the available products and the financial management needs of microfinance clients within the market analysed. Therefore, the qualitative assessment of requirements and conditions is fundamental in order not to consider products that might exist but are not accessible to poor clients. If this scope is not assessed in terms of the cost of the products offered—the breadth and depth of outreach to many clients, both in geographic and social terms—, erroneous conclusions could be drawn. For instance, certain regions of the country can show very different degrees of financial sector development, and specific client segments, such as very marginalized clients or certain economic sectors, might have considerably fewer real opportunities. Finally, the perspective of length provides insights into the sustainability of the services provided, such as security of deposits and the continuity of service provision in general. However, thinking of length in more holistic terms means it is not only the sustainability of client relationships and usage patterns, security of deposits, and continuity of service provision that matter, but also the question of whether the model of development support can be successful for the poor in the long run. Accordingly, a more holistic approach underscoring the long-term viability of pro-poor financial sector development would need to be contextualized within an analysis of sustainability and future viability of the development model practiced. For instance, it is questionable whether the goal or dream of generalized economic prosperity for all is ecologically viable (see Nitsch 1995: 78).

Furthermore, in social or economic terms, certain characteristics of the predominant development model can lead to challenges of the living situation and the real opportunities of the poor. These might be related to the concentration of the economy in a certain sector or, for instance, changes in trade policy, which might lead to increasing competition within the markets traditionally served by local MSMEs.

Considering the implementation of the framework, the contextualization was shown to be relevant because this analysis revealed relevant lines of marginalization within the country or market for analysing among the poor. Furthermore, the main characteristics of supply and demand are crucial to applying the framework. For instance, knowledge about the different types of institutions providing microfinance is needed in order to include them in the analysis. The differentiation between different types of institutions or single institutions, if their microfinance services differ fundamentally from others, was shown to be necessary in order to analyse the different dimensions of outreach across the institutions. Without the disaggregation of information at the level of different providers or types of providers, this final analysis would not be feasible. Because many of the topics analysed are complex and information is limited, triangulation of data, methods, and data sources was useful for the application of the framework. The complexity of the many topics to analyse, which require in-depth knowledge of related rules and regulations, sources of analysis, and possible problems or challenges, require support from qualitative field research. In this sense, the explorative research on the Peruvian market and the many interviews with stakeholders of microfinance in Peru and experts have been essential to applying the framework. Having the elaborated framework and categories of analysis surely facilitates future applications and data collection, even in contexts in which Financial Diary and comprehensive demand-side data are still lacking. For instance, assessing the advantages and disadvantages clients perceive—as reported in focus group discussions—concerning certain types of services can surely sharpen the analysis of scope. Thereby, it is important to differentiate among different types of potential microfinance clients because their financial management needs might strongly differ.

From the application of the framework to the Peruvian case, some important conclusions could be drawn beyond the specific situation of pro-poor financial sector development within the country. The analysis showed that, among microfinance clients, there are very different client groups with very different financial management needs, ranging from investment loans to daily working capital loans or peer pressure-based emergency loans. Therefore, both the range of different types of financial services needed and the kinds of products are crucial. As research on poverty has shown, ‘the poor’ are not one homogeneous group, but a term that refers to many different groups of people who are in some way or another barred from living the lives they want to live. These people live in very different contexts, such as rural or urban ones, experience a widely varying range of difficulties, and are active in different societal, social, economic, and ecological systems. Because poor populations generally live in contexts that are marked by structural heterogeneity and the coexistence of different modes, the individuals and households are often partly active in different kinds of modes of production. Although the predominant mode of production in terms of socioeconomic formation that characterizes the lives of the poor is the family-led mode of production, most people and households are also partly active in the monetary economy, the state economy, or locally relevant modes of production, such as an indigenous mode of production. The different client segments can, accordingly, be modelled in terms of different types of activity in different modes of production. Recognizing, moreover, the multidimensional character of poverty, the diversity of types of poverty is great, as are the different situations or conditions that might cause the privation of freedoms to the poor. Thus, it is essential to consider the specific financial management needs of different groups of clients, especially at the lower and upper ends of the services offered because both the most marginalized people and clients growing SMEs often lack access to adequate financial services.

The finding of very different groups of clients even within the microfinance market points to the segmentation of the microfinance market, in which different interest rates are charged to different client segments. A clear segmentation of the market would point to the validity of Stiglitz' and Weiss' (1981) explanation of credit rationing in terms of financial institutions charging optimal (in terms of profit-maximizing) interest rates to clearly identifiable clients segments. Accordingly, credit rationing can still occur beyond the limits of a market segment served by a financial institution. The clear differences between different client segments, for instance, rural poor clients without previous banking experience and urban microentrepreneurs, enables client segmentation. In most cases, it is not even within the same institution that prices would need to be segmented, but due to the observed concentration of the different types of institutions at certain market segments, this client segmentation even works at the institution level, with widely varying price differences in microenterprise and small consumption loans at different institutions or types of institutions. For instance, the prices of NGOs—which serve the most marginalized client segment—are far above the prices of other institutions for relatively similar products, as are the prices for loans of Banco de Trabajo in comparison to other banks. Certainly, the different sizes of the loans also require different levels of interest rates. In a non-segmented market, it would, however, be difficult for financial institutions to charge the much higher rates for smaller loans without reducing their profit due to adverse selection and moral hazard. The clear market segmentation is also one of the reasons that the rule of value added tax (VAT) for NGOs might be an additional cost to the poorest costumers instead of enhancing the formalization of NGOs into EDPYMEs. This incentive would work only if NGOs were to suffer from clients moving to other institutions that offer cheaper financial services similar to the ones they offer the clients. Because most NGOs work largely with group-based approaches open to very marginalized clients that are rarely common at other financial institutions, cost-based client migration is limited. Considering the different client segments and ways these segments are identified shows that microfinance technology is adapted not only to the specific social, economic, and cultural contexts in a country, but also to the specific client segments. Cross-country comparisons could possibly show that certain clients from different countries have more similarities than different segments within the same country, even if the places differ in culture and other dimensions. This possibility could also constitute a new form of institutional learning from other microfinance institutions, taking into account the type of client segments served.

In the case of financial sector development in Peru, another main conclusion is that the broad range of very different providers is the way in which the different client segments are served in Peru. Therefore, for promoting pro-poor financial sector development in Peru, it is important to analyse which market segments in terms of different clients, types of financial services offered, and geographic regions are underserved. Based on such an analysis, public and development cooperation and interventions can be analysed. Considering that Interbank is the only commercial bank lately been supported with funds from the international development cooperation to enter the microfinance market, this support seems to be questionable in terms of pro-poor financial sector development. First of all, Interbank has its branches in the same locations—generally the urban centres of Peru—like the other banks (see section 6.3.3). Furthermore, the scope offered by the bank is rather close to the 'standard' microfinance services offered by banks and many MFIs. The only remarkable difference is the large number of remittance partners and insurance for remittance flows that carries, however, a high cost (see Appendix 6.3.1-B through 6.3.1-D). Taking additionality as a general principal of well-focussed development aid, it is questionable whether the support of Interbank can be considered a contribution to pro-poor financial sector development. For instance, the very positive results of the financial education linked to *Proyecto Corredor* (Trivelli & Yankari 2008) or the findings about positive effects of entrepreneurial trainings at Finca by Karlan and Valdívia (2008) point to areas of beneficial intervention of donors because the development of these types of services is currently not market-led. Not aiming at creating areas of subsidy dependence, specific well-focused basic accountability and financial management training components could be developed with public funding, aiming at their inclusion in the business of commercial institutions, with long-term positive effects for the financial institution offering to train its clients. Moreover, basic financial literacy can be a meaningful complement in school curricula, not only in Peru.

Another interesting characteristic of pro-poor financial sector development in Peru to this point is relatively healthy growth because new market players have entered the market copying the specific microfinance technology from specialized providers, especially regarding the allocation of loans. The first massive entrance of finance companies and banks focussing on the segment of low-income consumer loans in the second half of the 1990s ended after a few years with a debt crisis and the market exit of most of the providers that had tried to follow Banco de Trabajo's example of serving the lower client segments. The current significant downscaling tendency with increasing entrance of commercial banks into the microfinance segment and increasing institutionalization of microfinance within the banks has not, to date, led to anything similar to a debt crisis. However, without more detailed information on the indebtedness levels of clients, over-indebtedness could still be happening without manifesting in NPLs because clients keep on paying for high debt in times of generalized economic prosperity in Peru. Accordingly, household survey-based information on levels of indebtedness is important for measuring possible increases towards unsustainable levels of debt in order to prevent a possible debt crisis, given that such crises happen largely in economic downturn, adding a further negative dynamic to economic recession or crisis.

The fact that banks have copied the character-based analysis for allocating loans to family-led entrepreneurs or clients has certainly contributed to a more sustainable lending practice. Acquisition of the knowledge has been rather direct in most banks, which have contracted with many of the credit agents and branch managers of MFI. The resulting competition for qualified staff is seen as one of the major challenges by many MFIs and, especially, CMACs, which are bound to public tariff rules regarding the remuneration of their staff. Within banks, this recruiting policy has obviously led to a fast learning curve, especially concerning individual microcredit allocation, which has been further developed by adding additional scoring filters to the traditional microcredit technology that is also being applied by Mibanco. MFIs report, however, that banks, as well as Mibanco, acquire not only microfinance knowledge by hiring their personnel but also their portfolios by lending to their clients, based on the clients' credit histories with the MFI. A practice that could be a factor in future or current but not yet evident over-indebtedness of clients. Furthermore, there have not yet been many excesses of purely commercial providers, with the exception of the predatory interest rates of Banco Azteca de Peru and Scotiabank in the segment of small consumption loans, possibly because banks have entered a well-developed market with the presence of solid providers of microfinance services, especially microenterprise loans and small-scale consumption loans. Moreover, the existing regulation of microfinance providers and microfinance services with strict rules on classification of multiple clients and with pro-active supervision of the Peruvian financial system supervising authority SBS and the available risk information on clients have certainly been further crucial factors in the (hitherto) successful commercialization and growth of the Peruvian microfinance market.

However, the top rank of Peru in the 'Global microscope on the microfinance business environment' commissioned by IADB (Economist Intelligence Unit 2009) points to the fact that the environment in Peru is particularly good. Accordingly, in other contexts an increasing commercialization of microfinance or the entrance of new players could lead to very different developments, considering that not only the Peruvian microfinance market but also the market conditions are very well developed. Still, the increasing presence of commercial players in the Peruvian market, which has been complementing the existing offer of financial services with services generally for middle and larger clients, can have a negative result for clients. This might be the case if banks push indebtedness levels by lending to MFI clients or start to displace MFIs in the market, without replacing the types of services and products offered and without the prospect of permanence in the market segment, which is inherent to MFIs. Taking into account the size of banks and their market power in making market-relevant changes is important in all markets, but even more in minimally developed markets. In the Peruvian market, the disappearance of regionally based MFIs would further affect institution building in the provinces and financial decentralization. Hence, special care is needed in relation to banks because fast market-level changes are possible in relation to the entrance of large commercial players into the market.

Another particular finding of the analysis of pro-poor financial sector development in Peru is the importance of certain types of providers for serving certain types of clients, such as very marginalized clients being served by NGOs, especially in the *sierra*, or other types of providers offering certain dimensions of outreach. Regarding geographic depth of outreach, for instance, the development bank Banco de la Nación is the institution with the most important outreach to minimally banked areas, even if MFIs offering their services within Banco de la Nación branches are considered. These findings are especially relevant because, since the critique of the Directed Credit Paradigm and the generalized recognition of the commercial approach as state of the art in microfinance, certain types of providers have often been looked upon with some scepticism. NGOs are often perceived as rather inefficient institutions with a 'pre-status' of formalized microfinance institutions, a typification that underestimates their potential of contributing to pro-poor financial sector development not only as incubators of successful MFIs but also as relevant and different players in the microfinance market. Although there is an increasing number of restructured development banks serving successful microfinance markets directly as first-tier institutions (such as Bank Rakyat Indonesia), via subcontractors (such as the CrediAmigo programme of the Brazilian Banco do Nordeste), or promoting microfinance market development as second-tier institutions (such as the Indian National Bank for Agriculture and Rural Development, NABARD), development banks are often also not central in the discussions about microfinance development. In the case of the Peruvian Banco de la Nación, the programme of the shared counters providing MFIs the opportunity to offer microcredit in UOB locations is surely an important step for making use of the bank's potential to contribute to pro-poor financial sector development. Although the bank also serves the public in UOB locations, its service scope is very restricted compared to the financial management needs of the clients. Another type of provider often little considered in discussions of microfinance development but having a significant potential of contributing to pro-poor financial sector development is the savings and credit cooperative. The lack of attention might be because these institutions often do not work specifically as microfinance institutions, although many cooperative banks actually serve primarily microfinance clients, often being located within very specific, partly politicized contexts as member-based organizations. Nevertheless, it is surprising that these institutions are not members of any deposit guarantee fund in such a well-developed and well-regulated market as Peru. In the case of NGOs, which are the other institutions offering savings opportunities without being able to offer protection of their savings to their clients, rules for depositing internal account savings at bank accounts accessible only by group members could be a way forward to protect the clients' savings. In this case, a specific regulation for group savings accounts with supervised financial institutions might enable NGOs with group approaches to offer their clients indirectly secure saving opportunities with FSD cover.

In terms of insights into pro-poor financial sector development gained from the present study, different elements of the analysis are particularly important. First of all, it is necessary to be careful when considering impacts or effects that are attributed to microfinance and other, different kinds of effects. In terms of direct effects, microfinance provides additional—and in the case of adequate conditions and prices—favourable financial management options to poor populations. The importance of adequate money management tools for coping with low, irregular incomes and emergencies or enhancing the income conversion ability as conceptualized by Sen (1999) is only recently being recognized. In many discussions and campaigns addressing microfinance, generally one specific form of indirect economic effects is mentioned: Income gains from the client's microenterprise business. These income gains are only one possible form of additional income. Other possibilities of microfinance-related increases of income, such as employment opportunities in small or medium enterprises or increasing income due to increasing demand in local markets, are generally not mentioned in the discussions of impact and, hence, not considered in institutional and product design. Taking into account that most people are business owners *(Wirte)* instead of innovative entrepreneurs *(Unternehmer)* in the sense of Schumpeter (1997), the second option should also be considered for designing microfinance programmes, and the third can be a terrain for additional services offered. Especially for the poorest and the large majority of *Wirte*, it might be very difficult to manage a small enterprise successfully; therefore, employment might be a more interesting option for income generation for them. Hence, microfinance does not necessarily need to concentrate on serving only the poor or even the poorest clients in order to contribute to pro-poor financial sector development but should include financial services for better off clients and their small and medium enterprises.

On the other hand, all these economic gains are insecure and depend on the profitability of the microenterprises and their positioning within local markets. The third category of wider social effects is also mentioned but often as 'wishful positive side effects'. However, these effects do generally not happen automatically, but if microfinance is thought of as a platform of social change, interaction in well-organized groups or additional capacity building can contribute to such changes. Depending on the situation of the specific client, cultural changes, such as more individual mobility might even mean more important freedom gains than an increasing income. Accordingly, additional effects of group schemes, local institution building or additional training and awareness building should be taken seriously if poverty is understood as a multidimensional and interlocking phenomenon. Furthermore, it is also essential to keep in mind that all types of effects might also be negative, reducing the freedoms of people. Related risks—such as indebtedness, the loss of savings, or an unpaid insurance claim, in terms of direct effects; the lack of the economic viability in terms of indirect economic effects; and social exclusion and disintegration of groups in terms of wider social effects—also need to be considered and prevented at all three levels of effects. Therefore, it is necessary to promote research on improving formal financial management tools for the poor that help them to cope with their vulnerability and constitute real opportunities instead of creating new risks. Concerning possible direct effects of microfinance for clients, the following example illustrates the burden that repaying loans might constitute—going hungry rather than defaulting—and that is often not discussed:

> In 1994, I was working for an International NGO in a semi-arid region of Kenya. The area was experiencing its third consecutive crop failure as a result of drought, and the community was reaching crisis situation. Livestock were dying, people were leaving the area in search of work, malnutrition and hunger were rife, and coping strategies, such as selling livestock or assets or seeking paid work, were ineffective as the market prices fell and the loss of income for better-off families meant that they could no longer afford to employ casual workers. One afternoon I attended a poverty-focused group meeting attended by about 10 women, selected by the NGO using wealth ranking as being from the poorest households in the village.
>
> The meeting lasted about an hour, with discussion centring on the crisis and how people were coping (or not). Energy levels were low and some of the women fell asleep from time to time. One of the women apologized for this, explaining that none of them had eaten that day! As the meeting drew to a close I witnessed a bizarre scene, as the women started digging in their pockets and taking out money, which they handed over to the NGO field worker. He diligently recorded the amounts in his ledger, thanked them and walked over to his motorbike, ready to depart. I was dumbfounded, and asked if I could question the women. I asked about the handing over of money, and the field worker explained that these were the loan repayment instalments due from the group for their solidarity group loans. The women explained that they had sold a chicken in order to raise the funds to make their loan repayment. (Simanowitz 2001: 12)

Regarding the first type of direct effects, recent evidence from Financial Diary research and also specialized surveys like Finscope underscores the importance of recognizing the different types of financial management needs of clients and their families in order to meet all kinds of expenditure needs that cannot be met out of current income. These needs include eventual expenditure needs for business use. Furthermore, flexibility and adaptability of the financial management tools to the lives of the clients are important. This is not such a new insight. However, considering the large number of credit-only institutions existing in microfinance worldwide and the fact that these institutions are still supported by development cooperation justifies the argument, considering that institutions that receive savings need to be under prudential regulation and supervised if formal financial services are to be reliable. In terms of the operative potential of many small institutions, offering savings directly would be difficult. There are, however, many examples of NGOs having their clients open bank accounts, either individually or in groups. As for microinsurance provision, the agent model enables relatively small institutions to provide insurance to their clients because the insurance itself is conceptualized and the policy is sold by an insurance company. Other relevant types of financial services for meeting the differentiated financial management needs of poor populations are payment services and remittances. Generally, these services are offered by larger institutions. Small institutions might join networks of peer institutions to do so, which is also a widely practised approach. Considering the high cost of microlending and the limited advantage of expensive loans for resolving expenditure needs that could be met at a much lower cost by 'saving up' or 'insuring', public actors such as donors and governments should especially be careful in promoting credit-only institutions. Additionally, and in particular for the poorest client group, savings might offer a more beneficial method of financial management because they constitute a low-risk option for accumulating a lump sum for larger expenditure needs. Furthermore, clients can benefit from hybrid products, such as savings accounts with pension or insurance options, so insurance options might, for instance, be tied to a certain minimum amount held in a fixed-term account.

Having indirect economic and wider social effects clearly separated from the direct effects of improved and more reliable financial management instruments, the role of government and development cooperation actors promoting local economic development and social change becomes clearer. Because increases in income earned with MSMEs or from labour within MSMEs depend on their profitability and the market context, both should be taken seriously if the promotion of local economic development is at the goal. For the latter, the state plays a fundamental role in terms of deciding on basic market conditions, the level of openness of markets, conditions of free-trade agreements, and the protection of infant industries and intellectual property rights, in addition to the way public goods, such as infrastructure and security, are provided. Furthermore, the state or development cooperation actors can invest in the local knowledge base, promote local networking or clusters, or even subsidize dynamic enterprise strategies. At the same time, development paths are varied, and the respective strategy and measures of the developmental state can only be thought of and understood considering the base of existing enterprises and local market contexts (see Lazonick 2008). In many important recommendations and policies for economic development—such as the Washington Consensus and other World Bank or IMF strategies of the last decades—support has, however, been on the condition of reducing the sphere of the state in the economy and its *desarrollista* policies. In his *Kicking Away the Ladder*, Chang (2002) shows that developing nations in initiating the policy of the international financial institutions try to deny the industrial policy they extensively made use of 'for getting rich' from developing countries. Increasing incomes can, however, also be promoted by preventing the poor from falling in the case of crisis, due to social security provided to microentrepreneurs. Considering the relation of private insurance schemes to public social security, it is important to provide microinsurance not as a substitute for publicly provided basic social security. Furthermore, as stressed previously, it is fundamental to evaluate critically whether microfinance is the type of intervention that best serves the development goals if financed by public funds. Especially for the poorest, a government-provided basic social security cushion can be very effective, as experiences of cash transfer programmes show, for instance (e.g., Leisering, Schubert et al. 2004). For the promotion of wider social effects linked to microfinance, additional measures, such as capacity building and the strengthening of groups in the case of group-based microfinance, have been highlighted as fundamental for contributing to such wider changes. Exploring intelligent forms of linking microfinance as a platform for social change to other programmes and measures supporting the poor to change their lives can be another field of public intervention, considering the positive experiences with well-thought-out linkages between microfinance and other programmes (Sievers & Vandenberg 2007).

Within MFIs, such processes can be supported by explicitly balancing the institutional goals with financial and organizational sustainability. Furthermore, being transparent with clients concerning eligibility criteria and rules, promoting democratic decision-making and cooperation inside the group, supporting weaker group members, and changing the incentive structures of MFI employees from financial sustainability alone to a mixed set of targets between organizational and financial sustainability are also important (Marr 2006: 37ff.). Taking into account the social dynamics not only at the group but also at the family level and the power distribution and access to financial services in the household, a further investigation of related social dynamics and the consideration of the results for designing microfinance services can be another way to increase opportunities of social change, linked to tailor-made financial management solutions. The clear separation of these indirect and wider effects from the direct ones and the increasing conscience that microfinance and microcredit cannot be considered a 'universal tool for poverty reduction' will hopefully lead to the recognition of essential areas of government policy and charity for those who cannot simply help themselves. Thereby, finding paths of local economically, socially, and ecologically sustainable development and opportunity-providing offerings in the local communities, economies, and places in a globalized world is fundamental and will constitute dynamic challenges.

Considering the trends of recent commercialization and profit maximization mentioned initially, it can be noted that they can carry important challenges besides the potential of fast increases of client numbers. They are, however, not problematic per se if not mixed with exaggerated expectations about positive impact and thought of as a 'generalized solution' to poverty. Commercialization is, first of all, a tendency within microfinance development to carry many opportunities and risks for pro-poor financial sector development. It needs to be analysed within the relevant setting, considering existing providers, the profile of new providers, and the rules and regulations of the specific microfinance market. In combination with the assumption of a largely exaggerated positive impact, commercialization of microfinance can constitute an unholy alliance from a political economy point of view. The combination of exaggerated positive assumptions about impact and commercialization or even profit maximization might suggest that development and poverty reduction can be resolved through microfinance, not only market-led by also profit-driven. First, such a conclusion might be a good argument that governments or development cooperation actors rely too much on the insecure indirect economic and wider social effects of microfinance instead of implementing other more costly programmes or complementing microfinance with important non-financial services. Governments might, for instance, offer basic social security for informal microentrepreneurs and their workers. Especially in terms of insurance, care should be taken so that the microinsurance offered does not substitute for a government-provided basic safety net but complements it and increases the awareness of the importance of insuring large risks among the population. Second, the generalized overestimation of the positive effects and underestimation of related risk might contribute to a lack of control of commercial providers by government and development cooperation actors. Only if risks are clearly pronounced, will governments invest in related regulation and supervision of microfinance in order to prevent major abuses. Furthermore, it is also essential to prepare consumers to increasingly commercial providers by offering financial education, strengthening consumer protection, and increasing transparency of prices and conditions of financial services. In this way, clients themselves can better defend their rights as customers, helping to decrease abuses. The latter might be areas of intervention both for government and development cooperation actors. Third, it is essential for both types of actors working with public money to recognize the risk of a conversion of a publicly funded MFI into a profit-maximizing institution. For such cases, clear rules for repayment of subsidies should be applied in order to prevent unfair competition and the support of profit-maximizing enterprises with public money. Furthermore, development cooperation and government actors might review their investments in microfinance, withdrawing from the providers that are market-based. In such a scenario, commercialization and even profit maximization would no longer be problematic, but trends that can contribute to pro-poor financial sector development, if the institutions are well regulated and supervised, if consumers are enabled to deal with purely commercial microfinance providers, and if the institutions do not take monopolistic positions in the market without replacing the type and length of service of other providers. However, if public money is still used in profit-maximizing enterprises or such enterprises operate in markets with little competition or very vulnerable and inexperienced customers, increased levels of commercialization can be very problematic for the customers and, hence, pro-poor financial sector development. This situation is relevant not only in developing countries but also in developed countries as increasing levels of indebtedness, over-indebtedness and even private bankruptcy show.[205] In a context in which most microfinance consumers still suffer from a general lack of financial education that makes them in vulnerable consumers, the pleading of Schmidt (2008: 30) for taking the debate about the ethics of microfinance more seriously provides further direction for microfinance development: 'Today, I would simply rate more highly the role of values, principles of action and even "right-minded thinking" in guiding and motivating the actions of all players than I have previously done in the context of microfinance. Perhaps the microfinance experts should not feel too irritated by Yunus's moralising speeches after all'.

Finally, considering future perspectives on microfinance and related research, the question is whether the current tendencies discussed in the present study constitute a way forward or backward in terms of pro-poor financial sector development. Taking widely distributed publications as examples of discussions that are being reflected in conference themes, workshops, training courses, and list serves, it can be noted that a healthy questioning of the 'miraculous impact' of microfinance or microcredit 'lifting poor people out of poverty' with small loans has gained importance. The comprehensive compilation of critical articles on microfinance, *What's Wrong with Microfince?* (Dichter & Harper 2008), has been increasingly received within the microfinance community. It is, however, only in 2010 that the influential networking organization of major donors CGAP has recognized that there is no scientific evidence confirm-

[205] See, for instance, the 'debt map' or *Schuldenatlas* of Germany, http://www.insm.de/insm/Themen/Steuern-und-Finanzen/ Schuldenatlas/Schulden-Downloads.html

ing that microfinance, especially microcredit, does not automatically 'lift people out of poverty' due to investment in microenterprise businesses. In his recent Focus Note, Richard Rosenberg (2010) recognizes that, although rigorous scientific research has not been assessing long-term effects, the RCT-based evidence about short-term effects does not show improvements of household income or consumption linked to microcredit. Until now, such effects have only been found with savings and small-scale consumption loans. Furthermore, Rosenberg points to the importance of findings from Financial Diary research, also used in the present study: that poor populations use financial services intensively to manage their small, irregular, and insecure income streams in order to cope with their expenditure needs and that formal financial services constitute an important tool for poor people to deal with this situation and their vulnerability, offering them reliable financial management solutions for coping with the difficult situations they face. Thus, the increasing acceptance of findings from Financial Diary research, recently published in an analysis of the existing evidence as *Portfolios of the Poor: How the World's Poor Live on Two Dollars a Day* (Collins, Morduch et al. 2009), draws attention to what microfinance is about: formal financial management tools for the poor that should help them to better manage their difficult financial lives.

Besides evidence from RCT-based research and Financial Diaries, there is evidence from Finscope surveys, the application of SPM instruments, and very recently also, the application of behavioural economics within the field of microfinance. The recent application of behavioural economics to microfinance is not part of the present study but constitutes another source of interesting research, for instance, on the widely recognized preference of clients for credit (Mullainathan & Krishnan 2008), the persistence of expensive borrowing cycles (Anath, Karlan et al. 2007), or specific products and product designs that appear to support people in reaching their financial management goals, such as saving regularly (Ashraf, Karlan et al. 2006) and dealing with the lack of available savings devices with microloans (Bauer, Chytilová et al. 2008). Hence, the related types of research constitute a much broader spectrum of research on microfinance that not only contributes to new insights into how far microfinance might be beneficial for poor people but also delivers concrete results in terms of types of services judged as coming closer to meeting people's financial management needs, explanations for certain usage patterns, or development and testing of product design that can support people in reaching their financial management goals. Accordingly, the knowledge base on the types of financial services most useful for the poor is growing and can complement the practice-based knowledge of the many practitioners working in microfinance on a daily base. Furthermore, and according to recent evidence, it is important to consider the whole range of financial management tools and especially ways of facilitating coping with risk for the poor. If these insights actually translate into fewer credit-only institutions and more tailor-made products for savings, insurance, and financial communication, important gains in pro-poor financial sector development can be made.

Hence, after the recognition of the commercial viability of microfinance as the last large paradigmatic change in microfinance, the recognition of microfinance as a tool for improved and reliable financial management for the poor can be considered a new paradigm appearing to emerge. Having the direct possible impact of microfinance clear—improved coping with the gaps between small and irregular income streams and various personal, family, and business-related expenditure needs in differing modes of production—, the efforts can be focussed on further adapting microfinance to poor people's very specific financial management needs. Still, the availability of adapted coping mechanisms in the moment of need can provide people with crucial or even life-saving opportunities— as in the case of a doctor's fee to pay — even though it will not 'lift people out of poverty' in a general way. Recognizing also the complexity of financial management for the poor, it is important to improve microfinance services as tailor-made solutions for the whole range of financial management tools for the poor. Nonetheless, microfinance can aim at indirect economic and wider social effects, if these are not assumed to be automatic results of access to improved financial management for the poor. From a political economy point of view, such a shift helps in not mistaking microfinance as a solution for widespread poverty. If other impacts like indirect economic or wider social effects are intended, these need to be understood as specific additional foci of microfinance. Taking into account that these effects are not automatic, there are promising options of promoting these kinds of changes, possibly through specifically designed products but also through additional measures. BDS, moderation of chains of production or the support of SME networking or group-based services that give the group inherent importance beyond loan repayment and training programmes can contribute to changes beyond improved money management. However, as in the case of direct effects, it is fundamental not to assume such impacts but assess which types of financial services as well as non-financial services, constitute the most relevant opportunity-enhancing tools for people to improve their lives and gain more freedoms.

Considering the size, growth rates, and popularity of microfinance as a tool for poverty reduction, as well as a type of business or social investment, increased research efforts are needed not only on usage patterns of poor populations but also on specific financial services and products, methods of providing service, and linkages to non-financial services and their related implications for the poor. These findings need to be considered in terms of possibilities for offering the services most useful to the poor in cost-effective and sustainable ways. Thereby, it is also important to consider the types of providers that can offer the relevant financial services for different types of microfinance clients. These might be existing providers, as well as institutional innovations, such as cooperation of different types of institutions to improve serving the clients' needs. Among existing providers, NGOs and other locally rooted institutions appear to be the more innovative players who entered the microfinance market first, with commercial players being 'followers' and trying to upscale and improve well-proven methodologies or products. In the Peruvian case, downscaling banks did not include new customer segments at the lower end but developed more sophisticated types of microenterprise loans—revolving loans—and first introduced a new distribution channel—banking agents—, which has also been adopted by MFIs. An example of an institutional innovation involving both NGO organizing groups and insuring communication with the clients and banks by providing professional and secure financial management is the Indian Self-Help

Group Linkage Banking, which has been developed based on the experience of NGOs, with the support of NABARD and other development actors such as GTZ. In general terms, institutions need to be adapted to the local cultural, societal, social, and economic contexts and develop local roots, important for sustaining length of outreach and contributing to local institution building. Although it might well be commercial providers developing tailor-made approaches for microfinance clients, these institutions have been shown to be followers replicating successful approaches of microfinance institutions like NGOs, saving banks, or others. Therefore, providers that receive public funding for developing innovative, client-led products and approaches should be carefully chosen.

Given the potential of microfinance beyond its immediate relevance as a financial management instrument for income smoothing, coping with emergencies, and taking advantage of opportunities, specific research on how microfinance can be used as a platform for social change and can stimulate local economic development is also important. Based on the increasing awareness within the microfinance community that these are possible but uncertain wider and indirect effects of microfinance, knowledge about microfinance services that provide real or freedom-creating—not assumed—opportunities for the poor to live the lives they want needs to be expanded by researchers and practitioners. These opportunities consist of tailor-made financial management tools and related services that constitute additional means that the poor can use to deal with their difficult lives and that offer possibilities for changing their economic and social situations. Therefore, it is fundamental that all relevant stakeholders take the challenge of translating new insights into daily practice, recognizing however that microfinance should always be seen as only one instrument within a much wider spectrum of development processes and policies. Thereby, the development of efficient, sustainable and customer-friendly institutions and opportunity-providing microfinance services is key for advancing on the way towards pro-poor financial sector development.

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Appendices

Appendix 1.3-A: Lists of institutions and experts, interview guide, workshop program and participants of research in Peru

List of institutions visited in February, March and September 2006, and March 2008 [206]

Market I:	Banco de Crédito, headquarter (24th February 2006)
	Banco del Trabajo, headquarter (24th February 2006)
	Mibanco, headquarter (27th February 2006)
	EDPYME Edificar (27th February 2006)
	Banco de Crédito, branch in Gamarra (28th February 2006)
	Mibanco, branch in Chorillos (28th February 2006)
	Banco Financiero/ Solifé, headquarter and branch (14th March 2006)
Market II:	CMAC Arequipa, including their Lima business (1st March 2006)
	CRAC CajaSur (1st March 2006)
	EDPYME Crear Arequipa (2nd March 2006)
	EDPYME Nueva Visión (2nd March 2006)
	EDPYME Crear Arequipa (3rd March 2006)
	Banco Wiese (3rd March 2006)
Market III:	CMAC Cuzco (6th March 2006)
	CRAC Credinka (6th March 2006)
	Banco Interbank (7th March 2006)
	EDPYME Crear Cuzco (7th March 2006)
Market IV:	Banco de Crédito (8th March 2006)
	Banco de Trabajo (9th March 2006)
	CRAC Credinka (9th March 2006)
	Banco de Trabajo (10th March 2006)
Market V:	EDPYME Efectiva (17th March 2006)
	CRAC Cruz del Chalpón (renamed into Señor de Sipán) (17th March 2006)
	EDPYME Alternativa (18th March 2006)
	Scotiabank (14th March 2008)
	Banco Financiero (17th March 2008)
	CMAC Piura (15th March 2008)
	CRAC NorPerú (13th March 2008)
	CRAC Señor de Sipán (14th March 2008)
	Mibanco (15th March 2008)
Market VI:	CMAC Trujillo (20th March 2006)
	CRAC Norperú (20th March 2006)
	EDPYME Pronegocios (21st March 2006)
	Banco Continental (21st March 2006)
Market VII:	COOPAC San Cristóbal de Huamanga (14th September 2006)
	FINCA (15th September 2006)

[206] All interviews in 2006 were conducted jointly by the author Christiane Ströh, and Jorge Farfán. The additional interviews in 2008 were conducted and recorded by Christina Buck.

Proceedings and interviews followed in the visited institutions and markets

a) Short introduction into the history and situation of the visited institution (by manager or key staff of the institution)
b) Interview with the general manager
c) Interview with the business manager *(gerente de negocios)* in the case of non-bank institutions, with the microenterprise manager *(gerente microempresa/ gerente PYME)* in the case of banks
d) Interview with the staff in charge of marketing and/or marketing director
e) Interview with the risk manager *(gerente de riesgos)*
f) Interviews with credit agents *(analistas de crédito)*
g) Interviews with clients
h) Participant observation within the institutions (serving clients, during credit committee meeting)
i) Participant observation outside the institutions (assisting with the client visits by the credit agents, including during credit evaluation procedures)
j) Interviews and participant observation in typical settings of microentrepreneurs (markets, street vendors, local transportation, etc.)

Interview guide for semi-structured interviews

Temas transversales a considerar através de todos temas

- Bancarización (inclusión financiera)
- Desconcentración (con relación a las empresas)
- Descentralización (con relación al mercado, distribución geográfica, urbano-rural)

Sección para instituciones financieras

Breve introducción a la historia de la institución financiera por el personal de la respectiva institución y preguntas al respecto

- ¿Cómo se fundó su institución?, ¿Cuáles fueron los pasos más importantes para su desarrollo?
- ¿Cuál es el esquema de gobernabilidad de la empresa?

Preguntas sobre el grupo meta y selección de clientes

- ¿Cuál es su definición de un microempresario?, ¿A qué tipo de microempresarios atiende su institución?, ¿Atiende a nuevos microempresarios?, ¿Necesitan los microempresarios tener una persona jurídica? O, ¿necesitan cumplir con otros requisitos específicos para ser clientes de su institución?
- ¿Cuál es el grupo de meta de la insitución?, ¿ Cuál es el perfil socio-económico y zona geográfica de residencia de los clientes meta?, ¿Cómo se fundamenta esta elección?
- ¿Cuáles son los procedimientos para seleccionar clientes?, ¿Se atiende a clientes con créditos en otras instituciones financieras?, ¿Cómo se procede al selectionar clientes?
- ¿Cuál es el futuro grupo de meta de la institución?, ¿Cambiarán los procesos de selección de los clientes?

Preguntas sobre productos, servicios y canales de distribución

- ¿Cuáles son los productos ofertados a clientes microfinancieros?, (ej. crédito MES, otros tipos de créditos, cuentas corriente, cuentas de ahorros, cuenta de plazo fijo, seguros, pensiones y/u otros productos para clientes del segmento de microfinanzas)
- Considerando montos mínimos y máximos, requisitos mínimos, forma de otorgación, tipo de canal de distribución ofertado, tipo de acceso incluido, como tarjetas etc., ¿cuáles son las características de los productos ofertados?
- ¿Existe una interrelación entre los diferentes productos?, Si es así, ¿cuál es la interrelación?
- ¿Cuál es la relevancia de los productos microfinancieros dentro del espectro total de servicios otorgados por la institución?, ¿Cuál es la rentabilidad de los productos microfinancieros?, ¿Se ofrecen a gran escala?
- Considerando corresponsales bancarios, cajeros automáticos, ventanilla, etc., ¿cuáles son los canales de distribución utilizados para atender a clientes del segmento de microfinanzas?
- ¿Utilizan algún tipo de tecnología de información y comunicación espécifica para atender al segmento microfinancieros?
- ¿Qué nuevos productos y servicios están previstos para introducir en el futuro?
- ¿Qué nuevos canales de distribución están previstos para ser introducidos en el futuro?

Preguntas sobre los resultados de los servicios microfinancieros ofertados

- ¿Cuál es el número de clientes, de operaciones, de montos de operaciones, de portafolios etc., y la participación del segmento de microfinanzas en la empresa?
- ¿Cómo avalan el desempeño de los productos microfinancieros, en términos de morosidad, profitabilidad, etc.?, ¿Cuáles son los fundamentos/las razones atrás de los resultados reportados?

Preguntas sobre las estrategias con relación a las microfinanzas

- ¿Cuáles son los objetivos estratégicos de la institución?, ¿Cúales son las metas cuantitativas y cualitativas?
- ¿Cuáles son las estrategias para el futuro desarrollo de su institución?, ¿Está previsto atender nuevos/otros segmentos del mercado microfinanciero?
- ¿Cuáles son las estrategias de competencia?, ¿Cómo se posiciona la institución con respecto a la competencia en el sector microfinanciero?
- ¿Existen acuerdos de cooperación con otras instituciones, o de operación regional o similar?, ¿Con cuáles instituciones, y en qué materias?

Preguntas sobre la imágen corporativa y marketing con relación a las microfinanzas

- ¿Cúal es la imágen corporativa de la institución?
- ¿Ha cambiado la imágen corporativa de la institucion desde su inicio?, ¿Cómo?
- ¿Cuál es la estrategia de promoción de los servicios microfinancieros?, ¿Cuáles servicios se promueven?, ¿Cómo?
- ¿Existe und unidad de inteligencia o un equipo de marketing?

Preguntas sobre el futuro de la institución y la competencia

- ¿Cómo se puede describir el ambiente competitivo de las microfinanzas? Y, ¿qué aspectos han cambiado en el ambiente competitivo, considerando las normas, las tecnologías microfinancieras, la tecnología de información y comunicación?
- ¿Cómo se puede caracterizar el mercado microfinanciero?, ¿Cuál es la posición de los diferentes actores y competidores en el mercado?, ¿Cuáles son los segmentos del mercado atendidos y no atendidos?
- Considerando la participación de las diferentes instituciones en el mercado, su presencia en diferentes regiones y segmentos del mercado, ¿cuáles han sido cambios en la estructura del mercado microfinanciero?
- Considerando los precio de los productos, las márgenes financieros, la calidad de la cartera, el número y el tipo de clientes activos, la participación de clientes nuevos, ¿cómo se posiciona la institución en el mercado? Y, ¿cuáles han sido cambios relevantes?
- ¿Cuál es la situación actual y cuál es la perspectiva para la sostentabilidad financiera y la viabilidad económica de la institución y/o del negocio microfinanciero?
- ¿Cúal es la visión del mercado microfinanciero en 10 años, y de la posición de su institución en el mercado?

<u>Sección para clientes y clientes potenciales microfinancieros</u>

Introducción con un pequeño diálogo relacionado con la situación de la entrevista, por ejemplo sobre la situación del negocio si la entrevista se hace en el local de trabajo

Preguntas sobre la situación de la economía familiar

- ¿En qué trabaja?, ¿Tiene una empresa propria y cuántas personas trabajan en la empresa?, ¿A qué se dedica la empresa exactamente?
- ¿Con quién vive o comparte la casa/ el apartamento?, ¿Cuántas personas conforman su familia?, ¿Vive con su familia o está viviendo en otro lugar, y dónde?

Preguntas sobre el uso y acceso a servicios financieros y preferencias relacionadas

- ¿Qué tipo de servicios financieros utiliza regularmente o de vez en cuando?, ¿Dónde guarda su dinero?, ¿Qué hace si le hace falta dinero para pagar los gastos de la casa o del negócio?, ¿Cómo reacciona a un gasto imprevisto?
- En el caso de estar empleado/a, ¿cómo cobra su sueldo?, En el caso de tener una empresa, ¿qué formas de pago acepta de sus clientes, y cómo cobra cheques?
- ¿Tiene una cuenta o ya ha tenido una cuenta?, ¿Es/era una cuenta de ahorros, de plazo fijo, corriente?, ¿Para qué tiene la cuenta/ tuvo la cuenta y porqué dejó de utilizarla?
- En el caso de que tenga familia vivendo en otro lugar, ¿manda o recibe remesas y cómo las manda/recibe?, ¿Es un trámite fácil?, ¿Considera el costo del envio alto o bajo?
- ¿Ahorra regularmente o de vez en cuando?, ¿Dónde guarda el dinero y porqué? ¿Cómo le funciona este método? En el caso de que haya cambiado de método, ¿cuáles fueron las razones?
- ¿Tiene o ha tomado créditos?, ¿Con quién consiguió los créditos?, ¿Fue difícil conseguir los créditos?, ¿Y como le parecen las condiciones y el costo?
- ¿Tiene o ha tenido algún tipo de seguro?, ¿Porqué lo tiene y cómo le ha funcionado hasta ahora? En el caso de abandono del seguro, ¿cuáles fueron las razones?
- ¿Tiene alguna pensión?, ¿Porqué la tiene y cómo le parece el esquema que está utilizando?
- ¿Utiliza otro tipo de servicios financieros que no se haya mencionado hasta ahora?, ¿O utilizó otro tipo de servicios financiero, y porqué dejó de utilizarlo?
- ¿Con qué insituciones financieros y/o otros actores contrató los servicios financieros antes mencionados? ¿Porqué escogió dichas instituciones? En el caso de haber cambiado de institución, ¿cuáles fueron las razones?
- Lo han rechazado en algun tipo de servicio financiero?, ¿Cuáles fueron las razones? ¿Le gustaría utilizar los tipos de servicios financieros que no ha conseguido?

Preguntas sobre la perspectiva personal/ de la economía familiar

- ¿Cuál es su sueño o, cómo le gustaría vivir en 10 años?, ¿Qué se imagina para usted mismo, su familia, y su empresa (en el caso de tener)?, ¿Qué le falta para cumplir este sueño?
- ¿Planea utilizar otros tipos de servicios financieros además de los que utiliza en este momento?, ¿Y para qué?, ¿Y de qué depende?

List of experts interviewed (in March 2006)[205]

Institution	Interviewed experts
SBS – microfinance department SBS – bank department SBS – research department SBS – credit register department	
Asociación de Bancos (ASBANC)	
Asociación de CMACs (FEPCMAC)	
Asociación de CRACs (ASOCAJAS)	
Asociación de EDPYMEs	
Asociación de Peruana de Consumidores y Usuarios (ASPEC)	
Agencia Peruana de Cooperación Internacional	*The names of the experts have been excluded from the online publication due to concerns of data protection*
NUMA Management	
United States Agency for International Development (USAID)	
Consorcio de Organizaciones Privadas de Promoción al Desarrollo de la Micro y Pequeña Empresa (COPEME)	
Private credit register Infocorp/ Equifax	
Grupo de Análisis para el Desarrollo (GRADE)	
Federación Nacional de Cooperativas de Ahorro y Crédito (FENACREP)	
Consorcio de Promoción de la Mujer y la Comunidad (PROMUC)	

[205] Only the FENACREP and PROMUC experts were interviewed by telephone, and Felipe Portocarrero was interviewed again to update important information on competition and cooperation within the Peruvian microfinance sector in March 2008 and 2010.

Participants of the 1st participatory workshop for managers and staff of NBFI (SWOT-analysis in focus groups)

'La Competencia creciente en el Sector de Microfinanzas Peruano: estatus quo y caminos sostenibles hacia el futuro', 16 March 2006 – SBS, Lima

Moderation: Christiane Ströh

Managers and business managers or other key staff of the following NBFI:

- EDPYME Alternativa
- EDPYME Proempresa
- EDPYME Edyficar
- EDPYME Confianza
- EDPYME Pronegocios
- EDPYME Solidaridad
- EDPYME Credivisión
- CRAC Señor de Luren
- CRAC Nor Perú
- CRAC De la Región San Martín
- CRAC Los Andes
- CRAC Chavín
- CRAC Cruz de Chalpón
- Caja Municipal de Ahorro y Crédito Arequipa
- Caja Municipal de Ahorro y Crédito de Piura
- Caja Municipal de Ahorro y Crédito de Trujillo
- Caja Municipal de Ahorro y Crédito de Tacna
- Caja Municipal de Ahorro y Crédito de Huancayo
- Caja Municipal de Ahorro y Crédito de Pisco
- Caja Municipal de Ahorro y Crédito del Santa

Participants and their positions on the 2nd participatory workshop for SBS staff (SWOT-analysis in focus groups)

'La Competencia creciente en el Sector de Microfinanzas Peruano: estatus quo y caminos sostenibles hacia el futuro', 24 March 2006 – SBS, Lima

Moderation: Christiane Ströh

The names of the workshop participants have been excluded from the online publication due to data protection concerns.

- Intendencia General de Microfinanzas:
- Intendencia General de Microfinanzas:
- Intendencia General de Microfinanzas:
- Intendencia General de Microfinanzas:
- Departamento de Evaluación del Riesgo Crediticio:
- Departamento de Administración de Cartera y Empresas en Liquidación:
- Intendencia General de Microfinanzas:
- Gerencia de Estudios Económicos:
- Intendencia General de Microfinanzas:
- Intendencia General de Microfinanzas:
- Intendencia General de Microfinanzas:
- Intendencia General de Microfinanzas:
- Intendencia General de Banca:
- Intendencia General de Banca:
- Departamento de Riesgos de Operación:
- Gerencia de Estudios Económicos:

Appendix 4.1.1-A: Overview of analyzed studies on usage patterns of financial devices

Table 4.1.1-A1: Overview of studies on usage patterns

Source	Country/region	Short description of database	Short description of methodology
Financial Diaries			
Rutherford 2001, 2002, 2003	Bangladesh: urban and rural households	Qualitative data from 42 low-income Bangladeshi households that participated in the bi-monthly documentation of their financial transactions. The data were collected from late 1999 to late 2000.	Financial diaries constructed on the basis of data recorded in bi-monthly visits by skilled local researchers during an entire year. Each transaction of managing money was documented along with its values, the type of financial service or device used, the type of provider, and the reason for the transaction.
Ruthven and Kumar 2002	India: rural North India	Qualitative data from 68 households: 28 financial diary respondents who re-sponded in bi-monthly interviews and 40 qualitative snapshot case studies from mid 2000 until late 2001.	Recording of all kinds of financial transactions, including in-kind transactions and reciprocal gifts, producing longitudinal profiles of the diary respondents and one-time overviews of financial services and devices used by the other respondents, with responses clustered into four income groups (better-off farmers, medium farmers, traders and self-employed, and poor farmer labourers)
Focus notes on the financial diaries (http://www.financialdiaries.com); Collins 2004, 2005, forthcoming; Collins and Morduch 2008; Porteous et al. 2008	South Africa: urban and rural households	Qualitative financial diary data from 52 urban, 60 semi-urban, and 54 rural households, the different respondents being poor black households with different dwelling types (house, shack, etc.), data collected bi-monthly from late 2003 to late 2004.	Research methodology based on the approach by Rutherford and wealth and likelihood rankings by Ruthven. New elements included to foster understanding of shocks, household dynamics, continuous cash flow, indebtedness, and financial management in general (see Collins 2004: 10ff.)
Financial snapshot studies, financial landscape studies and other approaches for qualitative research			
Brusky and Fortuna 2002	Brazil: urban-low income population in Sao Paulo and Recife	Qualitative data from focus group research with 300 participants in 2 cities, in different regions of Brazil	An adaption of the qualitative methods developed by MicroSave Africa 'Market Research for Microfinance', combining Participatory Rapid Appraisal (PRA) and focus groups, adapted to the application in microfinance used with the following research instruments applied: life-cycle, seasonality, and tendencies analysis, diagram and matrix of financial services, and client preferences in 35 group exercises with about 300 participants (Brusky & Fortuna 2002: 10ff.).
Ahmed et al. 2005	Kenya: urban low-income population of Nairobi	Qualitative data from participatory research in urban low-income communities in Nairobi, collected by researchers from the health care financing project by K-Rep and AAR Health Services	Differentiated use of qualitative methods developed by MicroSave Africa based on the results of secondary data searches and a brief quantitative survey: 40 participatory qualitative group research exercises (focus group discussions, Venn diagrams, different kind of rankings, and maps).
Rutherford et al. 1999 (MicroSave Africa)	Kenya, Uganda, and Tanzania: urban and rural low-income population	Quantitative and qualitative data from the three countries collected in April and May 1999 by a team of nine researchers making up different teams for each country.	Qualitative approach using expert interviews with MFI managers and staff; in-depth interviews and focus group discussions with clients, former clients, and nonclients of participating MFIs; and different Participatory Rapid Appraisal (PRA) techniques (seasonality calendars, wealth ranking, life-cycle lump sum analysis, money management systems matrices)
Ruthven 2002	India: squatter settlement near Delhi	Qualitative data from surveying both users and service providers.	Qualitative approach with a wide understanding of financial services and devices with the aim of capturing interrelations between relationship-based or reciprocity-based financial devices and professional financial services.
Eversole 2003	Bolivia: urban microentrepreneurs of Sucre	Qualitative data from anthropological fieldwork in Bolivia during the period from 1994 to 1997.	Anthropological research exploring the relationships between borrowers and microfinance institutions, focussing on the perception of the MFIs and their services to the clients.
Representative household surveys			
Saavedra and Valdivia 2003	Peru: household survey with national coverage	Four rounds of the national household survey on living standards between 1985 and 1997 (*Encuesta Nacional de Hogares sobre Medición de Niveles de Vida*, ENNIV)	Econometric analysis, construction of an alternative panel following each cohort over time, used for studying household and intergenerational savings patterns.
Porteous 2007, data and background informa-tion from FinScope (http://www.finscope.co.za); Collins 2005, forthcoming; Collins and Morduch 2008; Porteous et al. 2008	7 southern African countries (Botswana, Namibia, South Africa, Kenya, Tanzania, Uganda, Zambia): household surveys with national coverage on the usage and access to financial services	Regarding sampling methodology, there is full comparability of the country data sets, but in terms of the questionnaires, there is limited comparability for different elements, modules, or adaptations to local ways of providing finance that have been introduced at the country level. A total of 22,400 respondents participated in the seven surveys, representing 91 million adults (over the age of 16) in the respective countries.	Samples were drawn from the national household samples in order to insure adequate representation. In order to assess more than the usage of formal financial services, questions were included on the usage of informal and semiformal financial services. In order to assess access to formal financial services, questions on the reasons for non-usage were included to determine whether non-usage had been caused by choice or by financial exclusion. For producing comparability to the cross country analysis of Porteous (2007), categories were constructed for assigning the responses of different questions to these categories.
Johnston and Morduch 2007	Indonesia: representative survey data from six provinces (of 30 provinces, 2 regions with special status and the federal district)	Data have been collected in six provinces, from 1438 respondents, while the respective provinces represent 20.6 million households and 85 million people.	Within the regions, subregions were selected at random. Respondents were chosen at random from local censuses. Finally, the results were weighted and standard errors corrected in order to reflect the stratification by province and district (Johnston & Morduch 2007: 6).
Zeller and Sharma 2000	Household surveys in Asian and African countries by International Food Policy Research Institute (IFPRI) and collaborating institutions, mostly the representative country evidence is cited	The database contains information from ten country studies done by IFPRI and its partner organisations in Asia and Africa. Only the surveys for China, Egypt, and Pakistan are nationally representative, the evidence from Bangladesh, Cameroon, Ghana, Madagascar, Malawi, and Nepal is not. Only data from the representative households are used because the other data cannot be understood easily without in-depth knowledge of sampling bias and possible consequences for the results.	Research focuses on a deeper understanding of the livelihood situations and strategies of poor households, with a focus on rural households. Besides data about the situation, nutrition, health, education, occupation, etc., of the respective households, a large number of questions about their financial management practices was included in the surveys, including both formal and informal financial services and devices. Where the empirical evidence shows tendencies that could be rooted in sample selection bias (e.g., in areas with a higher presence of formal financial institutions), it is indicated in the research report by Zeller and Sharma (2000).

Source: Own elaboration.

Appendix 4.1.1-B: Overview of studies about usage patterns and their main results

Table 4.1.1-B1: Overview of studies about usage patterns, their main results and references of results

Category Description	Purpose of financial service/device ('financial function')	Kind of financial services, devices and arrangements used	Source
General findings on financial communication and financial management	Manage money in order to meet necessary expenditures with non-synchronic income	Huge range of financial services is used for financial management, which is done often and generates important flows.	Rutherford 2001, 2002, 2003
	Cope with different purposes, showing ability to deal with life-cycle events and emergencies and take advantage of opportunities	The different financial services and devices can be understood as different forms of saving in terms of accumulating small amounts of income to build a larger lump sum.	Rutherford 2001, 2002, 2003
	Cope with different kind of purposes	Most of the lump sums are constructed by saving down, but differences can be observed among purpose categories.	Rutherford 2001, 2002, 2003
	Manage money according to the purpose category	Mix of informal and formal financial services and devices.	Ruthven and Kumar 2002
	Cope with life-cycle events and emergencies and make use of opportunities	Wide range of financial services and devices used for constructing lump sums.	Rutherford et al. 1999 (MicroSave Africa)
	All kinds of purpose categories need financial management	Wide range of financial services and devices used for constructing lump sums, with a strong dominance of lending devices for making purchases on credit.	Brusky and Fortuna 2002
	All kinds of purpose categories need financial management	Poor respondents indicated having complex financial lives, using an average portfolio of 17 different financial instruments over the year.	Focus notes on the financial diaries (http://www.financialdiaries.com); Collins 2004, 2005, forthcoming; Collins and Morduch 2008; Porteous et al. 2008
	Different kinds of purposes, but one financial product class dominating	Borrowing can be considered as a generalized answer on financial needs in Brazil.	Brusky and Fortuna 2002
	Formal and informal borrowing leads to indebtedness on the part of a significant part of the households	Financing mix taken to meet urgent expenses leads to indebtedness for a considerable part of the population.	Focus notes on the financial diaries (http://www.financialdiaries.com); Collins 2004, 2005, forthcoming; Collins and Morduch 2008; Porteous et al. 2008
SAVING, LENDING, BORROWING (or 'saving up, down and through')	Insuring as a financial function is one of the most widely used and valued for coping with frequent life-cycle and emergency expenditures	Insuring is one of the mostly widely used financial functions, generally realized through 'saving down' but also through 'saving up' and 'saving through'; very little with risk pooling products.	Zeller and Sharma 2000
	Saving for all three purpose categories	Saving arrangements ('saving up')	Rutherford 2001, 2002, 2003
	Saving for different purposes	Saving with formal financial service providers remains with the better off groups ('saving up')	Ruthven and Kumar 2002
	Savings for different purposes	Formal and informal savings long- and short-term savings mechanisms are widely used	Porteous 2007, data and background information from FinScope (http://www.finscope.co.za); Collins 2005, forthcoming; Collins and Morduch 2008; Porteous et al. 2008
	Long-term saving for taking advantage of opportunities and planning for life-cycle and emergency-related expenses	Savings accounts at banks are used for long-term savings, which do not provide a possibility for saving small amounts constantly.	Ruthven 2002
	All kinds of purposes	Borrowing and saving—many savers do not borrow even though creditworthy	Johnston and Morduch 2007
	All kinds of purposes	Because reciprocal lending is based on saving, it can also be understood as 'saving through'	Rutherford et al. 1999 (MicroSave Africa)
	Lending for different purposes (taking advantage of opportunities, smoothing consumption, etc.)	The most widely and frequently used financial borrowing devices are informal reciprocity- or relationship-based ones, usually without interest. The loans come from different sources issuing loans of similar size and frequency and usually for a typical purpose ('saving down and saving through').	Ruthven and Kumar 2002
	Linked lending and borrowing for different purposes	The most important financial devices are either reciprocity- or relationship-based or largely interest free ('saving through'). Private loans taken on interest are another important category ('saving down').	Ruthven 2002
	All kinds of purposes	Strong preference of 'saving down' services.	Brusky and Fortuna 2002
	All kinds of purposes	Choice of the money management services for 'saving down' is made according to the local perceptions of these as well as the kind and ease of availability (even though advantages of other services are recognized).	Brusky and Fortuna 2002
	Loans given with a specified 'microenterprise' purpose used for all categories	Microenterprise loans from MFIs	Rutherford et al. 1999 (MicroSave Africa)
OPPORTUNITIES: Sustaining and tapping business opportunities (working capital needs, investment in family-led business, education of family members, etc.)	Working capital for microenterprises	Microenterprise loans, discussing advantages and disadvantages in the eyes of the clients	Eversole 2003
	Different kind of opportunities	Lump sums are constructed largely by saving down for being able to tap opportunities (76% of the lump sums)	Rutherford 2001, 2002, 2003
	Working capital and initial working capital for business	Supplier credit is widely used for financing retail businesses in Eastern Africa, including hawking (and supplier functions often act as a money guard)	Rutherford et al. 1999 (MicroSave Africa)
	Additional working capital and initial investment of working capital for the business	Additional working capital is largely provided by goods advanced or bought on credit, and initial investment usually comes for the compensation of the former job.	Brusky and Fortuna 2002
	Small initial business investment	Savings, usually informally	Rutherford et al. 1999 (MicroSave Africa)
	House improvement or repair and education	Different financial arrangements with different providers according to the purpose, largely informal financial arrangements	Brusky and Fortuna 2002
	Microenterprise is the most important usage, but de facto usage differs for a third of the households	Microenterprise loan	Johnston and Morduch 2007
	Cash flow problems and lack of sustainability of 'survivalist' business	Different kinds of financial and other services	Focus notes on the financial diaries (http://www.financialdiaries.com); Collins 2004, 2005, forthcoming; Collins and Morduch 2008; Porteous et al. 2008
LIFE-CYCLE: Provision and prevention for life-cycle events (childhood, marriage, maternity, old-age, death)	Different kind of life-cycle uses	Lump sums are constructed largely by saving down for being able to deal with life-cycle events (82% of the lump sums)	Rutherford 2001, 2002, 2003
	Importance of life-cycle related expenditures	Largely reciprocity-based financial devices for covering the important expenses for festivals and ceremonies	Ruthven and Kumar 2002
	Cover life-cycle or ceremonial cost, especially weddings and funerals	Reciprocity-based finance in a wide net of relatives	Ruthven and Kumar 2002
	Importance of life-cycle related expenditures, especially funerals	Financing mix from formal and informal sources used for meeting funeral expenses	Focus notes on the financial diaries (http://www.financialdiaries.com); Collins 2004, 2005, forthcoming; Collins and Morduch 2008; Porteous et al. 2008
	Dealing with low income periods during life-cycle (especially in terms of lacking formal pension schemes)	Intergenerational arrangements of cohabitation and family-based cash transfers	Saavedra and Valdivia 2003
	Life-cycle needs or tapping opportunities/upgrading livelihood	Long-term savings	Ruthven 2002

Continuation of Table 4.1.1-B1: Overview of studies about usage patterns, their main results and references of results

Category Description (cont.)	Purpose of financial service/device ('financial function')	Kind of financial services, devices and arrangements used	Source
EMERGENCIES: Managing and mitigating risks and emergencies (ill health, accidents, unemployment or lack of employment, orders, business opportunities)	Different kind of opportunities	Nearly all lump sums constructed by saving down in order to deal with emergencies (88% of the lump sums).	Rutherford 2001, 2002, 2003
	Health related expenditure constitute an important part of the expenditures of poorer households	Close family relationships help to finance important heath expenditures.	Ruthven and Kumar 2002
	Cover crisis-related costs (such as accidents or severe illness)	Informal financial transactions with close relatives or landlords/employers.	Ruthven and Kumar 2002
	Cover health-related costs	Current income and different lending options are used, but a preference for a reliable insurance service is expressed.	Ahmed et al. 2005
	Cover health-related costs	Different formal and informal 'saving down' devices used.	Brusky and Fortuna 2002
	Savings are generally accumulated for specific uses so that there is a lack of savings for covering unexpected events/emergencies	Formal and informal savings arrangements	Focus notes on the financial diaries (http://www.financialdiaries.com); Collins 2004, 2005, forthcoming; Collins and Morduch 2008; Porteous et al. 2008
FINANCIAL COMMUNICATION: Managing financial communication, levelling consumption on a daily basis, transferring and receiving money (the 'current account' function)	Financial communications	Savings accounts	Focus notes on the financial diaries (http://www.financialdiaries.com); Collins 2004, 2005, forthcoming; Collins and Morduch 2008; Porteous et al. 2008
	Financial communication (receiving payments) in combination with savings	Basic bank account 'Mzansi'	Porteous 2007, data and background information from FinScope (http://www.finscope.co.za); Collins 2005, forthcoming; Collins and Morduch 2008; Porteous et al. 2008
	Remitting money home	Post office and hand carry	Ruthven 2002
	Very short-term saving for levelling consumption on a daily basis/'current account'-function	Different kind of financial arrangements used, but saving at home still dominant, although risks are mentioned by the respondents.	Ruthven 2002
SEASONALITIES: Coping with seasonality/seasonal events (ceremonies, climate changes, special periods of the year)	Seasonal events and celebrations	Numerous forms of 'saving down' arrangements, also 'saving through' and 'saving up' arrangements	Brusky and Fortuna 2002
	Seasonal rhythm of the business year/agricultural year	Savings, also in terms of intergenerational arrangements support	Saavedra and Valdivia 2003

Source : Own elaboration.

Appendix 6.1.1-A: Exchange rates for Peru (Peruvian currency – USD)

Table 6.1.1-A1: Official exchange rates used by SBS (used in the current study)

Year, as of 31st of December	Soles per USD
1980	330.00
1981	500.00
1982	970.00
1983	2,265.50
1984	5,532.00
1985	13,908.00
Year, as of 31st of December	**Intis per USD**
1986	13.91
1987	40.00
1988	730.00
1989	10,500.00
1990	530,000.00
Year, as of 31st of December	**Nuevos Soles por Dólar**
1991	1.03
1992	1.63
1993	2.15
1994	2.19
1995	2.31
1996	2.58
1997	2.72
1998	3.13
1999	3.48
2000	3.52
2001	3.44
2002	3.51
2003	3.46
2004	3.28
2005	3.43
2006	3.20
2007	3.00
2008	3.14

Source: Data SBS.

Appendix 6.1.1-B: Maps with socioeconomic indicators for Peru (I)

Overview of maps & methodology

Colours of the maps
Brown map: Demographics
Blue maps: Indicators of poverty and socioeconomic development
Purple maps: Economic data

Note on the legend of the maps
The width of the legend is adapted to the minimum and maximum values reached with each variable in order to make the maps as detailed as possible and indicate minimum and maximum values reached.

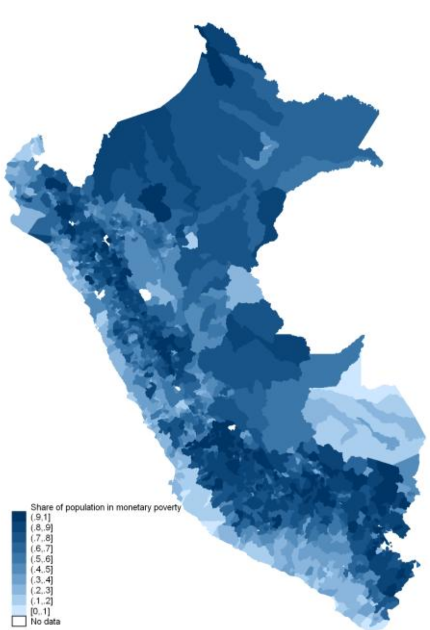
Methodology of the indicators for poverty by INEI and FONCODES
INEI indicators for assessing financial poverty
Poverty according to the national poverty line, which adjusts the price of basic consumption baskets (*canasta de consumo básico*, which include region specific minimal nutrition baskets, *canastas mínimas alimentárias*, besides other goods and non-food services) to the respective local prices (MEF 2001: 12, INEI 2000: 2).

FONCODES indicator for assessing structural poverty
The FONCODES needs indicator is a comprehensive measure for structural poverty based on data on structural deprivations, such as lack of access to water, sewage, and electricity and data on vulnerability such as illiteracy ratios for women over 15 years, the presence of young children (between 0 and 12 years), and the health and nutrition status of children between 6 and 9 years. The final index is estimated based on factorial analysis with the method of principal components (Diaz Alvarez 2006: 17ff.).

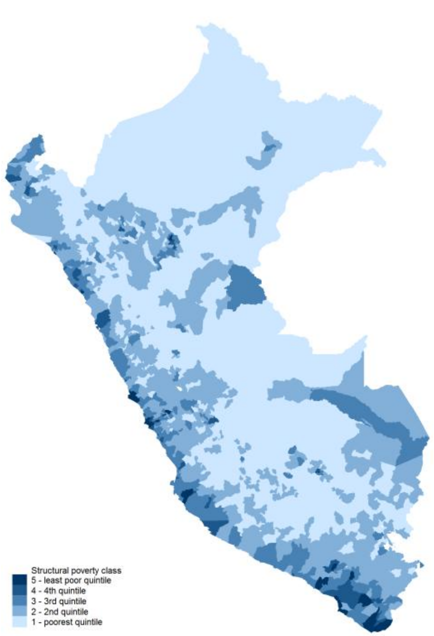
Source
Own elaboration, with data from INEI (for population numbers, 2005), and different geographical maps (Map 6.1.1-B1);
INEI, based on census data from 2007 (Maps 6.1.1-B2, B4, B5, B6);
FONCODES, based on census data from 2007 (Maps 6.1.1-B3).

Map 6.1.1-B1: Geographic overview - climatic zones, relief, and important cities of Peru

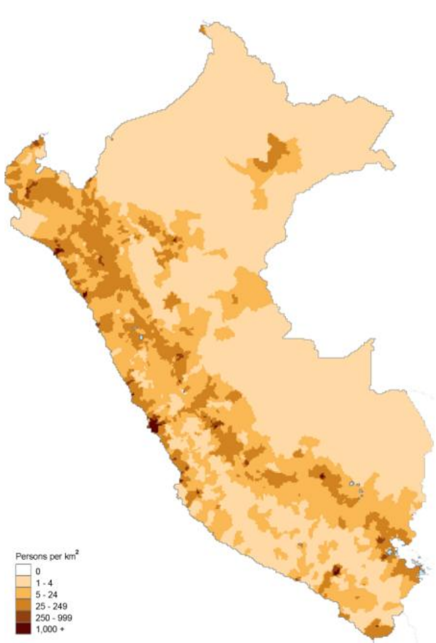
Map 6.1.1-B2: Financial poverty (based on expenditures, indicator by INEI), 2007



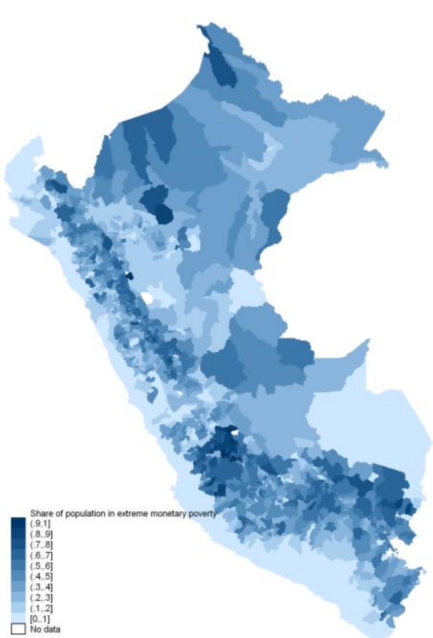
Map 6.1.1-B3: Indicator for structural poverty by FONCODES, 2007



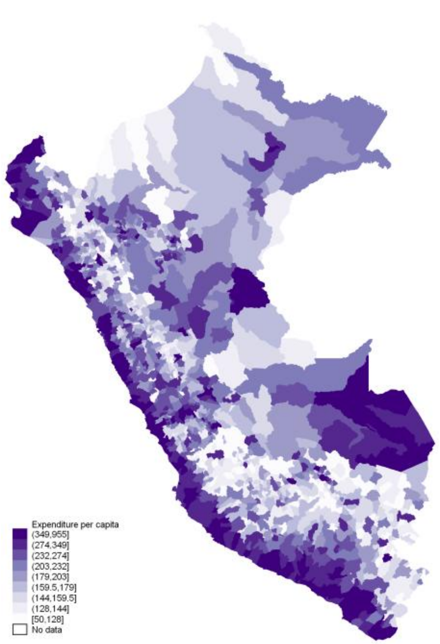
Map 6.1.1-B4: Population per km2, 2007



Map 6.1.1-B5: : Extreme financial poverty (based on expenditures, indicator by INEI), 2007



Map 6.1.1-B6: Average monthly expenditure in PEN, 2007



Appendix 6.1.1-B: Maps with socioeconomic indicators for Peru (II)

Overview of maps and methodology

Colours of the maps

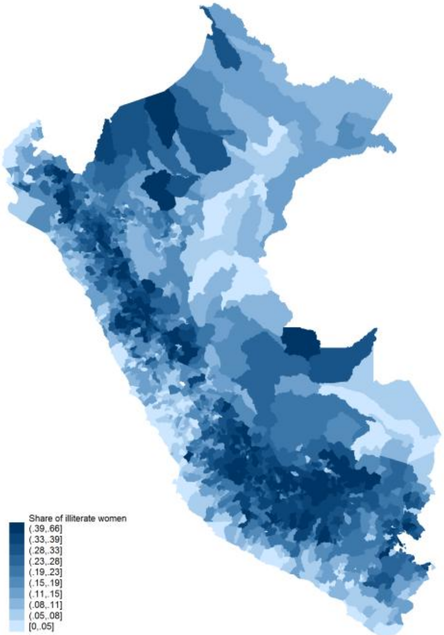
Grey map: Demographics

Blue maps: Indicators of poverty and socioeconomic development

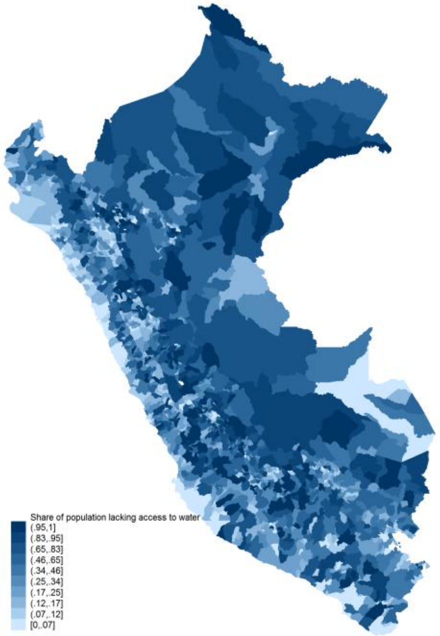
Source

Own elaboration, with data from INEI, based on census data from 2007.

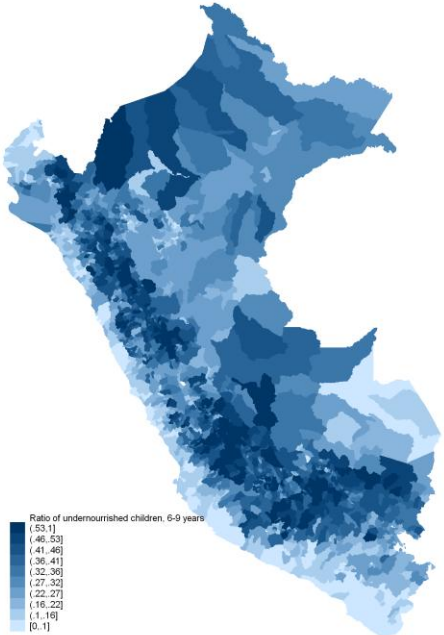
Map 6.1.1-B7: Share of illiterate women, 2007



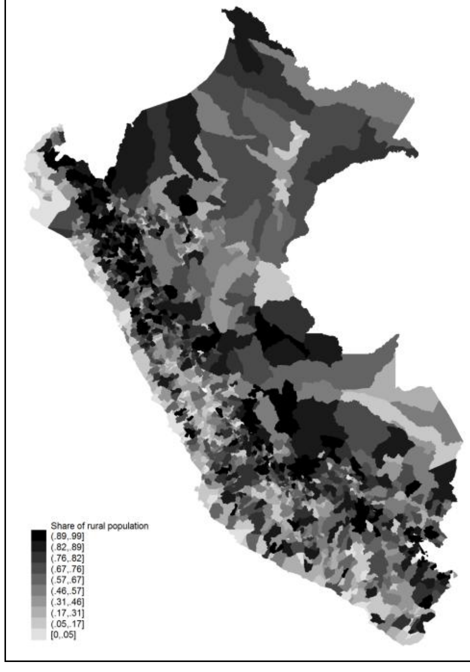
Map 6.1.1-B8: Share of population lacking access to water, 2007



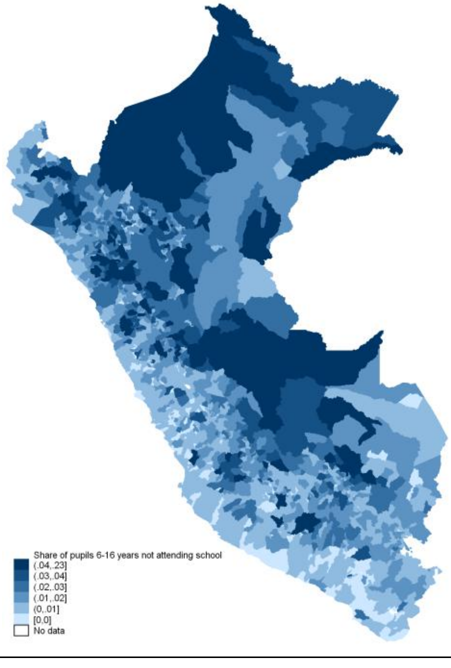
Map 6.1.1-B9: Ratio of undernourished children, 6-9 years, 2007



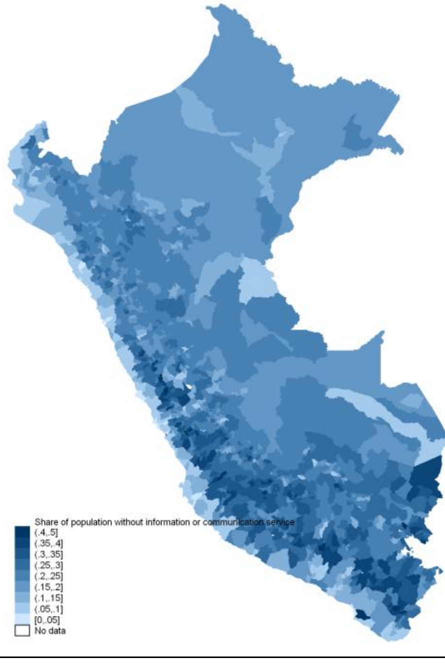
Map 6.1.1-B10: Share of rural population, 2007



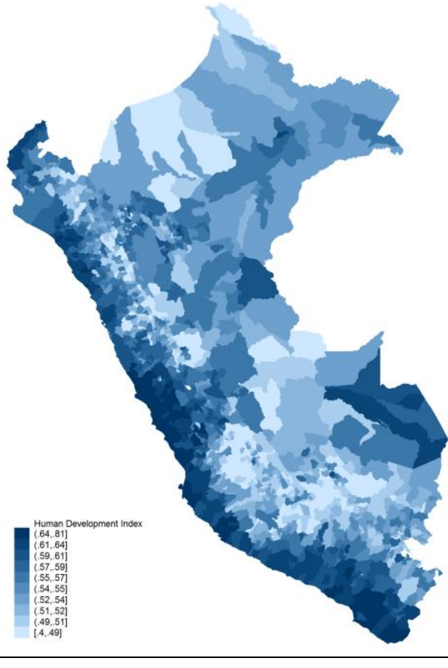
Map 6.1.1-B11: Share of pupils 6-16 years not attending school



Map 6.1.1-B12: Share of population lacking access to information and communication services, 2007



Map 6.1.1-B13: Human Development Index, 2007



Appendix 6.1.1-B: Maps with socioeconomic indicators for Peru (III)

Overview of maps and methodology

Colours of the maps

Blue maps: Indicators of poverty and socioeconomic development
Purple maps: Economic data
Light blue maps: Indicators of self-employment and formality of economically active population (EAP).

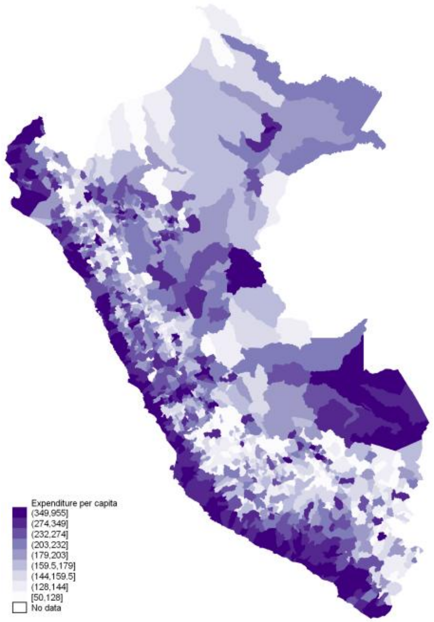
Methodology of the indicators for economic strength at the district level

Because there is no GDP at the district level available and the monthly average expenditure is the only variable available from the 2007 census, it is used multiplied by the number of the population in the respective district, adjusted for inflation for 2001 and 2008 because the financial data are nominal for using as a proxy for economic strength at the district level. An advantage is the reliability of expenditure data from surveys, which used to be much more reliable than income data from surveys that were the census data collected from the entire Peruvian population.

Source

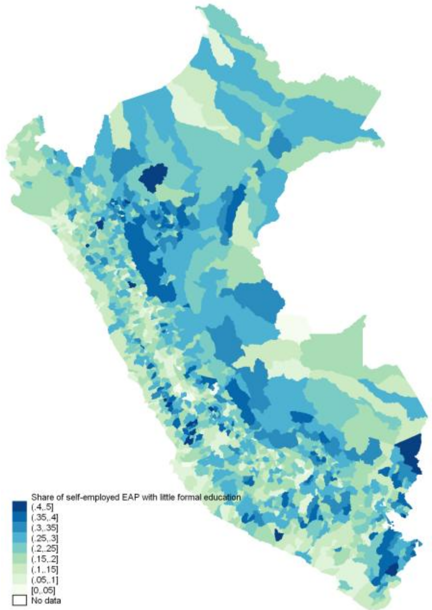
Own elaboration, with data from INEI, based on census data from 2007.

Map 6.1.1-B14: Average monthly expenditure in PEN, 2007

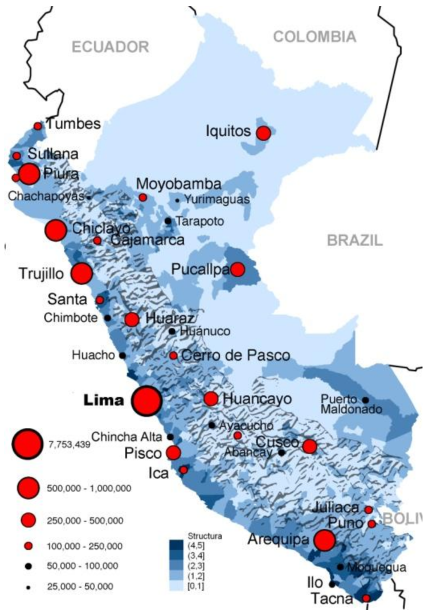


Map 6.1.1-B15: Population without national identity card, 2007

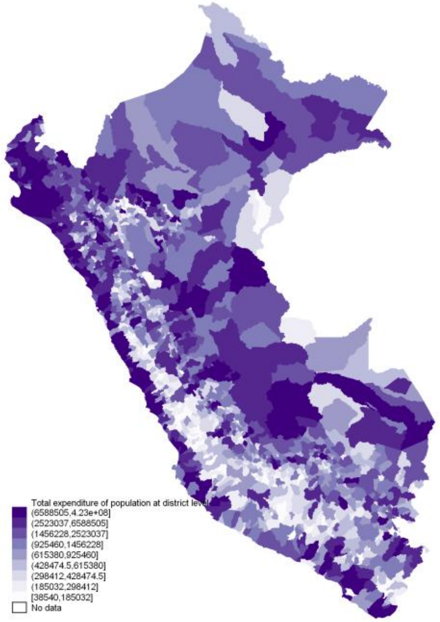
Map 6.1.1-B16: Self-employed PEA with little formal education



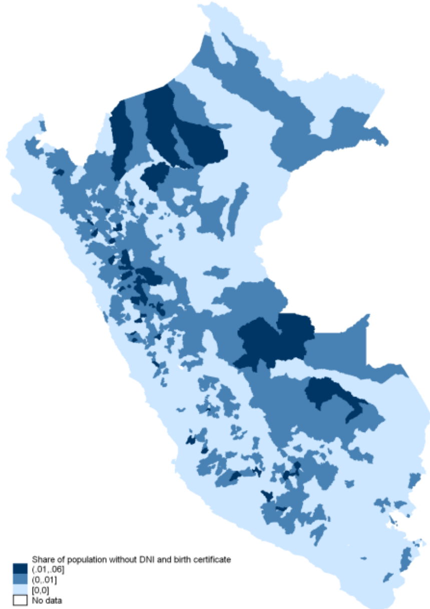
Map 6.1.1-B17: Indicator for structural poverty by FONCODES, relief and cities, 2007



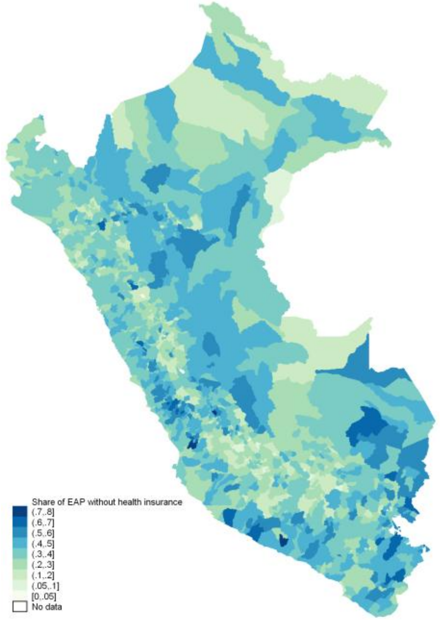
Map 6.1.1-B18: Total monthly expenditure of population per district in PEN, 2007



Map 6.1.1-B19: Population without national identity card and birth certificate, 2007



Map 6.1.1-B20: Share of occupied economically active population (EAP) without health insurance, 2007



Appendix 6.2.1-A: Overview of institutional changes and classification of these institutions in the present study

The final functional attribution shown in graph 6.2.1-B is detailed in table 6.2.1-A1 below, highlighting all the financial institutions that are classified differently from their legal classification in orange. COOPACs and NGOs are not listed in the table because the functional classification does not vary from the formal one. In the analysis, this functional classification is used. The most important changes are the following:

- Mibanco is considered to be a specialized microenterprise bank.
- Banco Falabella Perú and Banco Ripley are considered to be finance companies because they transformed into banks in 2007 and 2008 respectively.
- CMCP Lima is considered to be a 'sister organization' of the CMACs.
- Financiera Edyficar is still considered to be an EDPYME because it transformed into a finance company in 2008.
- Banco de Trabajo is still considered to be a bank because it was sold in 2008 and transformed into a finance company in 2009.

The group of the last four banks of HSBC Bank Perú, Banco Santander Perú, Banco Azteca del Perú, and Deutsche Bank Perú and the two EDPYMES Micasita y Credijet, marked with the orange circle in table 6.2.1-C, only recently entered the market. Accordingly, they are excluded when the institutional performance is assessed because they might bias the results of the other financial institutions (in 6.3.5), but they are considered in the analysis for breadth and depth of outreach (in 6.3.1 and 6.3.2).

Table 6.2.1-A1: Details of the functional classification-functional attribution of financial institutions for the different types of financial institutions in the present study

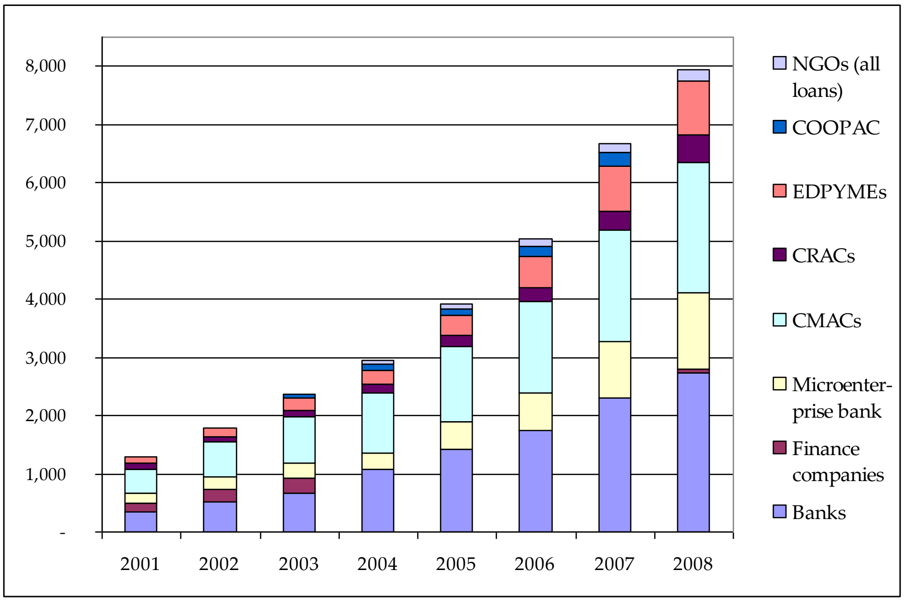
Bank	Finance Company	Microenterprise bank	CMACs	CRACs	EDPYMEs
B B V A BANCO CONTINENTAL	BANCO FALABELLA PERÚ	MIBANCO	CMAC AREQUIPA	CAJA CAJAMARCA	FINANCIERA EDYFICAR
BANCO DE COMERCIO	BANCO RIPLEY		CMAC CUSCO	CHAVIN	EDPYME ALTERNATIVA
BANCO DE CREDITO DEL PERÚ	FINANCIERA DE CREDITO		CMAC DEL SANTA	CRAC SIPAN	EDPYME EFECTIVA
BANCO DEL TRABAJO	FINANCIERA TFC S A		CMAC HUANCAYO	LIBERTADORES DE AYACUCHO	EDPYME CONFIANZA
BANCO FINANCIERO			CMAC ICA	LOS ANDES	EDPYME CREDITOS AREQUIPA
BANCO INTERAMERICANO			CMAC MAYNAS	CAJA NUESTRA GENTE	ACCESO CREDITICIO
SCOTIABANK PERÚ			CMAC PAITA	PROFINANZAS	EDPYME CREDIVISION
CITIBANK PERÚ			CMAC PISCO	CRAC PRYMERA	EDPYME NUEVA VISION
INTERBANK			CMAC PIURA	CREDINKA	EDPYME PROEMPRESA
HSBC BANK PERÚ			CMAC SULLANA	SEÑOR DE LUREN	EDPYME PRO NEGOCIOS
BANCO SANTANDER PERÚ			CMAC TACNA		EDPYME RAIZ
BANCO AZTECA DEL PERÚ			CMAC TRUJILLO		EDPYME SOLIDARIDAD
DEUTSCHE BANK PERÚ			CMCP LIMA		EDPYME MICASITA
					EDPYME CREDIJET

Source: Own elaboration, based on data from SBS.

Appendix 6.2.1-B: The difference between real and nominal values in the analysed period

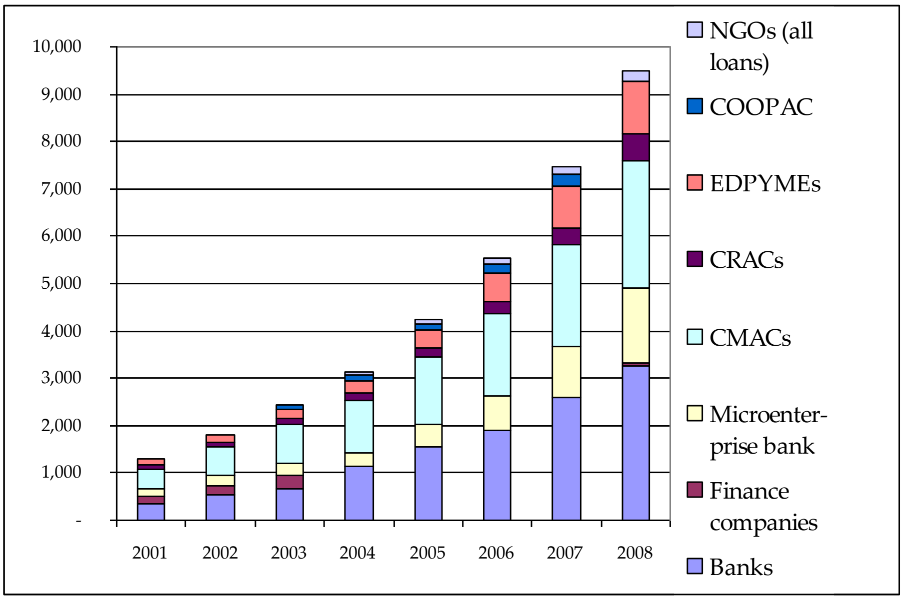
As can be observed in the following two graphs, the differences between nominal and real values are barely perceivable in the graphs and do not significantly affect the outcomes.

Graph 6.2.1-B1: Microenterprise loan portfolio, 2001-2008 (in million PEN at 2001 value, as of 31 December of each year)



Source: Data from SBS, FENACREP, and COPEME; own elaboration.
Notes: Further details are not relevant for the comparison between nominal and real values.

Graph 6.2.1-B2: Microenterprise loan portfolio, 2001-2008 (in million PEN, as of 31 Decemeber of each year)



Source: Data from SBS, FENACREP, and COPEME; own elaboration.
Notes: See graph 6.2.1-A1.

Appendix 6.3.1-A: Selection criteria for financial institutions for qualitative assessment

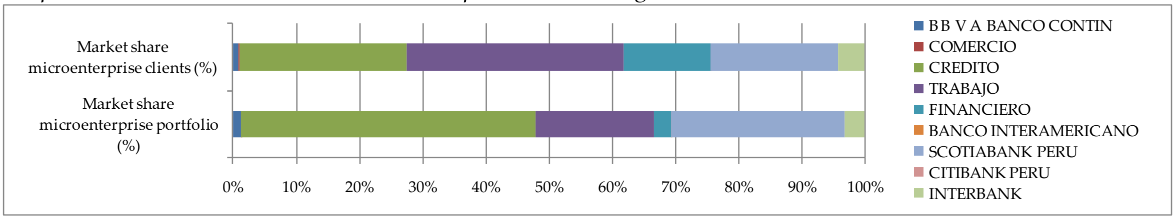
The applied sampling procedure is based on the recognition of the existence of similar providers of microfinance services grouped by types of providers, as discussed in section 6.2.1. Furthermore, it considers the segmentation of the Peruvian microfinance market and the diversity of the settings within different market scenarios. Accordingly, the first step of the sampling considers different local microfinance market settings, relevant for covering different socio-environmental areas, different degrees of microfinance market development, and specific market settings (see section 1.3). Table 6.3.1-A1 shows relevant institutions in these market settings, which were largely included in the field visits and interviews (see section 1.3).

Table 6.3.1-A1: Relevant microfinance markets and institutions

	Market characteristics	Selected financial institutions with important market presence in the specific markets
Market I:	Metropolitan zone of Lima/Lima – the economic, financial and political capital of the country and the place where the headquarters of downscaling banks are located	Banco de Crédito Banco del Trabajo Mibanco EDPYME Edificar Banco de Crédito Banco Financiero/Solifé Financiera Saga Falabella Financiera Ripley CMAC Piura CMAC Trujillo
Market II:	Arequipa (city)/Arequipa (region) – a well-developed microfinance market in the south of the country	CMAC Arequipa CRAC CajaSur EDPYME Crear Arequipa EDPYME Nueva Visión EDPYME Crear Arequipa Banco Wiese
Market III:	Cuzco/Cuzco – a moderately developed microfinance market in the south of the country	CMAC Cuzco CRAC Credinka Banco Interbank EDPYME Crear Cuzco
Market IV:	Abancay/Apurímac – a slightly developed microfinance market in one of the poorest regions of the south	Banco de Crédito Banco de Trabajo CRAC Credinka Banco de Trabajo
Market V:	Chiclayo/Lambayeque – a moderately developed microfinance market without regional leadership of a CMAC in the north	EDPYME Efectiva CRAC Señor de Sipán EDPYME Alternativa Scotiabank Banco de Crédito Banco Financiero CMAC Piura CRAC NorPerú Mibanco
Market VI:	Trujillo/La Libertad – a well-developed microfinance market in the north with the presence of an exceptional CRAC	CMAC Trujillo CRAC Norperú (later CRAC Nuestra Gente) EDPYME Pronegocios Banco Continental
Market VII:	Ayacucho/Ayachucho – a moderately developed microfinance market in the central Andean region with significant presence of microfinance NGOs and COOPACs	COOPAC San Cristóbal de Huamanga Finca Perú

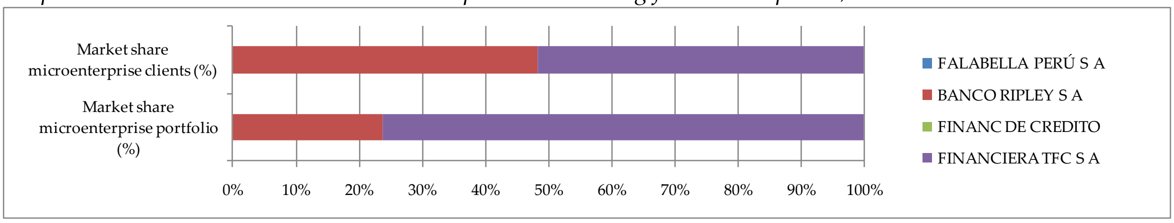
In a second step, the above list has been checked and then complemented in order to represent the diversity of institutions in the market. Therefore, both smaller institutions as well as larger ones have been included within each type of financial institution (CMACs, CRACs, etc.). The criteria for size are the respective market shares in numbers and portfolios of microenterprise loans, indicating the product is applicable for all financial institutions because some types of financial institutions cannot receive savings (see graphs 6.3.1-A1 through 6.3.1-A7).

Graph 6.3.1-A1: Market shares in microenterprise loans among banks, 31 December 2008



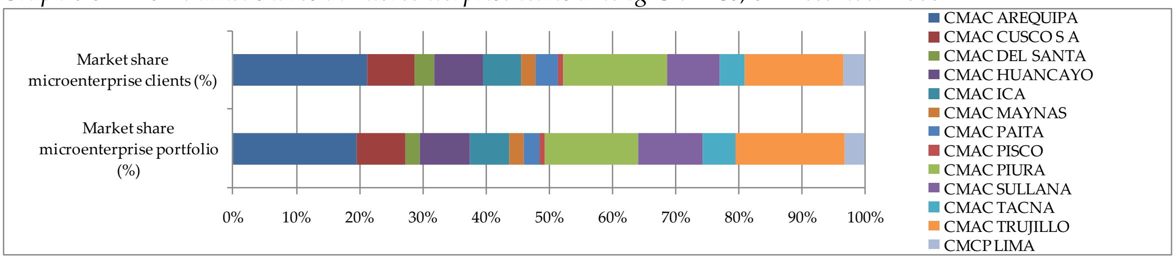
Source: Data from SBS, own elaboration.

Graph 6.3.1-A2: Market shares in microenterprise loans among finance companies, 31 December 2008



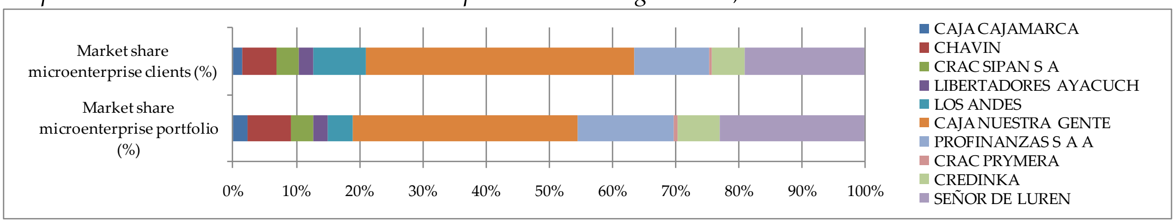
Source: Data from SBS, own elaboration.

Graph 6.3.1-A3: Market shares in microenterprise loans among CMACs, 31 December 2008



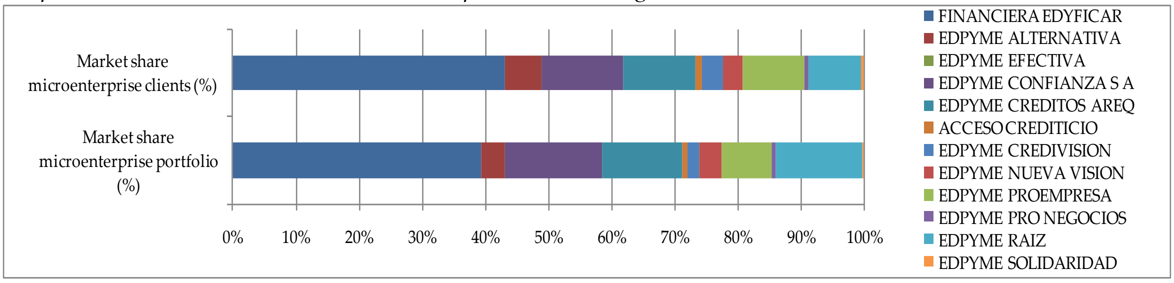
Source: Data from SBS, own elaboration.

Graph 6.3.1-A4: Market shares in microenterprise loans among CRACs, 31 December 2008



Source: Data from SBS, own elaboration.

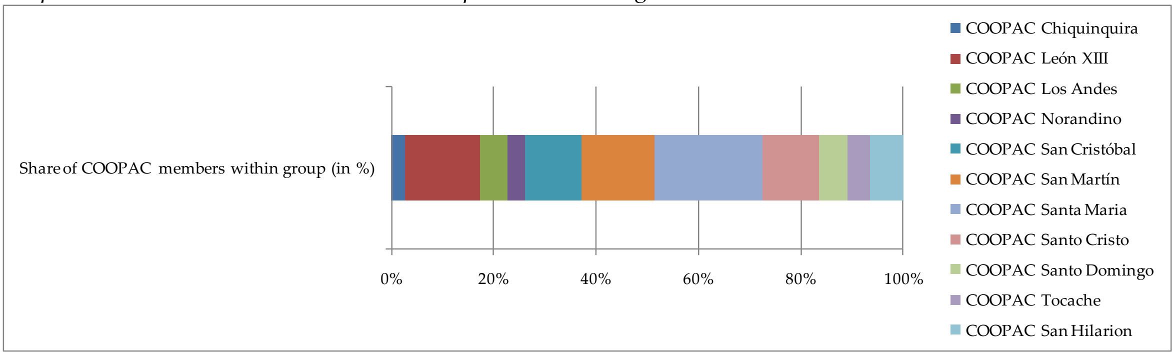
Graph 6.3.1-A5: Market shares in microenterprise loans among EDPYMEs, 31 December 2008



Source: Data from SBS, own elaboration.

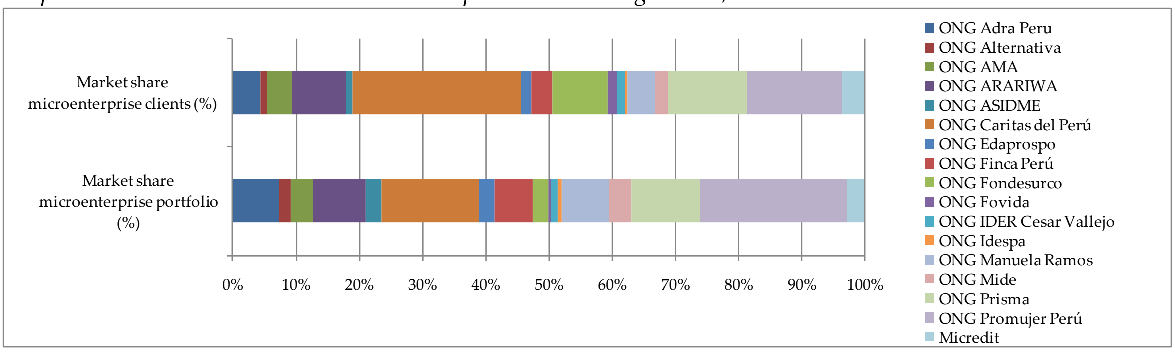
Among open cooperatives offering microfinance services, the market shares are distributed as shown in graph 6.3.1-A6. The selected larger and smaller cooperatives among these are both still quite large considering all COOPACs. The 4th rank of COOPAC Maria Magdalena and the 25th rank of COOPAC Tocache[206] underscore the very small size of most of the other cooperatives.

Graph 6.3.1-A6: Market shares in microenterprise loans among COOPACs, 31 December 2008



Source: Data from FENACREP and Mix Market, own elaboration.

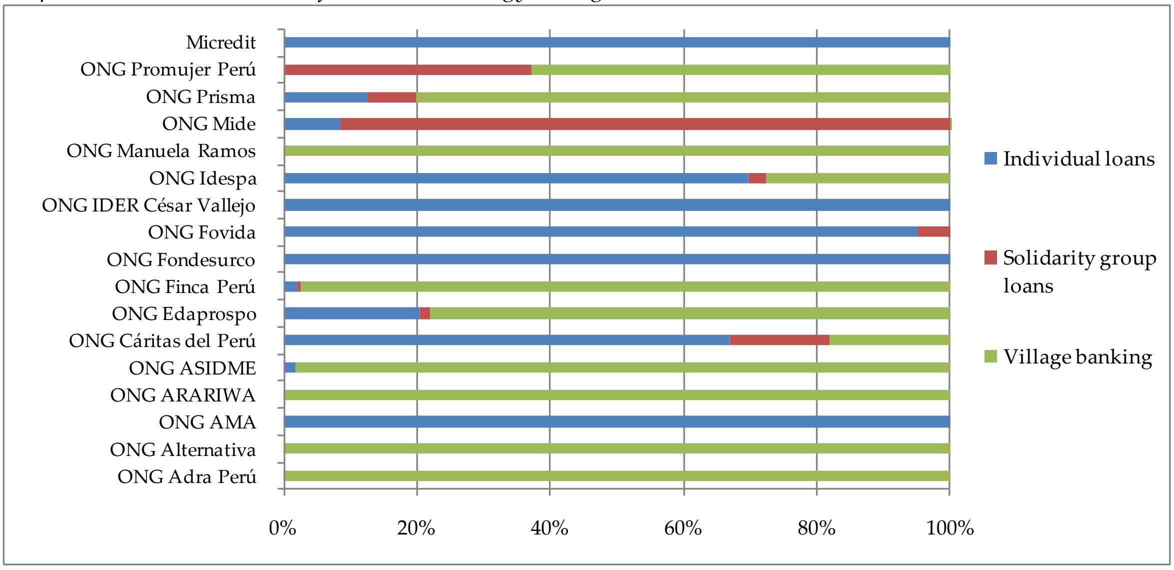
Graph 6.3.1-A7: Market shares in microenterprise loans among NGOs, 31 December 2008



Source: COPEME 2008: 2.

[206] FENACREP (2008): Ranking by COOPAC, as of 30 September 2008, http://www.fenacrep.org/web/eeff.php?option=2 (accessed 16 February 2009).

Graph 6.3.1-A8: Distribution of credit methodology among NGOs, 31 December 2008



Source: COPEME 2008: 8.

Selected institutions from graphs 6.3.1-A1 through 6.3.1-A8 results in the following table 6.3.1-A2.

Table 6.3.1-A2: Sample of financial institutions according to the microenterprise loan market shares

	Criteria of choice:	**List of important financial institutions regarding their microcredit market shares**
Banks	All relevant banks; considering Banco Continental for the important small savings.	Banco de Crédito Banco de Trabajo Skotiabank Perú Banco Financiero Interbank Banco Continental
Financial companies	All relevant financial companies	Banco Fallabella Banco Ripley Financiera TFC
Microfinance banks	The only microfinance bank	Mibanco
CMACs	CMACs from different regions and of different sizes	CMAC Trujillo CMAC Arequipa CMAC Cuzco
CRACs	CRACs from different regions and of different sizes, including one former institution that was recently merged into CRAC Norperú as a special market player	CRAC Credinka CRAC Nuestra Gente (CRAC Norperú)
EDPYMEs	EDPYMEs from different regions and of different sizes	Financiera Edyficar EDPYME Crear Arequipa (Créditos Arequipa)
COOPAC	Cooperatives from different regions and of different sizes selected from open cooperatives offering microfinance services to the general public	COOPAC Maria Magdalena COOPAC Tocache
NGOs	NGOs from different regions and of different sizes, including examples for different lending methodology	Finca Perú Prisma

Source: Own elaboration.

In a third and final step, the lists of institutions chosen in the first and second step are integrated and adjusted, using the following criteria:

- Banks: all banks with relevant engagement in microfinance, due to the very different kinds of products and engagement in the microfinance market
- Finance companies: enterprises with different time horizons for entering the microenterprise segment
- Microfinance banks: all relevant enterprises because there is only one in the market
- CMACs: representation of different regions and different sizes
- CRACs: mergers of three CRACs formed the largest CRAC (CRAC Nuestra Gente), working in different regions, completed by a small CRAC from the southern *sierra (*Caja Señor de Sipán is in the same town as Norperú, which is now part of CRAC Nuestra Gente)
- EDPYMEs: Largest and pan-regional EDPYME in combination with small EDPYME from the *sierra*
- COOPAC: Of the open cooperatives offering microfinance services, a larger and a smaller one (sample is only representative for this group of cooperatives, not for the closed cooperatives and the smallest ones)
- NGOs: Different sizes, locations, and microfinance technologies (especially for representing the different technologies for most enterprises being village banking and solidarity groups)
- Banco de la Nación: development banks with important outreach into sparsely banked areas; might offer financial services to the public in locations where it is the only financial institution; other development banks work largely as second tier institutions (COFIDE and Agrobanco)

The final list of institutions selected for the institution-wise analysis of cost and scope is shown in table 6.3.1-A3.

Table 6.3.1-A3: Final list of institutions chosen

	List in terms of market characteristics	**Selected financial institutions with important market presence in the specific markets**	**Final list (considering also recent mergers, acquisitions, and name changes)**
Banks	Banco de Crédito Banco del Trabajo Banco Financiero/Solifé Banco Interbank Banco Wiese Banco Continental Scotiabank BBVA	Banco de Crédito Banco de Trabajo Skotiabank Perú Banco Financiero Interbank Banco Continental	**1. Banco de Crédito** **2. Banco del Trabajo** **3. Banco Financiero/Solifé** **4. Scotiabank** **5. Interbank** **6. Banco Continental**
Financial companies	Financiera Saga Falabella Financiera Ripley	Banco Fallabella Banco Ripley Financiera TFC	**7. Banco Saga Falabella** **8. Banco Ripley**
Microfinance banks	Mibanco	Mibanco	**9. Mibanco**
CMACs	CMAC Arequipa CMAC Cuzco CMAC Trujillo CMAC Piura	CMAC Trujillo CMAC Arequipa CMAC Cuzco	**10. CMAC Trujillo** **11. CMAC Arequipa** **12. CMAC Cuzco**
CRACs	CRAC CajaSur CRAC Credinka CRAC Señor de Sipán CRAC Norperú	CRAC Credinka CRAC Nuestra Gente (CRAC Norperú) CRAC Profinanzas	**13. CRAC Credinka** **14. CRAC Nuestra Gente (CRAC Norperú)**

	List in terms of market characteristics	Selected financial institutions with important market presence in the specific markets	Final list (considering also recent mergers, acquisitions, and name changes)
EDPYMEs	EDPYME Edyficar EDPYME Crear Arequipa EDPYME Nueva Visión EDPYME Crear Arequipa EDPYME Crear Cuzco EDPYME Efectiva EDPYME Alternativa EDPYME Pronegocios	Financiera Edyficar EDPYME Crear Arequipa (Créditos Arequipa)	**15. Financiera Edyficar** **16. EDPYME Crear Arequipa (Créditos Arequipa)**
COOPAC	Cooperativa de Ahorro y Crédito San Cristóbal de Huamanga	COOPAC Maria Magdalena COOPAC Tocache	**17. COOPAC Maria Magdalena** **18. COOPAC Tocache**
NGOs	Finca Perú	Prisma Promujer/ONG MIDE	**19. Prisma** **20. Finca Perú**
Development banks		Banco de la Nación	**21. Banco de la Nación**

Source: Own elaboration.

Appendix 6.3.1-B: Products, conditions, and costs of liquid savings, fixed-term savings, remittances, and insurance

Table 6.3.1-B1: Overview of conditions and cost of liquid savings accounts

(Most suitable) short-term/liquid savings accounts	Cost for opening the account and maintenance	Effective annual interest rate*	Minimum amount	Transactions permitted	Other important characteristics	Name of relevant product	Other products	Sources (incl. date of access)
Banco de Crédito	None	NC: 0.25% FC: 0.125%	None	Access by Internet, telephone, ATM, and banking agent (Agente BCP) are free; very limited number of transactions at the counter (1 per month), 7 PEN for most transactions at the counter.	Debit card Credimás included; access to insurance product 'Seguro Múltiple'.	Primera Cuenta BCP	Bank offers a wide range of different liquid savings products.	http://www.viabcp.com/zona_publica/01_persona/interna.asp?SEC=1&JER=2203 (product characteristics); http://www.viabcp.com/zona_publica/library/tasas.asp?SEC=1&JER=2203&ENL=2203 (interest rates) (accessed 11 May 2009)
Banco de Trabajo/ CrediScotia	None only for clients with a loan or a credit card.	From 1-500 PEN/ 150 USD: NC: 3%; FC: 2%	None	Access by Internet, telephone, ATM and banking agent (Cajeros Express) for free, 5 PEN for most transactions at the counter.	Savings account seems to be designed for clients with loans & credit cards.	Cuenta Ahorros Personas	The presented product is the only liquid savings product.	http://www.crediscotia.com.pe/ahorros_persona.shtml (product characteristics); http://www.crediscotia.com.pe/tarifario/pdf/01_cuenta_ahorro_personas_-_02_if.pdf (interest rates) (accessed 11 May 2009)
Scotiabank Perú	Only with a mean monthly balance > 200 PEN/50 USD for free; if not, maintenance cost of 5 PEN and fee of 1.2 USD for debit card (monthly).	NC: 2% FC: 1%	None (only for getting the account for free)	Access by Internet, telephone, ATM and banking agent (Cajeros Express) for free; costs of 1,75 to 12 PEN for most simple transactions at the counter (very detailed cost scheme about different cost for operations at the counter).	Debit card ScotiaCard included (partly with cost), allowing also direct payments at POS terminals.	Cuenta Cero Manteni-miento	Bank offers a wide range of different liquid savings products.	http://www.scotiabank.com.pe/bpr_soluciones/bp_s_cuentacero.shtml (product characteristics); http://www.scotiabank.com.pe/tarifario/pdf/2.pdf (fees and interest rates); http://www.scotiabank.com.pe/banca_personal_soluciones.shtml (other savings products) (accessed 12 May 2009)
Banco Financiero	None	0.5% (0-299.99 PEN) 3% (300-9,999,99 PEN)	30 PEN, 10 USD	Access by Internet, telephone, ATM, and banking agent is free; very limited number of transactions at the counter (2 per month), 3.5 PEN for most transactions at the counter.	Monthly raffle for savings clients.	Cuenta azul de ahorros	Two other liquid savings products, but without detailed information on the differences.	http://www.financiero.com.pe/# (product characteristics); http://www.financiero.com.pe/ASP/tarifario/tarifario.html# (interest rates and fees) (accessed 12 May 2009)
Interbank	None	0.25% for NC and FC	None	Access by Internet, telephone, ATM, and banking agent (Interbank Directo) and at the counter is free.	Limited number of transactions permitted.	Ahorro Sencillo	Differentiated savings products, e.g., with raffle option with a certain minimum balance and maintenance fee, but most other products are linked to wage-receiving accounts.	http://www.interbank.com.pe/ (different products); http://www.interbank.com.pe/personas/depositos/pdfs/Ahorro_Sencillo_PN.pdf (tariffs and fees, simple account) http://www.interbank.com.pe/personas/depositos/pdfs/cuenta_millonaria_pn.pdf (tariffs and fees, account with raffle) (accessed 12 May 2009)
BBVA -Banco Continental	Noneduring the first six months; from the 7th month on, if balance < 300 PEN, then 100 USD.	NC: 2% FC: 0.75%	None	Access by Internet, telephone, and ATM and very limited number of transactions at the counter (1 per month) are free. Access through banking agent (Agente Express and Agente Express Plus for more operations) not mentioned.	Debit card for free.	Ahorro Cero Manteni-miento	Free account for receiving remittances in NS & USD, linked to a remittance debit card.	http://www.bbvabancocontinental.com/tlpu/jsp/pe/esp/paratiN/depositos/cahorro/ahorroceroman/index.jsp?&&Pestana=Nuestro%20Producto&SubPestana=Beneficios (product characteristics, interest rates, and fees); http://www.bbvabancocontinental.com/tlpu/jsp/pe/esp/paratiN/depositos/cahorro/cuentaremesas/index.jsp#0 (remittances); http://www.bbvabancocontinental.com/tlpu/jsp/pe/esp/paratiN/depositos/cahorro/index.jsp (product scope) (accessed 13 May 2009)
Banco Ripley	None	NC & FC: 1.75%	None	Access through Ripley stores for free.	Access only through 11 Ripley stores in Lima and 2 in Trujillo.	Cuenta de Ahorros Ripley	None	http://www.ripley.com.pe/financor/depositos_inversiones/ahorros_beneficios.jsp (product characteristics); http://www.ripley.com.pe/financor/pdfs/institucional/transparencia/Tarifario_ahorros.pdf (interest rates) http://www.ripley.com.pe/financor/institucional/canales_red_agencias.jsp (distribution channels) (accessed 13 May 2009)
Financiera TFC	n/a	n/a	n/a	n/a	n/a	n/a	n/a	http://www.tfc.com.pe/ (accessed 13 May 2009)
Mibanco	First time None (only for activating inactive accounts); maintenance of 3 PEN/1 USD if balance is < 200 PEN/70 USD.	From 200-5,000 PEN/70-2,000 USD NC: 0.85% FC: 0.25%	None (only for free access)	Access by Internet, telephone, and ATM (shared with BBVA Banco Continental), banking agent (Kasnet), and very limited number of transactions at the counter (2 per month) are free.	Monthly raffle of cars for savings clients if new accounts are opened/ balance increased.	Cuenta de Ahorros	Debit card is offered for free with the savings account. No other liquid savings products are offered.	http://www.mibanco.com.pe/nucleo.aspx?nompag=comphtml/ahorro.htm&tp=interno&id=es&usel=Cuenta%20a%20de%20a%20Ahorros (savings account); http://www.mibanco.com.pe/nucleo.aspx?nompag=comphtml/tarjvisaelec.htm&tp=interno&id=es&usel=Tarjetas%20Mibanco%20Visa (debit card), http://www.mibanco.com.pe/nucleo.aspx?nompag=comphtml/camahorros09.htm&tp=interno&id=es (raffle) (accessed 13 May 2009)
CMAC Trujillo	None	NC: 1%FC: 0.5% For minors: NC: 4%FC: 2%	None	Access by Internet, telephone, ATMs (own ATMs and Red Global Net) for free. No information on eventual cost of access by the counter.	Includes free burial insurance and debit card.	Ahorro simple	Savings product for minors under special conditions is offered; furthermore, a savings account with payment orders is available.	https://www.cajatrujillo.com.pe/portalnuevo/01parati/01depositos/ahorro_simple.html (product characteristics); https://www.cajatrujillo.com.pe/portalnuevo/01parati/01depositos/deposito_infantil.html (savings fro minors), https://www.cajatrujillo.com.pe/portalnuevo/menusuperior/tasasycomisiones/pdf/Ahorros/TasasPasivasMonNacExtr.htm (interest rates) (accessed 13 May 2009)
CMAC Cuzco	None	NC: 1.75% FC: 1.25% For minors: NC: 5% FC: 4%	20 PEN; 20 USD	Access by Internet, and through all branches of CMACs (also other CMACs).	Includes a client card.	Cuenta de ahorros	Savings product for minors at special conditions is offered; furthermore, a savings account with payment orders is available.	http://www.cmac-cusco.com.pe/cuentaahorros.html (product characteristics), http://www.cmac-cusco.com.pe/docs/TasasAhorros.pdf (interest rates and fees) (accessed 13 May 2009)
CMAC Arequipa	None	NC: 1.2% FC: 1.0%	'Low minimum amount' (not further specified)	Access by Internet, branches and banking agent (Rapicaja) - no cost specified. Free access through ATM Cajamático.	Includes a debit card.	Ahorro Móvil	A savings account with payment orders is available.	http://www.cmac-arequipa.com.pe/ahorromovil.php (product characteristics); http://www.cmac-arequipa.com.pe/pdf/Tasas_Ahorros.pdf (interest rates) (accessed 13 May 2009)
CRAC Credinka	None	NC: 1.75% FC: 0.5%	50 PEN; 40 USD	Access through all branches of CRACs of Red Unicajas.	Product is also available for nonformalized juridical persons, including rural communi-ties.	Ahorro Corriente	Specific products for the inclusion of rural population (see proyecto Corredor).	http://www.credinka.net (product characteristics); http://www.credinka.net/content2_1_4.html (interest rates and fees) (accessed 13 May 2009)

Continuation of: Table 6.3.1-B1: Overview of conditions and cost of liquid savings accounts

(Most suitable) short-term/liquid savings accounts	Cost for opening the account & maintenance	Effective annual interest rate*	Minimum amount	Transactions permitted	Other important characteristics	Name of relevant product	Other products	Sources (incl. date of access)
CRAC Nuestra Gente	Opening fee: 20 PEN/50 USD; maintenance fee 3 PEN/1USD for accounts with balances < 300 PEN/100 USD.	NC: 1% FC: 0.75%	Only regarding maintenance fee.	Free access through own ATMs/Unicard ATMs; operations at the counter from 2-40 PEN/1-10USD.	Includes a debit card.	Ahorro Común	No other similar products; only for wage-receivers	http://www.cajasurperu.com/: http://www.cajasurperu.com/ahorro.php (general information); http://www.cajasurperu.com/pdf/FO022%20CARTILLA_INFORMATIVA.pdf, http://www.cajasurperu.com/pdf/TARIFARIO%20CAJA%20NUESTRAGENTE%20-%20COMISIONES.pdf; http://www.cajasurperu.com/pdf/TARIFARIO%20CAJA%20NUESTRAGENTE%20-%20TASAS%20PASIVAS.pdf (interest rates & fees) (accessed 27 May 2009)
EDPYME Financiera Edyficar	n/a	n/a	n/a	n/a	n/a	n/a	n/a	http://www.edyficar.com.pe/ServletPortal (accessed 27 May 2009)
EDPYME Crear Arequipa	EDPYMES are not allowed to take savings.	n/a	n/a	n/a	n/a	n/a	n/a	http://www.creararequipa.com.pe/crear/index.htm (accessed 27 May 2009)
EDPYME Nueva Visión	EDPYMES are not allowed to take savings.	n/a	n/a	n/a	n/a	n/a	n/a	http://www.nuevavision.com.pe/index.php?option=com_content&view=article&id=1&Itemid=15 (accessed 27 May 2009)
CAC Santa María Magdalena	n/a	n/a	n/a	n/a	Enables taking part in raffle for cars (savers get coupons for raffle).	Ahorro simples	Village banking is also offered: Crédito Ahorro Grupal Rural 'Winay Warmi - Crece Mujer' (rural savings and credit groups).	http://www.cac-santamaria.coop/ahorros.html; http://www.cac-santamaria.coop/crecemjer.html (accessed 1 June2009)
CAC Tocache	None	NC: 5%, FC: 3%	20 PEN; 20 USD	All operations are free.	n/a	Ahorro Clasico	There is a similar savings product for children (only minimum amounts differ: 1 NS/USD)	http://www.coopetocache.pe/ahorro_clasico.html, http://www.coopetocache.pe/ahorro_infantil.html (accessed 1 June 2009)
NGO Finca Perú	No information available because savings are managed by and held within the village banks, given that NGOs might not receive savings.			Serves to guarantee loan and provide the funds for internal lending that is complemented by a loan to the village bank.	Individual savings account in village bank managed by the village bank.	n/a	There is programmed and further voluntary savings.	http://www.fincaperu.net/cms/index.php/bancomunales_ahorro/es/, http://www.fincaperu.net/cms/index.php/bancomunales_credito/es/; http://www.fincaperu.net/cms/wp-content/uploads/2007/08/planet-rating_finca-peru_2007.pdf (accessed 1 June 2009)
NGO Prisma	No information available because savings are managed by and held within the village banks, given that NGOs might not receive savings.			Serves to guarantee loan and provide the funds for internal lending that is complemented by a loan to the village bank.	Individual savings account in village bank managed by the village bank.	n/a	There is programmed and further voluntary savings.	http://www.mfp.org.pe/ (accessed 1 June 2009)
Banco de la Nación (UOB products)**	Maintenance fee of 0.75 PEN montly.	NC: 0.5%	50 PEN	All operations have very small costs.	Only available in UOB locations.	Cuenta de ahorros en agencias UOB	/	http://www.bn.com.pe/persona-natural/cuenta-ahorros-uob.asp, http://www.bn.com.pe/tarifario/ahorros-sp-uob.asp (accessed 1 June 2009)

Legend: NC: National currency – FC: Foreign currency (largely US dollar, increasingly also Euro);
* Tasa efectiva anual (TEA)
** For Banco de la Nación, the products offered to the general public in UOB are considered, not the products reserved for public sector servants only.

Source: Own conceptualization and compilation, see column 'Sources' in the table.

Notes: CRAC Nuestra Gente includes the former CRAC NorPerú, CRAC Caja Sur, EDPYME Crear Tacna; EDPYME Crear Arequipa has the commercial name of Créditos Arequipa; EDPYME Financiera Edyficar is currently registered as the finance company Financiera Edyficar, and Banco de Trabajo as the finance company CrediScotia. For the sampling method applied, see Appendix 6.3.1-A.

Table 6.3.1-B2 Overview of conditions and cost of remittances at national level

National non-account-linked transfers options	Cost	Minimum amount	Maximum amount	Obligatory client ship of sender/receiver	Other important characteristics	Sources (incl. date of access)
Banco de Crédito	0.5%	15 PEN; 5 USD	700 PEN; 350 USD	No		http://www.viabcp.com/zona_publica/01_persona/interna.asp?SEC=1&JER=96 (product characteristics); http://www.viabcp.com/zona_publica/01_persona/interna.asp?SEC=1&JER=96&ENL=1975# (prices) (accessed 11 May 2009)
Banco de Trabajo/CrediScotia	n/a	n/a	n/a	n/a	n/a	http://www.crediscotia.com.pe/remesas.shtml; http://www.crediscotia.com.pe/transferencias.shtml (accessed 11 May 2009)
Scotiabank Perú	0.5% (with a minimum of 9 PEN, a maximum of 782 PEN).	No	no	no	Money can also be obtained with banking agents of the bank (Cajero Express).	http://www.scotiabank.com.pe/bpr_soluciones/bp_s_transnacionales.shtml (product characteristics); http://www.scotiabank.com.pe/tarifario/pdf/6.pdf (prices) (accessed 12 May 2009)
Banco Financiero	n/a	n/a	n/a	n/a	n/a	http://www.financiero.com.pe (product range) (accessed 12 May 2009)
Interbank	n/a	n/a	n/a	n/a	n/a	http://www.interbank.com.pe/ (accessed 12 May 2009)
BBVA -Banco Continental	Free for the receiver; no information on the cost for the sender.	No	no	Not for receiver, no information on sender.	n/a	http://www.bbvabancocontinental.com/tlpu/jsp/pe/esp/paratiN/mediospag/enviodinero/index.jsp#0 (accessed 13 May 2009)
Banco Ripley	n/a	n/a	n/a	n/a	n/a	http://www.ripley.com.pe/financor/home/index.jsp (accessed 13 May 2009)
Financiera TFC	n/a	n/a	n/a	n/a	n/a	http://www.tfc.com.pe/ (accessed 13 May 2009)
Mibanco	n/a	n/a	n/a	n/a	n/a	http://www.mibanco.com.pe/ (accessed 13 May 2009)
CMAC Trujillo	5 PEN/2 USD up to 1,000 PEN/400 USD.	No	no	no	/	https://www.cajatrujillo.com.pe/portalnuevo/01parati/05servicios/giros.html (product characteristics); https://www.cajatrujillo.com.pe/portalnuevo/menusuperior/tasasycomisiones/pdf/servicios/TarServOper.htm (prices) (accessed 13 May 2009)
CMAC Cuzco	n/a	n/a	n/a	n/a	n/a	http://www.cmac-cusco.com.pe/servicios.html (accessed 13 May 2009)
CMAC Arequipa	n/a	n/a	n/a	n/a	n/a	http://www.cmac-arequipa.com.pe/index.php (accessed 13 May 2009)
CRAC Credinka	n/a	n/a	n/a	n/a	n/a	http://www.credinka.net/ (accessed 13 May 2009)
CRAC Nuestra Gente	Transfers to other locations within the country have a cost of 0.5% of the amount (min 2 PEN/0.7 USD, max 150 PEN/50 USD).	n/a	n/a	no	Transferring money from/to Quiruvilca branch is more expensive.	http://www.cajasurperu.com/index.php; http://www.cajasurperu.com/interplazas.php (general information); http://www.cajasurperu.com/pdf/TARIFARIO%20CAJA%20NUESTRAGENTE%20-%20COMISIONES.pdf (cost, fees) (accessed 27 May 2009)
EDPYME Financiera Edyficar	n/a	n/a	n/a	n/a	n/a	http://www.edyficar.com.pe/ServletPortal (accessed 27 May 2009)
EDPYME Crear Arequipa	n/a	n/a	n/a	n/a	n/a	http://www.creararequipa.com.pe/crear/index.htm (accessed 27 May 2009)
EDPYME Nueva Visión	n/a	n/a	n/a	n/a	n/a	http://www.nuevavision.com.pe/index.php?option=com_content&view=article&id=1&Itemid=15 (accessed 27 May 2009)
CAC Santa María Magdalena	n/a	n/a	n/a	n/a	Money gram logo appears on the home-page of the financial institution, without further information.	http://www.cac-santamaria.coop/moneygram.html (accessed 1 June 2009)
CAC Tocache	n/a	n/a	n/a	n/a	n/a	http://www.coopetocache.pe/productos.html (accessed 1 June 2009)
NGO Finca Perú	n/a	n/a	n/a	n/a	n/a	http://www.fincaperu.net/cms/index.php/es/, http://www.fincaperu.net/cms/wp-content/uploads/2007/08/planet-rating_finca-peru_2007.pdf (accessed 1 June 2009)
NGO Prisma		n/a	n/a	n/a	n/a	http://www.mfp.org.pe/ (accessed 1 June 2009)
Banco de la Nación	No defined cost per operation.	None	None	Sender must have a savings account.	n/a	http://www.bn.com.pe/persona-natural/cuenta-ahorros-uob.asp, http://www.bn.com.pe/tarifario/ahorros-sp-uob.asp (accessed 1 June 2009)

Source: Own conceptualization and compilation, see column 'Sources' in the table.

Notes: CRAC Nuestra Gente includes the former CRAC NorPerú, CRAC Caja Sur, EDPYME Crear Tacna; EDPYME Crear Arequipa has the commercial name of Créditos Arequipa; EDPYME Financiera Edyficar is currently registered as the finance company Financiera Edyficar, and Banco de Trabajo as the finance company CrediScotia. For the sampling method applied, cf. Appendix 6.3.1-A.

Table 6.3.1-B3 Overview of conditions and cost of remittances at the international level

International non-account-linked transfers options	Cost in receiving country Peru	Costs in USD for sending country (200 USD remittance assumed) from	Minimum amount	Maximum amount	Obligatory clientship of sender/receiver	Other important characteristics	Sources (incl. date of access)
Banco de Crédito	Free up to 2000 PEN; then fees apply.	- Chile : 10.16 - 13.10 USD - Spain : 9.76 USD - USA : 6.00 - 15.00 USD	no	no	no	Only possible through partnering institutions of the bank (17 in USA, 12 in Spain, 7 in Italy, 2 in Japan, 1 in Chile, 1 in Mexico) - Chile (MTO) : Afex, Argenper, More Money Transfer - Spain (NFBI) : La Caixa - USA (MTO) : La Nacional, Remesas Quisqueyana, Ria Financial, Vigo, Xoom	http://www.viabcp.com/zona_publica/01_persona/interna.asp?SEC=1&JER=95 (product characteristics); http://www.viabcp.com/zona_publica/library/tarifas.asp?SEC=1&JER=96&ENL=96 (cost) (accessed 11 May 2009) The World Bank Group (Remittances prices worldwide, cf. Appendix 6.3.1-D)
Banco de Trabajo/CrediScotia	Free for the receiver.	For the sender depending on remittances partner - USA : 5.00 USD	no	no	no	Only possible through partnering institutions of the finance company (no further information). - USA (MTO) : Uniteller	http://www.crediscotia.com.pe/remesas_2.shtml (product characteristics); http://www.crediscotia.com.pe/tarifario/pdf/11_pago_remesas-if.pdf (prices) (accessed 11 May 2009) The World Bank Group (Remittances prices worldwide, cf. Appendix 6.3.1-D)
Scotiabank Perú	Free for the receiver.	For the sender depending on remittances partner - Chile : 13.40 USD - USA : 13.18 USD	no	no	no	Only possible through partnering institutions of the bank: Bancomercio and Western Union. Preferential attention of clients receiving money through Western Union in bank branches; access to remittances with Bancomercio through branches and banking agents. - Chile (MTO) : Western Union - USA : (MTO) : Western Union	http://www.scotiabank.com.pe/bpr_soluciones/bp_s_pagoremesasbanco.shtml (Bancomericio); http://www.scotiabank.com.pe/bpr_soluciones/bp_s_pagoremesaswestern.shtml (Western Union) (accessed 12 May 2009) The World Bank Group (Remittances prices worldwide, cf. Appendix 6.3.1-D)
Banco Financiero	n/a	n/a	n/a	n/a	n/a	n/a	http://www.financiero.com.pe (product range) (accessed 12 May 2009)
Interbank	Free for the receiver.	For the sender depending on remittances partner - Chile : 9.80 - 12.62 USD - Spain : 12.76 - 14.40 USD - USA : 6.00 - 15.00 USD	no	no	no	The money can be send through one of the 200,000 banking agents at global level. - Chile (MTO) : Afex, Argenper, Giunazu Transfer, Money Gram, More Money Transfer - Spain :(MTO) : Universal de Envios, Money Gram - USA (MTO) : Uniteller, La Nacional Ria Financial, Vigo, Xoom, Uno Money Transfer, Money Gram	http://www.interbank.com.pe/ (accessed 12 May 2009) The World Bank Group (Remittances prices worldwide, cf. Appendix 6.3.1-D)
BBVA -Banco Continental	Free for the receiver.	For the sender depending on remittances partner - USA : 6.00 USD - 15.00 USD	no	no	Not for receiver, no information on sender.	Money can be sent from USA and Spain directly through BBVA. - USA (MTO) : Uniteller, Vigo, Xoom	http://www.bbvabancocontinental.com/tlpu/jsp/pe/esp/paratiN/mediospag/enviodinero/index.jsp#0 (accessed 13 May 2009) The World Bank Group (Remittances prices worldwide, cf. Appendix 6.3.1-D)
Banco Ripley	n/a	n/a	n/a	n/a	n/a	n/a	http://www.ripley.com.pe/financor/home/index.jsp (accessed 13 May 2009)
Financiera TFC	n/a	n/a	n/a	n/a	n/a	n/a	http://www.tfc.com.pe/ (accessed 13 May 2009)
Mibanco	Free for the receiver.	For the sender depending on remittances partner - Chile : 6.80 - 12.62 USD - Spain : 9.76 USD - USA : 6.00 - 10.00 USD	no	no	Not for receiver, no information on sender.	Money can be sent through various partnering institutions from all countries with Money Gram or RIA presence; special partnerships for USA, Spain, and Chile. - Chile (MTO) : Afex, Giunazu Transfer, Money Gram - Spain :(NFBI) : La Caixa - USA (MTO) : Ria Financial, Money Gram	http://www.mibanco.com.pe/nucleo.aspx?nompag=comphtml/remesas.htm&tp=interno&id=es&usel=Envio%20de%20Dinero-Remesas (accessed 13 May 2009) The World Bank Group (Remittances prices worldwide, cf. Appendix 6.3.1-D)
CMAC Trujillo	n/a	n/a	n/a	n/a	n/a	n/a	https://www.cajatrujillo.com.pe/portalnuevo/01parati/index.html (accessed 13 May 2009)
CMAC Cuzco	n/a	n/a	n/a	n/a	n/a	n/a	http://www.cmac-cusco.com.pe/servicios.html (accessed 13 May 2009)
CMAC Arequipa	n/a	n/a	n/a	n/a	n/a	n/a	http://www.cmac-arequipa.com.pe/index.php (accessed 13 May 2009)
CRAC Credinka	n/a		n/a	n/a	n/a	n/a	http://www.credinka.net/ (accessed 13 May 2009)
CRAC Nuestra Gente	Free for the receiver.	According to cost of Western Union.	According to guidelines of Western Union.	According to guidelines of Western Union.	no	Money can be sent at national and international level to and through Caja Nuestra Gente due to agreement with Western Union.	http://www.cajasurperu.com/index.php; http://www.cajasurperu.com/western_union.php (general information); http://www.cajasurperu.com/pdf/TARIFARIO%20CAJA%20NUESTRAGENTE%20-%20COMISIONES.pdf (cost, fees) (accessed 27 May 2009)
EDPYME Financiera Edyficar	n/a	n/a	n/a	n/a	n/a	n/a	http://www.edyficar.com.pe/ServletPortal (accessed 27 May 2009)
EDPYME Crear Arequipa	n/a		n/a	n/a	n/a	n/a	http://www.creararequipa.com.pe/crear/index.htm (accessed 27 May 2009)
EDPYME Nueva Visión	n/a	n/a	n/a	n/a	n/a	n/a	http://www.nuevavision.com.pe/index.php?option=com_content&view=article&id=1&Itemid=15 (accessed 27 May 2009)
CAC Santa María Magdalena	n/a	n/a	n/a	n/a	n/a	Money gram logo appears on the homepage of the financial institution, without further information.	http://www.cac-santamaria.coop/moneygram.html (accessed 1 June 2009)
CAC Tocache	n/a	n/a	n/a	n/a	n/a	n/a	http://www.coopetocache.pe/productos.html (accessed 1 June 2009)
NGO Finca Perú	n/a	n/a	n/a	n/a	n/a	n/a	http://www.fincaperu.net/cms/index.php/es/, http://www.fincaperu.net/cms/wp-content/uploads/2007/08/planet-rating_finca-peru_2007.pdf (accessed 1 June 2009)
NGO Prisma	n/a	n/a	n/a	n/a	n/a	n/a	http://www.mfp.org.pe/ (accessed 1 June 2009)
Banco de la Nación	n/a	According to Money Gram - Chile : 11.90 - 12.62 USD - USA : 10.00 USD	None	None	None	In cooperation with Banco Financiero and Money Gram - Chile (MTO) : Afex, Money Gram - USA (MTO) : Money Gram	http://www.bn.com.pe/persona-natural/remesas.asp (accessed 1 June 2009) The World Bank Group (Remittances prices worldwide, cf. Appendix 6.3.1-D)

Source: Own conceptualization and compilation, see column 'Sources' in the table.

Notes: CRAC Nuestra Gente includes the former CRAC NorPerú, CRAC Caja Sur, and EDPYME Crear Tacna; EDPYME Crear Arequipa has the commercial name of Créditos Arequipa; EDPYME Financiera Edyficar is currently registered as the finance company Financiera Edyficar, and Banco de Trabajo as the finance company CrediScotia. For the sampling method applied, see Appendix 6.3.1-A.

Table 6.3.1-B4 Overview of conditions and cost of long-term savings accounts

(Most suitable) long-term savings accounts with limited access	Cost for opening the account & maintenance	Effective annual interest rate (90 days)	Minimum amount	Terms possible	Other important characteristics	Name of relevant product	Other products	Sources (incl. date of access)
Banco de Crédito	None	NC: 3% FC: 0.3%	3,000 PEN/ 1,000 USD	Different terms from 30 days to one year possible.	Without problems of payment in the financial system	Cuenta a plazo	Bank offers a wide range of different long-term savings products.	http://www.viabcp.com/zona_publica/01_persona/interna.asp?SEC=1&JER=51&ENL=391 (product characteristics); http://www.viabcp.com/zona_publica/library/tasas.asp?SEC=1&JER=51&ENL=51 (interest rates) (accessed 11 May 2009)
Banco de Trabajo/ CrediS-cotia	None	NC: 5% FC: 3.5%	1,500 PEN/ 500 USD	Different terms from 30 days to one year possible.	Includes an insurance against accidental death at the size of the deposit made, up to 200,000 USD (Seguro Deposito Bien Seguro), and might be used as guarantee for loans.	Depósito a plazo	The presented product is the only long-term savings product.	http://www.crediscotia.com.pe/deposito_plazo.shtml (product characteristics); http://www.crediscotia.com.pe/tarifario/pdf/02_depositos_a_plazo_-_02_-_if_ab.pdf (interest rates and minimum amount) (accessed 11 May 2009)
Scotiabank Perú	None, simple operations at the counter have a cost of 1.5 - 12 NS.	NC: 3.1% FC: 1.6%	1,000 PEN/ 500 USD	Different terms from 21 days to one year possible.	Euros are also possible.	Depósito a Plazo, Ahorro Meta	Different term-savings products are provided: 'Ahorro Meta' getting primes reaching the own savings goals, 'Depósito Premio' renovating the term-deposit account. Additionally, different home purchase savings products are offered.	http://www.scotiabank.com.pe/banca_personal_depositos.shtml (different products); http://www.scotiabank.com.pe/tarifario/pdf/35.pdf (fees and interest rates) (accessed 12 May 2009)
Banco Financiero	None	NC: 7%	15,000 PEN	Different terms from 180 to 720 days.	Only in PEN.	Depósito a Plazo	Only one kind of term-deposit product is sold, but promoted as 'promotion in Soles'.	http://www.financiero.com.pe/# (product characteristics); http://www.financiero.com.pe/Asp/bfdescarga/campa%C3%B1a_soles.pdf (interest rates and fees) (accessed 12 May 2009)
Interbank	None	NC: 2% FC: 1%	500 PEN; 250 USD	Only 90 days, automati-cally renewed after this period.	Four deposits per month are free.	Ahorro Fijo	Other long-term products besides different home purchase savings products (including for government housing schemes) for clients with wage-receiving accounts.	http://www.interbank.com.pe/ (product characteristics); http://www.interbank.com.pe/ (terms); http://www.interbank.com.pe/personas/depositos/pdfs/ahorro_fijo_pn.pdf (interest rates and fees) (accessed 12 May 2009)
BBVA -Banco Continental	None		2,000 PEN; 1,000 USD	Different terms from 30 days on to one year possible.	Has to be linked to a liquid savings account, bi-currency account for operations in NS and USD.	Cuentas a plazo	Besides different fixed-term deposit accounts, home purchase savings products are offered.	http://www.bbvabancocontinental.com/tlpu/jsp/pe/esp/paratiN/depositos/cplazos/cplazos/index.jsp, http://www.bbvabancocontinental.com/tlpu/jsp/pe/esp/paratiN/depositos/cplazos/cplazos/index.jsp?&&Pestana=Nuestro%20Producto&SubPestana=Requisitos (product characteristics) http://www.bbvabancocontinental.com/tlpu/jsp/pe/esp/paratiN/depositos/cplazos/index.jsp (product range) http://www.bbvabancocontinental.com/tlpu/jsp/pe/esp/paratiN/depositos/cahorro/ahorrovivienda/index.jsp#0 (home purchase savings products) (accessed 13 May 2009)
Banco Ripley	None	NC: 2.25% FC: 4.45%	Withouth	Different terms from 30 days on to one year possible.	n/a	Depósitos a Plazo Ripley	None	http://www.ripley.com.pe/financor/depositos_inversiones/deposito_plazo_beneficios.jsp (product characteristics); http://www.ripley.com.pe/financor/pdfs/institucional/transparencia/Tarifario_Depositos_Plazo.pdf (interest rates) (accessed 13 May 2009)
Financiera TFC	n/a	n/a	n/a	n/a	n/a	n/a	n/a	http://www.tfc.com.pe/ (accessed 13 May 2009)
Mibanco	None	NC: 4.75% FC: 1.85%	350 PEN; 100 USD	Different terms from 15 days on are possible.	High interest paid compared to other banks of similar rating.	Depósitos a Plazo Fijo	None	http://www.mibanco.com.pe/nucleo.aspx?nompag=comphtml/dpf.htm&tp=interno&id=es&usel=Depositos%20a%20Plazo%20Fijo (product characteristics and interest rates) (accessed 13 May 2009)
CMAC Trujillo	None	NC: 3% FC: 2.5% (for balances < 3000 NS)	150 PEN; 100 USD	Different terms from 30 days on are possible.	Free burial insurance included.	Depósitos a Plazo Fijo	None	https://www.cajatrujillo.com.pe/portalnuevo/01parati/01depositos/deposito_plazofijo.html (product characteristics); https://www.cajatrujillo.com.pe/portalnuevo/menusuperior/tasasycomisiones/pdf/Ahorros/TasasPasivasMonNacExtr.htm (interest rates) (accessed 13 May 2009)
CMAC Cuzco	None	NC: 3.5% FC: 3% (for balances < 35,000 PEN/15,000 USD)	200 PEN; 100 USD	Different terms from 31 days on are possible.	95% of the amount deposited is immediately available as a loan.	Depósitos a Plazo Fijo	None	http://www.cmac-cusco.com.pe/plazofijo.html (product characteristics), http://www.cmac-cusco.com.pe/docs/TasasAhorros.pdf (interest rates and fees) (accessed 13 May 2009)
CMAC Arequipa	None	NC: 4% FC: 3.35% (for balances < 19,000 PEN/9,999 USD)	None	Different terms from 31 to 1,080 days are possible.	Deposits might be used as guarantee for a loan. Free access through ATM Cajamático.	Plazo Fijo	None	http://www.cmac-arequipa.com.pe/plazofijo.php (product characteristics); http://www.cmac-arequipa.com.pe/pdf/Tasas_Ahorros.pdf (interest rates) (accessed 13 May 2009)
CRAC Credinka	None	NC: 3.75% FC: 3.25% (for balances < 35,000 PEN/15,000 USD)	None	Different terms from 61 to 360 days are possible.	Product is also available for nonformalized juridical persons, including rural communi-ties.	Depósitos a Plazo Fijo	None	http://www.credinka.net (product characteristics); http://www.credinka.net/content2_1_4.html (interest rates and fees) (accessed 13 May 2009)
CRAC Nuestra Gente	None	NS: 4% USD: 1.75% (for balances < 5,000 PEN/5,000 USD)	Yes (not specified)	Different terms from 31 days on are possible.	/	Renta Max Clásico	Yes, similar products with different options depending on the kind of payment of interest.	http://www.cajasurperu.com/, http://www.cajasurperu.com/plazo_fijo.php (general information); http://www.cajasurperu.com/pdf/Manual%20de%20Formulas%20y%20Calculos%20de%20depositos%20a%20plazo.pdf http://www.cajasurperu.com/pdf/TARIFARIO%20CAJA%20NUESTRAGENTE%20-%20COMISIONES.pdf; http://www.cajasurperu.com/pdf/TARIFARIO%20CAJA%20NUESTRAGENTE%20-%20TASAS%20PASIVAS.pdf (interst rates & fees) (accessed 27 May 2009)
EDPYME Financiera Edyficar	n/a	n/a	n/a	n/a	n/a	n/a	n/a	http://www.edyficar.com.pe/ServletPortal (accessed 27 May 2009)
EDPYME Crear Arequipa	EDPYMES are not allowed to take savings.	n/a	n/a	n/a	n/a	n/a	n/a	http://www.creararequipa.com.pe/crear/index.htm (accessed 27 May 2009)

Continuation of: Table 6.3.1-B4 Overview of conditions and cost of long-term savings accounts

(Most suitable) long-term savings accounts with limited access	Cost for opening the account & maintenance	Effective annual interest rate (90 days)	Minimum amount	Terms possible	Other important characteristics	Name of relevant product	Other products	Sources (incl. date of access)
EDPYME Nueva Visión	EDPYMES are not allowed to take savings.	n/a	n/a	n/a	n/a	n/a	n/a	http://www.nuevavision.com.pe/index.php?option=com_content&view=article&id=1&Itemid=15 (accessed 27 May 2009)
CAC Santa María Magdalena	None	n/a	110 PEN social capital held and 1,000 PEN/500 USD deposited.	90, 180, and 360 days	Enables taking part in raffle for cars (savers get coupons for raffle) and can be used as guarantee for a loan.	Depósitos a Plazo Fijo	None	http://www.cac-santamaria.coop/plazofijo.html (accessed 27 May 2009)
CAC Tocache	None	NC: 9.75% FC:4.3%	300 PEN/300 USD	Different terms from 60 to 1080 days.	Can be used as guarantee for a loan.	Certiplus	None	http://www.coopetocache.pe/ahorro_plazofijo.html (accessed 1 June 2009)
NGO Finca Perú	Liquid savings	n/a	n/a	n/a	n/a	n/a	Liquid savings	http://www.fincaperu.net/cms/index.php/bancomunales_ahorro/es/, http://www.fincaperu.net/cms/index.php/bancomunales_credito/es/ (accessed 28 May 2009)
NGO Prisma	Liquid savings	n/a	n/a	n/a	n/a	n/a	Liquid savings	http://www.fincaperu.net/cms/wp-content/uploads/2007/08/planet-rating_finca-peru_2007.pdf http://www.mfp.org.pe/ (accessed 1 June 2009)
Banco de la Nación (UOB products)	None	NC: 0.85%	200 PEN	90, 180, 360 days	-	Depósitos a plazo en agencias UOB.	None	http://www.bn.com.pe/sector-privado/deposito-aplazo-uob.asp (accessed 1 March 2010)

Source: Own conceptualization and compilation, see column 'Sources' in the table.

Notes: CRAC Nuestra Gente includes the former CRAC NorPerú, CRAC Caja Sur, and EDPYME Crear Tacna; EDPYME Crear Arequipa has the commercial name of Créditos Arequipa; EDPYME Financiera Edyficar is currently registered as the finance company Financiera Edyficar, and Banco de Trabajo as the finance company CrediScotia. For the sampling method applied, see Appendix 6.3.1-A.

Table 6.3.1-B5 Overview of conditions and cost of small insurance products

(Most suitable) accessible life/health/ burial/microinsurance	Cost (on a monthly base)	Conditions of access	Type of risk covered	Amounts paid if covered event occurs	Name of relevant product	Comment on other products	Sources (incl. date of access)
Banco de Crédito	7 - 12.50 PEN (according to savings account balance) monthly.	Savings clients of the bank.	Natural and accidental death including burial cost, invalidity, emergency health costs, health (cancer, hospital cost, terminal diseases).	Amounts depend on the contributions paid to date and the type of damage, but are always framed by minimum and maximum amounts that range between 2,500 and 165,000 PEN; e.g., for death and invalidity between 5,000 and 100,000 PEN and for funeral cost an amount of 2,500 PEN is paid.	Seguro múltiple	Also available: SOAT, capital-stock building life and accident insurance (expensive), simple life insurance, among others, but they cannot compete with Seguro múltiple for microfinance clients. A debtor's life insurance (seguro de desgravámen) is offered with most personal loan products.	http://www.viabcp.com/zona_publica/01_persona/interna.asp?SEC=1&JER=90 (product description); http://www.viabcp.com/zona_publica/01_persona/interna.asp?SEC=1&JER=90&ENL=275 (coverage) http://www.viabcp.com/zona_publica/library/tarifas.asp?SEC=1&JER=90&ENL=90 (prices), http://www.viabcp.com/zona_publica/01_persona/interna.asp?SEC=1&JER=88 (other insurance) (accessed 11 May 2009)
Banco de Trabajo/ CrediScotia	From 4.76 PEN on (accidental death) and 0.21% of the loan amount (emergencies) monthly.	Only linked to loans; insurance prime is financed as part of the loan.	Insurance against accidental death; insurance against emergencies: accidents and health problems.	No concrete information on the minimum amounts paid, only maximum of 20,000 PEN is indicated.	Seguro Muerte Accidental; Seguro Emergencias	These are the only two optional insurance products; the debtor's life insurance is obligatory for consumption loans.	http://www.crediscotia.com.pe/seguro_maccidental.shtml (accidental death); http://www.crediscotia.com.pe/seguro_emergencias.shtml (emergency); http://www.crediscotia.com.pe/seguro_creditos.shtml (consumption loan insurance); http://www.crediscotia.com.pe/tarifario/pdf/09_seguros_optativos-if.pdf, http://www.crediscotia.com.pe/tarifario/pdf/08_seguros_obligatorios_-_01_if.pdf (prices) (accessed 11 May 2009)
Scotiabank Perú	6.65 or 11.73 PEN per person monthly.	Healthy savings and current account clients of the bank.	Natural and accidental death, invalidity, burial cost, emer-gency health costs (accidents), part of treatment of fatal diseases and hospital cost.	Amounts paid are always framed by minimum and maximum amounts for coverage, which depend on the type of damage within the range of 600-100,000 PEN; e.g., for death and invalidity between 3,000 and 100,000 PEN and for funeral cost an amount of 600 PEN is paid.	Seguro de Vida Plan Básico	The bank offers other optional insurance products, such as a capital-stock building life insurance, SOAT, burial insurance, one for cancer treatment and a few loan-related insurance products at higher prices or with lower coverage. Insurance against theft and robbery for ATM usage and unemployment insurance for mortgage loans are free.	http://www.scotiabank.com.pe/banca_personal_proteccion.shtml (product scope); http://www.scotiabank.com.pe/bpr_proteccion/bp_pro_vida.shtml (prices); http://www.scotiabank.com.pe/bpr_proteccion/bp_pro_vida.shtml (coverage) (accessed 12 May 2009)
Banco Financiero	n/a	n/a	n/a	n/a	n/a	n/a	http://www.financiero.com.pe (product range) (accessed 12 May 2009)
Interbank	7.99/9 USD for protecting remittance flows; insuring consumption in Plaza Vea from 2.55/3.10 USD on.	Life/accident insurance only for specific groups: remittances receiver or Plaza Vea clients (only in 5 cities).	Natural and accidental death, invalidity.	Amounts are pre-established according to the plan chosen.	Protección para tus remesas; Protección para tus compras en Plaza Vea	The bank offers a very comprehensive insurance 'Protección para tus remesas' for remittance senders, insuring 3 years of remittance flows of a maximum of 325 USD, compensation, repatriation of the chosen migrant, and scholarships for the children.	http://www.interbank.com.pe/ (accessed 12 May 2009)
BBVA -Banco Continental	18-30 years: 6 USD monthly; 31-40: 7 USD; 41-50: 12 USD; 51-50: 22 USD	Medical exam only for persons over 50 years.	Natural and accidental death, invalidity, burial cost, health expenses depends on the health network 'Red de Salud', discount on dental treatments.	Amounts for natural death (20,000 USD), accidental death (40,000 USD), invalidity (10,000 USD), and burial (800 USD) are given.	Seguro de Vida	The bank offers a differentiated range of other, more specific health and life insurance (also capital stock-building), and further insurance for protecting debit cards or loan repayment (debtor's life insurance).	http://www.bbvabancocontinental.com/tlpu/jsp/pe/esp/paratiN/seguros/segvida/index.jsp, http://www.bbvabancocontinental.com/tlpu/jsp/pe/esp/paratiN/seguros/segvida/index.jsp?& &Pestana=Nuestro%20Producto&SubPestana=Coberturas http://www.bbvabancocontinental.com/tlpu/jsp/pe/esp/paratiN/seguros/segvida/index.jsp?& &Pestana=Nuestro%20Producto&SubPestana=Requisitos (product characteristics & product range) (accessed 13 May 2009)
Banco Ripley	18-50 years: 14.99 USD monthly; 51-60: 52.99 USD	Only for Ripley card holders.	Natural and accidental death and permanent invalidity.	Amounts for natural death (25,000 USD), accidental death (50,000 USD), accidental death in ground transportation (60,000 USD), invalidity (10,000 USD).	Vida total	The bank offers a differentiated range of life, health, theft, and other insurance; e.g., Beneficio Integral Ripley (BIR) offers insurance for accidental death and hospital costs for 4.99/7.98 USD.	http://www.ripley.com.pe/financor/seguros/salud_vida_total.jsp; http://www.ripley.com.pe/financor/seguros/salud_beneficio_integral.jsp (product character-istics, prices, and coverage) (accessed 13 May 2009)
Financiera TFC	n/a	n/a	n/a	n/a	n/a	n/a	http://www.tfc.com.pe/ (accessed 13 May 2009)
Mibanco	From 2.5 PEN on (different categories up to 10 PEN) monthly.	Clients or partners of clients.	Accidental death.	Amounts depend on the category of prime paid (from 2.5 PEN prime - 10,000 PEN coverage up to 10 PEN prime - 40,000 Pen coverage).	Seguro de Accidentes	Besides the insurance already indicated only 3 loan-related insurance products are offered (debtors's life insurance, insurance of goods used as guarantee).	http://www.mibanco.com.pe/nucleo.aspx?nompag=comphtml/accidentes.htm&tp=interno&id=es&usel=Seguro%20de%20Accidentes (accessed 13 May 2009)
CMAC Trujillo	Free (if savings/fixed-term deposit clients hold certain balances).	Savings/fixed-term deposit clients of the CMAC (minimum for 30 days).	Burial cost. Free burial insurance is included with different savings products if the mean monthly balance is > 500 PEN/150 USD the month before the incident.	n/a	Seguro de sepelio	No other insurance products available.	https://www.cajatrujillo.com.pe/portalnuevo/01parati/05servicios/seguro_sepelio.html (burial insurance) (accessed 13 May 2009)
CMAC Cuzco	not available	n/a	n/a	n/a	n/a	n/a	http://www.cmac-cusco.com.pe/servicios.html (accessed 13 May 2009)
CMAC Arequipa	not available	n/a	n/a	n/a	n/a	n/a	http://www.cmac-arequipa.com.pe/index.php (accessed 13 May 2009)
CRAC Credinka	not available	n/a	n/a	n/a	n/a	n/a	http://www.credinka.net/ (accessed 13 May 2009)
CRAC Nuestra Gente	2.90 PEN (plan 1); 5.52 PEN (plan 2)	Clients with a savings/ wage-receiving account or labour benefit account (CTS).	Accidental death and temporal/ permanent invalidity.	Amounts for accidental death (10,000/20,000 PEN) double for death in public transportation, permanent invalidity (10,000/20,000 PEN), and burial after accidental death (2,500/2,500 PEN) are given (plan1/plan 2).	Seguro Contra Accidentes Personales	Besides the SOAT, Caja Nuestra Gente offers discounts with different clinics, which depend on the agreements of the specific local branch (for clients with a savings/wage-receiving account or labour benefit account, CTS).	http://www.cajasurperu.com/index.php, http://www.cajasurperu.com/accidentes.php (general information); http://www.cajanuestragente.com.pe/pdf/TARIFARIO%20CAJA%20NUESTRAGENTE%20-%20COMISIONES.pdf (cost, fees) (accessed 27 May 2009)
EDPYME Financiera Edyficar	n/a	n/a	n/a	n/a	n/a	n/a	http://www.edyficar.com.pe/ServletPortal (accessed 27 May 2009)
EDPYME Crear Arequipa	n/a	n/a	n/a	n/a	n/a	n/a	http://www.creararequipa.com.pe/crear/index.htm (accessed 27 May 2009)
EDPYME Nueva Visión	n/a	n/a	n/a	n/a	n/a	n/a	http://www.nuevavision.com.pe/index.php?option=com_content&view=article&id=1&Itemid=15 (accessed 27 May 2009)
CAC Santa María Magdalena	2.5 PEN for adult members; 1.25 PEN for child members.	Being a member less than 70 years old.	Health treatment, economic support in the case of serious diseases, burial costs, prizes for wedding, child birth, gradua-tion or professional achieve-ments of members.	Not specified; most of the support is provided directly: Health service in own polyclinic and burial is also taken care of directly.	Fondo de Solidiaridad	The cooperative is a member of Serviperú – Central Cooperativa de Servicios, which offers further microinsurance for insuring personal accidents, health, and burial costs.	http://www.cac-santamaria.coop/policlinico/beneficios.html (accessed 1 June 2009) http://www.serviperu.com (accessed 3 March 2010)
CAC Tocache	n/a	n/a	n/a	n/a	n/a	n/a	http://www.coopetocache.pe/productos.html (accessed 1 June 2009)

Continuation of Table 6.3.1-B5 Overview of conditions and cost of small insurance products

(Most suitable) accessible life/health/ burial/microinsurance	Cost (on a monthly base)	Conditions of access	Type of risk covered	Amounts paid if covered event occurs	Name of relevant product	Comment on other products	Sources (incl. date of access)
NGO Finca Perú	1 PEN	Clients with loans between 18 and 65 years.	Natural and accidental death.	Natural death 2,700 PEN and accidental death 5,400 PEN.	Microinsurance provided by la Positiva	None	Concha Murazzi 2009: 7ff.
NGO Prisma	3 PEN (plan 1); 5 PEN (plan 2)	Clients with loans between 18 and 65 years.	Natural and accidental death and, for plan 2, temporary/ permanent invalidity.	Amounts for natural death (7,000/12,000 PEN), for accidental death (14,000 PEN/24,000 PEN), for plan 1/plan 2, for permanent invalidity in the case of plan 2 (12,000 PEN) are given. For burial cost an advance is provided, and the outstanding loan sum is also assumed to be covered.	Microseguro VidaPrisma	None	http://www.mfp.org.pe/ (accessed 1 June 2009)
Banco de la Nación (only UOB products)		Credit-linked insurance is provided only for public sector clients. No further insurance is provided.				SOAT	http://www.bn.com.pe/persona-natural/seguro-cuota-protegida.asp (accessed 1 June 2009)

Source: Own conceptualization and compilation, see column 'Sources' in the table.

Notes: CRAC Nuestra Gente includes the former CRAC NorPerú, CRAC Caja Sur, and EDPYME Crear Tacna; EDPYME Crear Arequipa has the commercial name of Créditos Arequipa; EDPYME Financiera Edyficar is currently registered as the finance company Financiera Edyficar, and Banco de Trabajo as the finance company CrediScotia. For the sampling method applied, see Appendix 6.3.1-A.

Appendix 6.3.1-C: Overview of money transfer operators for international remittances, cost of transfer, and access points in Peru

Graph 6.3.1-C1: Remitting 200 USD from Chile to Peru

Firm name	Firm type	Fee (USD)	Exchange rate margin (%)	Total cost (in %)	Total cost (in USD)	Transfer speed	Network coverage - details of the category indicated as "Nationwide"	Network coverage - types of FIs	Network coverage - types of other inst.	Date
Afex	MTO	10.00	1.55	6.55	13.10	Same day	Banco de Crédito	Bank		Aug 21, 2009
Afex	MTO	9.52	1.55	6.31	12.62	Less than one hour	Interbank, Banco de la Nación, MiBanco, Elektra, miscellaneous COOPACs, exchange offices (cajas de cambio), stores	Bank, microenterprise bank, development bank, COOPACs	Exchange offices, stores	Aug 21, 2009
Argenper	MTO	8.00	2.08	6.08	12.16	Less than one hour	Argenper, Banco de Crédito, Interbank	Bank	MTO	Aug 21, 2009
Giunazu Transfer	MTO	6.00	1.90	4.90	9.80	Less than one hour	Interbank	Bank		Aug 21, 2009
Giunazu Transfer	MTO	3.00	1.90	3.40	6.80	Less than one hour	MiBanco	Mircroenterprise bank		Aug 21, 2009
MoneyGram	MTO	9.52	1.19	5.95	11.90	Less than one hour	Interbank, Banco de la Nación, MiBanco, Elektra, miscellaneous COOPACs, exchange offices (cajas de cambio), stores	Bank, microenterprise bank, development bank, COOPACs	Exchange offices, stores	Aug 21, 2009
MORE Money Transfer	MTO	6.00	2.08	5.08	10.16	Less than one hour	Interbank, MORE MT, Banco de Crédito	Bank	MTO	Aug 21, 2009
Western Union	MTO	11.60	0.90	6.70	13.40	Less than one hour	Scotiabank, DHL offices, Serviban, miscellaneous exchange offices (cajas de cambio), pharmacies, stores	Bank	Western Union branches (Serviban), post offices, exchange offices, pharmacies, stores	Aug 21, 2009
Total Average		**7.96**	**1.65**	**5.62**	**11.24**					

Graph 6.3.1-C2: Remitting 500 USD from Chile to Peru

Firm name	Firm type	Fee (USD)	Exchange rate margin (%)	Total cost (in %)	Total cost (in USD)	Transfer speed	Network Coverage - Details of the category indicated as "Nationwide"	Network coverage - types of FIs	Network coverage - types of other inst.	Date
Afex	MTO	23.80	1.55	6.31	31.55	Same day	Banco de Crédito	Bank		Aug 21, 2009
Afex	MTO	23.80	1.55	6.31	31.55	Less than one hour	Interbank, Banco de la Nación, MiBanco, Elektra, miscellaneous COOPACs, exchange offices (cajas de cambio), stores	Bank, microenterprise bank, development bank, COOPACs	Exchange offices, stores	Aug 21, 2009
Argenper	MTO	20.00	2.08	6.08	30.40	Less than one hour	Argenper, Banco de Crédito, Interbank	Bank	Agent	Aug 21, 2009
Giunazu Transfer	MTO	15.00	1.90	4.90	24.50	Less than one hour	Interbank	Bank		Aug 21, 2009
Giunazu Transfer	MTO	13.00	1.90	4.50	22.50	Less than one hour	MiBanco	Mircroenterprise bank		Aug 21, 2009
MoneyGram	MTO	23.80	1.19	5.95	29.75	Less than one hour	Interbank, Banco de la Nación, MiBanco, Elektra, miscellaneous COOPACs, exchange offices (cajas de cambio), stores	Bank, microenterprise bank, development bank, COOPACs	Exchange offices, stores	Aug 21, 2009
MORE Money Transfer	MTO	15.00	2.08	5.08	25.40	Less than one hour	Interbank, MORE MT, Banco de Crédito	Bank	Agent	Aug 21, 2009
Western Union	MTO	26.60	0.90	6.22	31.10	Less than one hour	Scotiabank, DHL offices, Serviban, miscellaneous exchange offices (cajas de cambio), pharmacies, stores	Bank	Western Union branches (Serviban), post offices, exchange offices, pharmacies, stores	Aug 21, 2009
Total Average		**20.13**	**1.65**	**5.67**	**28.35**					

Graph 6.3.1-C3: Remitting 200 USD from Spain to Peru

Firm name	Firm type	Fee (USD)	Exchange rate margin (%)	Total cost (in %)	Total cost (in USD)	Transfer speed	Network Coverage - Details of the category indicated as "Nationwide"	Network coverage - types of FIs	Network coverage - types of other inst.	Date
Maccorp Exact Change	MTO	4.29	1.40	3.54	7.08	Less than one hour	Agents such as Bancomer and Moremoney		Agents	Aug 07, 2009
La Caixa	NBFI	5.57	2.10	4.88	9.76	Less than one hour	Branches of Banco de Credito de Peru, MiBanco	Bank, microenterprise bank		Aug 07, 2009
Banco Santander (Latinoenvíos)	MTO	4.29	2.80	4.94	9.88	Less than one hour	Bank accounts of Banco de Crédito in receiving country (branch and ATM network)	Bank		Aug 07, 2009
Master Envios Unidos	MTO	5.71	2.10	4.96	9.92	Less than one hour	Bank accounts in receiving country (branch and ATM network)	Bank		Aug 07, 2009
Safe Money Transfer Spain	MTO	5.71	2.80	5.65	11.30	Less than one hour	Branches of Safe Money Transfer		Agent	Aug 07, 2009
BBVA Dinero Express	MTO	7.14	2.10	5.67	11.34	Less than one hour	Bank accounts in receiving country (branch and ATM network)	Bank		Aug 07, 2009
Universal de Envios	MTO	8.57	2.10	6.38	12.76	Less than one hour	Branches of Interbank	Bank		Aug 07, 2009
Hispano World Transfer (MoneyGram)	MTO	7.00	4.20	7.70	15.40	Less than one hour	Money Gram branches/agents such as Elektra and Interbank	Bank	Money Gram branches, agent, stores	Aug 07, 2009
Ria	MTO	8.57	3.50	7.78	15.56	Less than one hour	Agents such as Agenper SA		Agents	Aug 07, 2009
Caja Madrid	NBFI	12.86	1.40	7.83	15.66	Less than one hour	Bank accounts in receiving country (branch and ATM network)	Bank		Aug 07, 2009
Foreign Exchange Co. (Western Union)	MTO	7.86	5.39	9.31	18.62	Less than one hour	Western Union branches/agents such as exchange offices (casa de cambio)		Western Union branches, exchange offices	Aug 07, 2009
Total Average		**7.05**	**2.71**	**6.24**	**12.48**					

Graph 6.3.1-C4: Remitting 500 USD from Spain to Peru

Firm name	Firm type	Fee (USD)	Exchange rate margin (%)	Total cost (in %)	Total cost (in USD)	Transfer speed	Network Coverage - Details of the category indicated as "Nationwide"	Network coverage - types of FIs	Network coverage - types of other inst.	Date
Maccorp Exact Change	MTO	8.57	1.40	3.11	15.55	Less than one hour	Agents such as Bancomer and Moremoney		Agents	Aug 07, 2009
La Caixa	NBFI	5.57	2.10	3.21	16.05	Less than one hour	Branches of Banco de Credito de Peru, MiBanco	Bank, microenterprise bank		Aug 07, 2009
Master Envios Unidos	MTO	5.71	2.10	3.24	16.20	Less than one hour	Bank accounts in receiving country (branch and ATM network)	Bank		Aug 07, 2009
BBVA Dinero Express	MTO	7.14	2.10	3.53	17.65	Less than one hour	Bank accounts in receiving country (branch and ATM network)	Bank		Aug 07, 2009
Banco Santander (Latinoenvíos)	MTO	4.29	2.80	3.65	18.25	Less than one hour	Bank accounts of Banco de Crédito in receiving country (branch and ATM network)	Bank		Aug 07, 2009
Universal de Envios	MTO	8.57	2.10	3.81	19.05	Less than one hour	Branches of Interbank	Bank		Aug 07, 2009
Safe Money Transfer Spain	MTO	5.71	2.80	3.94	19.70	Less than one hour	Branches of Safe Money Transfer		Agent	Aug 07, 2009
Caja Madrid	NBFI	12.86	1.40	3.97	19.85	Less than one hour	Bank accounts in receiving country (branch and ATM network)	Bank		Aug 07, 2009
Ria	MTO	8.57	3.50	5.21	26.05	Less than one hour	Agents such as Agenper SA		Agents	Aug 07, 2009
Hispano World Transfer (MoneyGram)	MTO	12.71	4.20	6.74	33.70	Less than one hour	Money Gram branches/agents such as Elektra and Interbank	Bank	Money Gram branches, agent, stores	Aug 07, 2009
Foreign Exchange Co. (Western Union)	MTO	14.29	5.39	8.24	41.20	Less than one hour	Western Union branches/agents such as exchange offices (casa de cambio)		Western Union branches, exchange offices	Aug 07, 2009
Total Average		**8.55**	**2.71**	**4.42**	**22.10**					

Graph 6.3.1-C5: Remitting 200 USD from USA to Peru

Firm name	Firm type	Fee (USD)	Exchange rate margin (%)	Total cost (in %)	Total cost (in USD)	Transfer speed	Network Coverage - Details of the category indicated as "Nationwide"	Network coverage - types of FIs	Network coverage - types of other inst.	Date
Uniteller	MTO	5.00	0.00	2.50	5.00	Less than one hour	Banco del Trabajo, Interbank, Peru-Express	Bank	Agent	Aug 20, 2009
Uniteller	MTO	5.50	0.00	2.75	5.50	Less than one hour	Direct deposit to any commercial bank account	Banks		Aug 20, 2009
Jet Peru	Bank	6.00	0.00	3.00	6.00	Same day				Aug 20, 2009
La Nacional	MTO	6.00	0.00	3.00	6.00	Next day	Interbank, Jet Peru (Edpyme Credijet), Banco de Crédito	Banks, EDPYME	Jet Peru branches	Aug 20, 2009
Remesas Quisqueyana	MTO	6.00	0.00	3.00	6.00	Same day	Jet Peru (Edpyme Credijet), Banco de Crédito	Bank, EDPYME	Agent	Aug 20, 2009
Ria Financial	MTO	6.00	0.00	3.00	6.00	Same day	Banco de Crédito, Interbank, Jet Peru (Edpyme Credijet), MiBanco	Banks, EDPYME, microenterprise bank	Jet Peru branches	Aug 20, 2009
Vigo	MTO	6.00	0.00	3.00	6.00	Same day	Banco de Crédito, BBVA Banco Continental, Union Express, Jet Peru (Edpyme Credijet), Interbank, Serviban	Banks, EDPYME	Western Union branches, agent	Aug 20, 2009
Delgado Travel	MTO	4.00	1.25	3.25	6.50	Same day	Agencies of Delgado Travel, Hand to Hand, Agenper, Josilva		Agents, travel agency	Aug 20, 2009
Xoom	MTO	6.99	0.00	3.50	7.00	Next day	BBVA Banco Continental, Banco de Crédito, Interbank	Banks		Aug 20, 2009
Uniteller	MTO	8.00	0.00	4.00	8.00	Less than one hour	BBVA Banco Continental	Bank		Aug 20, 2009
Uno Money Transfer (Omnex Group)	MTO	9.00	0.00	4.50	9.00	Same day	Interbank, Jet Peru (Edpyme Credijet)	Bank, EDPYME	Agent	Aug 20, 2009
MoneyGram	MTO	9.99	0.00	5.00	10.00	Less than one hour	Interbank, Banco de la Nación, MiBanco, Elektra, miscellaneous COOPACs, exchange offices (cajas de cambio), stores	Bank, microenterprise bank, development bank, COOPACs	Exchange offices, stores	Aug 20, 2009
Western Union	MTO	8.00	1.59	5.59	11.18	Next day	Scotiabank, DHL offices, Serviban, miscellaneous exchange offices (cajas de cambio), pharmacies, stores	Bank	Western Union branches (Serviban), post offices, exchange offices, pharmacies, stores	Aug 20, 2009
Western Union	MTO	10.00	1.59	6.59	13.18	Less than one hour	Scotiabank, DHL offices, Serviban, miscellaneous exchange offices (cajas de cambio), pharmacies, stores	Bank	Western Union branches (Serviban), post offices, exchange offices, pharmacies, stores	Aug 20, 2009
Xoom	MTO	14.99	0.00	7.50	15.00	3-5 days	BBVA Banco Continental, Banco de Crédito, Interbank	Banks		Aug 20, 2009
Total Average		**7.43**	**0.29**	**4.01**	**8.02**					

Graph 6.3.1-C6: Remitting 500 USD from USA to Peru

Firm name	Firm type	Fee (USD)	Exchange rate margin (%)	Total cost (in %)	Total cost (in USD)	Transfer speed	Network Coverage - Details of the category indicated as "Nationwide"	Network coverage - types of FIs	Network coverage - types of other inst.	Date
MoneyGram	MTO	9.99	0.00	2.00	10.00	Less than one hour	Interbank, Banco de la Nación, MiBanco, Elektra, miscellaneous COOPACs, exchange offices (cajas de cambio), stores	Bank, microenterprise bank, development bank, COOPACs	Exchange offices, stores	Aug 20, 2009
Xoom	MTO	12.99	0.00	2.60	13.00	Next day	BBVA Banco Continental, Banco de Crédito, Interbank	Banks		Aug 20, 2009
Uniteller	MTO	13.75	0.00	2.75	13.75	Less than one hour	BBVA Banco Continental	Bank		Aug 20, 2009
Jet Peru	Bank	15.00	0.00	3.00	15.00	Same day				Aug 20, 2009
La Nacional	MTO	15.00	0.00	3.00	15.00	Next day	Interbank, Jet Peru (Edpyme Credijet), Banco de Crédito	Banks, EDPYME	Jet Peru branches	Aug 20, 2009
Remesas Quisqueyana	MTO	15.00	0.00	3.00	15.00	Same day	Jet Peru (Edpyme Credijet), Banco de Crédito	Banks, EDPYME	Jet Peru branches	Aug 20, 2009
Ria Financial	MTO	15.00	0.00	3.00	15.00	Same day	Banco de Crédito, Interbank, Jet Peru (Edpyme Credijet), MiBanco	Banks, EDPYME, microenterprise bank	Jet Peru branches	Aug 20, 2009
Uniteller	MTO	15.00	0.00	3.00	15.00	Less than one hour	Banco del Trabajo, Interbank, Peru-Express	Banks	Agent	Aug 20, 2009
Uniteller	MTO	15.00	0.00	3.00	15.00	Less than one hour	Direct deposit to any commercial bank account	Banks		Aug 20, 2009
Vigo	MTO	15.00	0.00	3.00	15.00	Same day	Banco de Crédito, BBVA Banco Continental, Union Express, Jet Peru (Edpyme Credijet), Interbank, Serviban	Banks, EDPYME	Western Union branches, agents	Aug 20, 2009
Delgado Travel	MTO	10.00	1.25	3.25	16.25	Same day	Agencies of Delgado Travel, Hand to Hand, Agenper, Josilva		Agents, travel agency	Aug 20, 2009
Uno Money Transfer (Omnex Group)	MTO	22.00	0.00	4.40	22.00	Same day	Interbank, Jet Peru (Edpyme Credijet)	Bank, EDPYME	Agent	Aug 20, 2009
Xoom	MTO	24.99	0.00	5.00	25.00	3-5 days	BBVA Banco Continental, Banco de Crédito, Interbank	Banks		Aug 20, 2009
Western Union	MTO	20.00	1.59	5.59	27.95	Next day	Scotiabank, DHL offices, Serviban, miscellaneous exchange offices (cajas de cambio), pharmacies, stores	Bank	Western Union branches (Serviban), post offices, exchange offices, pharmacies, stores	Aug 20, 2009
Western Union	MTO	25.00	1.59	6.59	32.95	Less than one hour	Scotiabank, DHL offices, Serviban, miscellaneous exchange offices (cajas de cambio), pharmacies, stores	Bank	Western Union branches (Serviban), post offices, exchange offices, pharmacies, stores	Aug 20, 2009
Total Average		**16.25**	**0.29**	**3.54**	**17.70**					

Source: The World Bank Group (remittance prices worldwide; see http://remittanceprices.worldbank.org, accessed 26 January 2010).

Note: Data from the third quarter of 2009.

Appendix 6.3.1-D: Products and conditions of short- and long-term microenterprise loans, small consumption, and housing loans

Table 6.3.1-D1: Overview of short-term microenterprise loans and related conditions

Basic MSME loan	Name of the product & main characteristic	Range of loan amount	Range of loan duration	Frequency of installments & adaptability of repayment schedule	Requirements (existence of business, degree of formality, minimum turnover)	Guarantee needed	Method of assessing the debt capacity of the client, kind of relationship to the client	Other important characteristics (group loans, debit cards offered, grace period, loan insurance)	Other relevant products	Products targeting at small/new or larger enterprises (daily loans/loans for street vendors or export financing, leasing, factoring), sectoral approaches, etc.	Sources (incl. date of access)
Banco de Crédito	Tarjeta Solución Negocios (revolving microenterprise loan)	1,500-175,000 PEN	3-18 months (3-24 if good credit records).	Each time, the client uses her credit line, fixed monthly quotas are calculated, no grace period.	Minimum existence of business is 1 year; with RUC*, minimum real sales of 10,000 USD annually or 100 PEN daily.	Up to 40,000 PEN for new clients/up to 52,000 PEN no guarantee needed, beyond with own patrimony or guarantor.	Assessing the client within her family economy, on-site visit by loan officer, including qualitative and quantitative evaluation.	Only individual loans, loan consists of a debit card with a pre-approved credit line.	Traditional microenterprise loans in fixed installment, leasing for SME.	Bank focusses on clients showing a certain level of sales and capitalization; clients have access to other areas of the bank with the full range of sophisticated services.	http://www.viabcp.com/zona_publica/02_pymes/interna.asp?SEC=2&JER=470 (tarjeta solución negocios); http://www.viabcp.com/zona_publica/02_pymes/interna.asp?SEC=2&JER=1862&ENL=1891, http://www.viabcp.com/zona_publica/02_pymes/index.html (other products) (accessed 29 July 2009); Banco de Crédito del Perú 2006: 22; Interviews and participant observation Banco de Crédito, 2006.
Banco de Trabajo/ CrediScotia	Crédito MultiCombo Microempresario (microenterprise loan, with revolving option, Banco de Trabajo)	Up to 30,000 PEN/9,000 USD.	n/a	Quotas already repaid can be taken as a credit from an ATM after the first 6 quotas have been paid; loan is approved in 3 days.	Business with minimum of 6 month in the same place, with RUC, minimum income of 350 PEN/100 USD monthly; clients from 23 years on are served.	n/a	Special scoring developed for filtering clients, and on-site visit by loan officer is integrated into a 'production line', in which each task is performed by another team: sales, evaluation, repayment, with a focus on a large sales team.	Includes loan and life insurance (Seguro de Desgravamen, Seguro Crédito Bien Seguro), debit and credit cards.	Parallel loan for up to 90 days, 1-3 installments (for existing micro-enterprise loan clients), Acquisition of debt from other banks (transferring debt). CrediScotia offers microenterprise loans with fixed quotas or as credit line (from 500-90,000 PEN) with few formal requirements.	The same products are offered to microenterprise and private clients.	http://www.bantra.com.pe/productos1.shtml, http://www.bantra.com.pe/multicombomicroempresario1.shtml, http://www.bantra.com.pe/creditoparalelomicro1.shtml, http://www.bantra.com.pe/compradeudamicro1.shtml, http://www.bantra.com.pe/nuestrobanco1.shtml (accessed 16 January 2009), Fernández Rojas 2000, http://www.bantra.com.pe/banca_negocios_creditos.shtml, http://www.bantra.com.pe/negocios_linea_catrabajo.shtml (accessed 30 July 2009), Interviews and participant observation Banco de Trabajo, 2006,
Scotiabank Perú	Línea de Crédito para Capital de Trabajo (credit line for working capital)	3,000-116,000 PEN/up to 35,000 USD.	Up to 12 months, the credit line is active for 3 years.	Monthly, prepayment possible without penalty.	Natural persons with own business or legal person with annual sales of more than 20,000 USD for an existing business, provable income, RUC, a fixed localization, no negative credit record, and previous experience with loans preferable.	Self-assessment and title of property.	Loan officer verifies the documents and information of the client, gathers more information for scoring system and makes decisions (autonomy depending on the NLPs of clients).	Most loans are based on a credit line, with only one yearly on-site business visit.	Loan in quotas only from 5,000 PEN on (Préstamo en cuotas para Captal de Trabajo).	Ample range of sophisticated services for larger enterprises: factoring, leasing, cashing bills of exchange, etc., but no smaller products.	http://www.scotiabank.com.pe/textos/faqs_p_emprededores.pdf , http://www.scotiabank.com.pe/bemd_prestamos/bemd_p_linea.shtml (accessed 30 July 2009), Interviews and participant observation Banco Wiese, 2006.
Banco Financiero	Crédito MYPE para Capital de Trabajo (microenterprise working capital loan)	Up to 35,000 PEN without mortgage.	n/a	n/a	RUC, functioning license, other documents required by the loan officer.	Copy of property, if not, guarantor is needed.	After a first contact through the sales force, the loan officer evaluates the investment needs and possibilities of the client and her family in an on-site evaluation.	After a period of 12 months working with the bank, the maximum amount for loans is 60,000 PEN.	Small products.	Solifácil is a very small and flexible microenterprise loan from 300-2000 PEN, for 2-12 months, with fixed weekly, bi-monthly, and monthly quotas, accessible with RUC and residence property.	http://www.financiero.com.pe/BanMicro/Prests/CdtoMypeKW.aspx?idmenu=16, http://www.financiero.com.pe/BanMicro/Prests/Solifacil.aspx?idmenu=17 (accessed 30 July 2009)
Interbank	Crédito para Capital de Trabajo (working capital loan)	Up to 64,000 PEN/20,000 USD (see requirements).	n/a	Prepayment possible, grace period up to 3 months is possible.	Without RUC, with guarantor or own residence, up to 4,000 PEN, without guarantor or own residence up to 8,000 PEN, without RUC only up to 32,000 PEN/10,000 USD.	Own residence or guarantor (not necessary up to 4,000 PEN).	n/a (financial institution entered the market after the field research in 2006).	Loan insurance is included; loan should be ready in 3 working days.	Other working capital loans for larger enterprises are available (with juridical person).	*For larger enterprises*: financial services for foreign commerce by the section Banca Pequeña Empresa; payment of imports, cash exports, finance both imports and exports (Comercio Exterior).	http://www.interbank.com.pe/ (accessed 30 July 2009)
BBVA -Banco Continental	None	-	-	-	-	-	-	-	-	Only standard products for medium & large enterprises are offered.	http://www.bbvabancocontinental.com/tlpu/jsp/pe/esp/paraempresasN/index.jsp (accessed 30 July 2009)
Banco Ripley	Capital de Trabajo	n/a	4-24 months	Frequency might be weekly, bi-weekly or according to the client's preference, the loan might be extended by not paying one quota if needed, 6-month grace period.	Only with the energy/ water bill of the residence, without RUC, minimum 6 month experience in the business.	No guarantee needed.	n/a (financial institution entered the market after the field research in 2006).	Optional loan insurance offered, imbursement in only 24 hours.	There is an additional loan for campaigns (Crédito para Campaña), for buying debt (Consolidación de Deudas), and the Crece Fácil y Rápido (see next cell).	There is a small extra-fast loan to be disbursed the same day if applied for before noon, up to 1,000 PEN without the need of previous experience with loans, on showing property of a residence (Crece Fácil y Rápido).	http://www.ripley.com.pe/financor/microfinanzas/beneficios_cap_trab.jsp http://www.ripley.com.pe/financor/microfinanzas/requisitos_cap_trab.jsp http://www.ripley.com.pe/financor/microfinanzas/beneficios_cre_camp.jsp http://www.ripley.com.pe/financor/microfinanzas/beneficios_con_deud.jsp http://www.ripley.com.pe/financor/microfinanzas/beneficios_cre_faci.jsp (accessed 1 August 2009)

Continuation of Table 6.3.1-D1: Overview of short-term microenterprise loans and related conditions

Basic MSME loan	Name of the product & main characteristic	Range of loan amount	Range of loan duration	Frequency of installments & adaptability of repayment schedule	Requirements (existence of business, degree of formality, minimum turnover)	Guarantee needed	Method of assessing the debt capacity of the client, kind of relationship to the client	Other important characteristics (group loans, debit cards offered, grace period, loan insurance)	Other relevant products	Products targeting at small/new or larger enterprises (daily loans/loans for street vendors or export financing, leasing, factoring), sectoral approaches, etc.	Sources (incl. date of access)
Financiera TFC	Créditos para PYME (multi-purpose loan for working capital, investment, etc.)	n/a	n/a	Flexibility in payment of quotas: daily, weekly, monthly, free, grace period, anticipated payments.	Also for natural person without RUC, only with energy/water receipt, economic evaluation of the investment, minimum one year of business experi-ence.	Copy of property title or guarantor.	n/a (financial institution entered the market after the field research in 2006).	n/a	-	Presented product does not require any minimum income.	http://www.tfc.com.pe/cre_pymes.htm (accessed 1 August 2009)
Mibanco	Micapital (working capital loan)	From 1,000 PEN/350 USD on.	Up to 2 years.	Monthly, bi-weekly, weekly, by quota with fixed date, grace period of 2 months.	Minimum of 12 months of business for natural person, 18 months for juridical person, license of functioning or RUC or membership in business association or receipts for acquisition of business input.	Copy of property or rent contract.	Score with 14 filters is used for pre-selection of clients, afterwards the loan officer is responsible for sales, on-site evaluation, follow-up and repayment of her portfolio, evaluation of the debt capacity of the client and her family.	Loan, guarantee, and natural disaster and fire insurance are mandatory.	The product might also be assessed in solidarity groups of a minimum of 2 persons.	*For new, smaller clients, clients without guarantee:* Solidarity group option of the presented product and Chasqui Efectivo: immediate small loan up to 1,000 PEN with no need to demonstrate income, but only if no other debts in the financial system and minimum of 12-18 months of business experience (natural person/juridical person) *For larger clients:* Visa credit card-based credit line, leasing and factoring services *For rural clients:* Special individual or solidarity-group-based working capital loans of 1,000-35,000 PEN, up to 24 months with free amortization (Crédito Rural Individual with property), for the Crédito Rural Solidario with solidarity group guarantee loans of 300-10,000 PEN.	http://www.mibanco.com.pe/nucleo.aspx?nompag=comphtml/capital.htm&tp=interno&id=es&usel=Micapital, http://www.mibanco.com.pe/nucleo.aspx?nompag=comphtml/chasqui.htm&tp=interno&id=es&usel=Chasqui%20Efectivo, http://www.mibanco.com.pe/nucleo.aspx?nompag=comphtml/lineacapital.htm&tp=interno&id=es&usel=Linea%20de%20Capital%20de%20Trabajo , http://www.mibanco.com.pe/nucleo.aspx?nompag=comphtml/creditorural_individual.htm&tp=interno&id=es&usel=Credito%20Rural, http://www.mibanco.com.pe/nucleo.aspx?nompag=comphtml/creditorural_solidario.htm&tp=interno&id=es&usel=Credito%20Rural, (accessed 1 August 2009) Interviews and participation observation Mibanco, 2006
CMAC Trujillo	Crédito PYME (microenterprise loan for working capital & investment)	n/a	n/a	Flexible quotas: daily, weekly, monthly, free, grace period possible.	Minimum of 6 month experience in the business, no delinquent loans in the financial system, RUC/ registration SUNAT.	Copy of property title or guarantor.	The loan officer is in charge of sales, on-site evaluation and recovery of loans; the decisions are largely made by the branch manager consider-ing loan officer sugges-tions; only some complex loans are approved in a credit committee.	Evaluation and disbursement of the loan in 48 hrs, loan and disaster insurance included.	Revolving credit line for punctual clients (Crédito Automático).	*Small clients:* Microenterprise loan without RUC or need of property/ guarantor: Crédito Facilito up to 5,325 PEN; small daily loan only based in a declaration of goods for vendors in markets of 350 - 5000 PEN (Crédito Rapidiario) *Unexperienced clients:* Young microentrepreneurs financing up to 70% of a project without previous business experience (Crédito Credijoven) *Sectoral approaches:* Loans for transportation business based on the property of the vehicle (Crédito Creditaxi) Loans of 5,325 PEN for female vendors of products from catalogues based on client references (Crédito Mujer) *Marginalized clients:* Loan up to 5,325 PEN for handicapped microentrepreneurs (Crédito Crediamigo) *Larger clients:* Larger loans up to 53,250 PEN (Crédito Clientes Preferenciales), guarantee letters and commercial loans (Carta Fianza & Créditos Comerciales).	http://www.cajatrujillo.com.pe/portalnuevo/02paratunegocio/01pyme/cartafianza.html, http://www.cajatrujillo.com.pe/portalnuevo/02paratunegocio/01pyme/facilito.html, http://www.cajatrujillo.com.pe/portalnuevo/02paratunegocio/01pyme/creditaxi.html, http://www.cajatrujillo.com.pe/portalnuevo/02paratunegocio/01pyme/credijoven.html, http://www.cajatrujillo.com.pe/portalnuevo/02paratunegocio/01pyme/rapidiario.html, http://www.cajatrujillo.com.pe/portalnuevo/02paratunegocio/01pyme/mujer.html, http://www.cajatrujillo.com.pe/portalnuevo/02paratunegocio/01pyme/crediamigo.html, http://www.cajatrujillo.com.pe/portalnuevo/02paratunegocio/01pyme/automatico.html, http://www.cajatrujillo.com.pe/portalnuevo/02paratunegocio/01pyme/clientespreferenciales.html, http://www.cajatrujillo.com.pe/portalnuevo/02paratunegocio/01pyme/comerciales.html, http://www.cajatrujillo.com.pe/portalnuevo/02paratunegocio/01pyme/cartafianza.html, (accessed 1 August 2009) Interviews and participant observation CMAC Trujillo, 2006.

Continuation of Table 6.3.1-D1: Overview of short-term microenterprise loans and related conditions

Basic MSME loan	**Name of the product & main characteristic**	**Range of loan amount**	**Range of loan duration**	**Frequency of installments & adaptability of repayment schedule**	**Requirements (existence of business, degree of formality, minimum turnover)**	**Guarantee needed**	**Method of assessing the debt capacity of the client, kind of relationship to the client**	**Other important characteristics (group loans, debit cards offered, grace period, loan insurance)**	**Other relevant products**	**Products targeting at small/new or larger enterprises (daily loans/loans for street vendors or export financing, leasing, factoring), sectoral approaches, etc.**	**Sources (incl. date of access)**
CMAC Cuzco	Crédito MES (microenterprise loan for working capital & investment)	300 PEN/ 5,000 USD – 29,000 USD	Up to 60 months.	Anticipated payment possible.	Have own business, minimum of 6 months' experience in the business, under 75 years old.	Property or possession title or guarantor.	The loan officer is in charge of sales, on-site evaluation and recovery of loans, evaluation of the debt capacity of the client and her family.	-	*Social projects:* Special loans for people working in/cooperating with municipal social programs, NGOs, civil society organizations, only with any kind of document on economic activity (Crédito Solidario).	*For small clients:* Loan in commerce with daily repayment of 300-7,000 PEN with documentation of the business stand/premises and solidarity guarantor (Paga Diario) *Sectoral approaches:* Loans for agricultural activity of 300 PEN/5,000 USD-400,000 USD with a special grace period of up to 12 months and a duration of 6-12 months, according to the agricultural cycle (Crédito Agropecuario) *For larger clients:* Commercial loans.	http://www.cmac-cusco.com.pe/pyme.html, http://www.cmac-cusco.com.pe/pagadiario.html, http://www.cmac-cusco.com.pe/agropecuario.html, http://www.cmac-cusco.com.pe/comercial.html, (accessed 2 August 2009) Iinterviews and participant observation CMAC Cuzco, 2006, Interviews and participation observation CRAC Credinka, 2006
CRAC Credinka	PYME (microenterprise loan for working capital & investment)	500-99,999 PEN	Up to 60 months (depending on loan size).	n/a	Documentation of business and property.	Property or guarantor.	After salesperson contacts the client, the loan officer verifies the residences and presents the loan; on-site evaluation of the clients' and her family's debt capacity to the credit committee.	-		*Financial inclusion/products for marginalized rural clients:* As a second step, the rural saving groups are offered solidarity group loans for joint microenterprises of the group members (Crédito Solidario); the product is presented in social responsibility section of website. *For larger clients:* Commercial loans and guarantee letters (Crédito Comercial & Carta Fianzas).	http://www.credinka.net/ProductosCreditosPyme.html, http://www.credinka.net/ProductosCreditosComerciales.html, http://www.credinka.net/ProductosCartasFianzas.html http://www.credinka.net/ResponsabilidadSocial.html (accessed 2 August 2009)
CRAC Nuestra Gente	Crédito Agropecuario (agricultural loans for working capital & investment)	According to evaluation.	According to evaluation.	n/a	n/a	n/a	Evaluation and consultation by the agronomists of the CRAC.	Agricultural loans focus on productive chain and agreements, e.g., with milk factories (Leche Gloria).	*For MSME and private persons:* Loan for the conversion of autos from gasoline to natural gas (GNV).	Main product is a sectoral approach focussing on agriculture.	http://www.cajanuestragente.com/agropecuario.php, http://www.cajanuestragente.com/gnv.php, interviews CRAC Norperú 2006 (accessed 2 August 2009)
EDPYME Financiera Edyficar	Edycapital (microenterprise working capital loan)	300 PEN/ 100 USD – 100,000 PEN-30,000 USD	1-12 months	Every 30 days or fixed date.	Minimum experience of 6 months in the business, no delinquent loans in the financial system, no RUC necessary.	Property title or guarantor.	Loan officers are in charge of sales, on-site, family-based evaluation, risk management, and recovery of the loans.	n/a	Edysoat for financing car insurance and repair.	n/a	http://www.edyficar.com.pe/ServletPortal?accion=getPage&idContenido=9&tipo=1%20&categoria=1, http://www.edyficar.com.pe/ServletPortal?accion=getPage&idContenido=13&tipo=1%20&categoria=1, (accessed 4 August 2009) Interviews and participant observation Edyficar 2006.
EDPYME Crear Arequipa	CrearFácil (multi-purpose microenterprise loan)		Up to 24 months.	n/a	Documentation of property/rent.	n/a	Loan officer is in charge of sales on-site, family-based evaluation, and recovery, with support of a sales team.	Loan insurance is obligatory	-	*For women:* There is a special loan (Crear-Warmi) for female entrepreneurs.	http://www.creararequipa.com.pe/crear/index.htm , http://www.creararequipa.com.pe/crear/index.htm, Maldonado 2008, (accessed 4 August 2009) Interviews and participant observation Crear Arequipa 2006.
CAC Santa María Magdalena	MIPYMES (microenterprise loan)	According to analysis.	n/a	Monthly	RUC or functioning license.	Property title or guarantor.	Limited analysis of the indebtedness capacity, focus on guarantee.	Also offered as a credit line; loan insurance is obligatory.	*For commerce:* Small loans with daily/ weekly repayment collected by the CAC (Rapidiario).	*Smaller clients:* Solidarity groups as guarantee are possible within the village bank approach or rural women saving and loan groups (Programa de Crédito Ahorro Grupal Rural) *Sectoral approaches:* Credit lines for value chains are offered in the case of the production of purple corn, wheat, textiles, and alpaca wool.	http://www.cac-santamaria.coop/mipymes.html, http://www.cac-santamaria.coop/rapidiario.html, http://www.cac-santamaria.coop/cadenadevalor.html , http://www.cac-santamaria.coop/crecemjer.html, (accessed 4 August 2009) Pérez 2006: 8ff.
CAC Tocache	Mi Capital (microenterprise loan)	500-7,000 PEN	1-36 months	Monthly	Minimum business experience of six months.	Two guarantors with property.	n/a	n/a	-	*Smaller clients:* Microenterprise loan from 500-5,000 PEN guaranteed only with the fixed deposits of the client and does not require business experience (Crecenegocio).	Miller/Villanueva 2006

Continuation of Table 6.3.1-D1: Overview of short-term microenterprise loans and related conditions

Basic MSME loan	Name of the product & main characteristic	Range of loan amount	Range of loan duration	Frequency of installments & adaptability of repayment schedule	Requirements (existence of business, degree of formality, minimum turnover)	Guarantee needed	Method of assessing the debt capacity of the client, kind of relationship to the client	Other important characteristics (group loans, debit cards offered, grace period, loan insurance)	Other relevant products	Products targeting at small/new or larger enterprises (daily loans/loans for street vendors or export financing, leasing, factoring), sectoral approaches, etc.	Sources (incl. date of access)
NGO Finca Perú	Bancos Comunales (village banks – microenterprise loans from the external/FINCA account)	50-1,000 USD	4-10 months	Payments within the group weekly or biweekly, monthly to FINCA.	Good reputation within the community (as confirmed by other group members), existence of the business declared (verified by the loan officer), no delinquent loans in the financial system.	Peer pressure (the interest rate of the group goes up if one member defaults).	Smaller loans approved by the credit committee, larger loans approved in the agency with additional assessment of indebted-ness capacity/ cash flow by loan officer.	Groups receive basic training in financial literacy; talks on subjects like health follow the financial transactions. BDS is also offered.	Loans for more experienced clients.	*More experienced clients:* Loans in smaller groups (Grupos Solidarios) and individual loans (Crédito Individual) are available; campaign loans for Christmas for the most experi-enced members.	http://www.fincaperu.net/cms/index.php/bancomunales_credito/es, Flores 2007: 6ff., (accessed 4 August 2009) Interviews and participant observation FINCA 2006
NGO Prisma (MFP – Microfinanzas Prisma)	Bancos Comunales (village banks - microenterprise loans from the external/MFP account)	300 PEN-1,000 PEN (1st cycle), - 7,500 PEN (> 8th cycle)	6-12 months	n/a	Value of the loan depends directly on the savings accumulated in the internal account of the village bank.	Solidarity group	n/a	Loans are also available in USD.	Loans for more experienced clients.	*More experienced clients:* Larger loans up to 3,700 PEN (1st cycle) /10,000 PEN (> 9th cycle) in smaller groups (Grupos Solidarios) and individual loans (Crédito Individual) up to 20,000 PEN available. Individual loans are based on personal real guarantors, according to amount.	http://www.mfp.org.pe, (accessed 5 August 2009) Javoy 2008: 6f.

Legend: * Registro Único de Contribuyente (RUC) = tax identification number; NC: National currency - FC: Foreign currency (largely US dollar; increasingly also Euro)
Source: Own conceptualization and compilation; see column 'Sources' in the table.
Notes: CRAC Nuestra Gente includes the former CRAC NorPerú, CRAC Caja Sur, and EDPYME Crear Tacna; EDPYME Crear Arequipa has the commercial name of Créditos Arequipa; EDPYME Financiera Edyficar is currently registered as the finance company Financiera Edyficar, and Banco de Trabajo as the finance company CrediScotia. For the sampling method applied, see Appendix 6.3.1-A. Banco de la Nación is not included because it might not directly serve credit clients beyond public sector servants. MFIs serving clients in Banco de la Nación shared offices *(ventanilla compartida)* and offer the same products as they offer to other clients.

Table 6.3.1-D2: Overview of long-term investment loans, largely for business use, but also for business premises and education

MSME investment loan	Name of the product & main characteristic	Range of loan amount	Range of loan duration	Frequency of installments & adaptability of repayment schedule	Requirements (existence of business, degree of formality, minimum turnover)	Guarantee needed	Method of assessing the debt capacity of the client, kind of relationship to the client	Other important characteristics (group loans, debit cards offered, grace period, loan insurance)	Other relevant products (loans for education, etc.)	Products targeting at small/new or larger enterprises, sectoral approaches, etc.	Sources (dates of access see table 6.3.1-D1)
Banco de Crédito	Financiamiento de bienes muebles (investment loan)	1,430 - 100,000 USD	3-60 months.	Fixed monthly quotas.	In business at least 1 year; with RUC,* minimum real sales of 10,000 USD annually or 100 PEN daily.	Up to 12,000 USD without guarantee.	The imbursement of the loan is coordinated with the provider of the goods.	In FC & NC, finances up to 100% of the good.	Loans for education only from minimum income of 1,000 USD monthly on.	Due to requirements and minimum values, bank targets SMEs and developed microenterprises.	http://www.viabcp.com/zona_publica/02_pymes/interna.asp?SEC=2&JER=482 (fixed investment loan); http://www.viabcp.com/zona_publica/01_persona/interna.asp?SEC=1&JER=1708&ENL=1711 (education loan)
Banco de Trabajo	Crédito con garantía hipotecaria (long-term multi-purpose mortgage loan for microenterprises, Banco de Trabajo)	Up to 90,000 PEN.	Up to 36 months.	n/a	With RUC, functioning license or unified register, documents that show the property of real estate.	Mortgage of the business location/family house, by the client, her spouse, parents, siblings or business partner.	n/a (like microenterprise working capital loan?).	A loan for acquiring a business location was also offered by Banco del Trabajo (Crédito Local Proprio).	CrediScotia offers an investment loan without mortgage from 1,500-120,000 NS, payable in up to 72 months.	New CrediScotia investment loan (Financiamiento para Inversiones) has few formal requirements, thus, open to very small businesses.	http://www.bantra.com.pe/creditogarantiamicro1.shtml, http://www.bantra.com.pe/banca_negocios_creditos.shtml, http://www.bantra.com.pe/negocios_financia_inversiones.shtml
Scotiabank Perú	Créditos para Maquinaria y Locales Comercia-les (loan for business buildings of groups; even though it should also be for buying machinery)	1,000-25,000 USD	Up to 60 months.	n/a	Groups of entrepreneurs with existing business and clients (working capital loan), additional information on the project and municipal approval of the construc-tion.	Self-assessment for existing clients, titles of patrimony only for new clients/without credit history.	Loan officer verifies documents and information of the clients, gathers more information for the scoring system, and makes decisions (autonomy depending on the NLPs of his clients).	/	None	Product aims at constituted small enterprises of various partners; no long-term loan for very small clients.	http://www.scotiabank.com.pe/textos/faqs_p_empredores.pdf, http://www.scotiabank.com.pe/bemd_prestamos/bemd_p_presmaq.shtml
Banco Financiero	Crédito MYPE para Activo Fijo (microenterprise investment loan)	Up to 35,000 PEN without mortgage.	n/a	n/a	RUC, functioning license, other documents required by the loan officer.	Copy of property, if not guarantor needed.	After first contact through sales force, loan officer evaluates the investment needs and possibilities of the client in on-site evaluation.	After a period of 12 months working with the bank, the maximum amount for loans is 60,000 PEN.	None	None (Solifácil for a maximum of 12 months).	
Interbank	Crédito para Capital de Trabajo (microenterprise investment loan)	Up to 64,000 PEN/ 20,000 USD (see require-ments).	Up to 48 months for machinery, etc., up to 60 months for business premises.	Prepayment possible, grace period up to 3 months is possible.	Without RUC, guarantor or own residence up to 4,000 NS; without guarantor or own residence up to 8,000 PEN; without RUC, only up to 32,000 PEN/10,000 USD.	Own residence or guarantor (not necessary up to 4,000 PEN).	n/a (financial institution entered the market after the field research in 2006).	Loan insurance included; loan should be ready in 3 working days.	-	Other investment loans for larger enterprises available (with juridical person); financial services for foreign commerce offered by the section Banca Pequeña Empresa: payment of imports, cash exports, finance both imports and exports (Comercio Exterior).	http://www.interbank.com.pe/
BBVA -Banco Continental	None	-	-	-	-	-	-	-	Education loan only, from 3,000 PEN monthly income on.	Only standard products for medium and large enter-prises are offered.	http://www.bbvabancocontinental.com/tlpu/jsp/pe/esp/paraempresasN/index.jsp, http://www.bbvabancocontinental.com/tlpu/jsp/pe/esp/paratiN/prestamos/pestudios/index.jsp,
Banco Ripley	Mejora tu Local o Vivienda (mixed housing & investment loan)	n/a	4-36 months.	Frequency might be weekly, bi-weekly, or acc. to the client's preference; the loan might be extended by not paying one quota if needed, 6 months of grace period.	Only with energy/water bill of the residence, without RUC, minimum 6 months' experience in the business.	No guarantee needed.	n/a (financial institution entered the market after the field research in 2006).	Optional loan insurance offered, imbursement in only 24 hours.	-	-	http://www.ripley.com.pe/financor/microfinanzas/beneficios_mej_nego.jsp, http://www.ripley.com.pe/financor/microfinanzas/requisitos_mej_nego.jsp
Financiera TFC (as above)	Créditos para PYME (multi-purpose loan for working capital, investment, etc.)	n/a	n/a	Flexibility in payment of quotas: daily, weekly, monthly, free, grace period), anticipated payments.	Also for natural person without RUC, only with energy/water receipt, economic evaluation of the investment, minimum 1 year business experience.	Copy of property title or guarantor.	n/a (financial institution entered the market after the field research in 2006).	n/a	-	Presented product does not require any minimum income.	http://www.tfc.com.pe/cre_pymes.htm

Continuation of Table 6.3.1-D2: Overview of long-term investment loans, largely for business use, but also for business premises and education

MSME investment loan	Name of the product & main characteristic	Range of loan amount	Range of loan duration	Frequency of installments & adaptability of repayment schedule	Requirements (existence of business, degree of formality, minimum turnover)	Guarantee needed	Method of assessing the debt capacity of the client, kind of relationship to the client	Other important characteristics (group loans, debit cards offered, grace period, loan insurance)	Other relevant products (loans for education, etc.)	Products targeting at small/new or larger enterprises, sectoral approaches, etc.	Sources (dates of access see table 6.3.1-D1)
Mibanco	MiEquipo	From 1,000 PEN/350 USD on.	3-36 months in PEN/3-60 months in USD.	Monthly, bi-weekly, weekly, by quota with fixed date, grace period of 2 months.	Minimum of 12 months of business for natural person, 18 months for juridical person; license of functioning or RUC or membership in business association or receipts for acquisition of business input.	Copy of property, or of rent contract.	Score with 14 filters is used for pre-selection of clients, afterwards loan officer is responsible for sales, on-site evaluation, follow-up, and repayment of his portfolio.	Loan, guarantee, and natural disaster and fire insurance are mandatory.	None	*For larger clients:* Visa credit card-based credit line, leasing and factoring services are offered. *For rural clients:* Special individual or solidarity-group-based investment loans of sums of 1,000-35,000 PEN up to 36 months with free amortization (Crédito Rural Individual with property), for the Crédito Rural Solidario with solidarity group guarantee loans of 300-10,000 PEN.	http://www.mibanco.com.pe/nucleo.aspx?nompag=comphtml/equipo.htm&tp=interno&id=es&usel=Miequipo, http://www.mibanco.com.pe/nucleo.aspx?nompag=comphtml/creditorural_individual.htm&tp=interno&id=es&usel=Credito%20Rural, http://www.mibanco.com.pe/nucleo.aspx?nompag=comphtml/creditorural_solidario.htm&tp=interno&id=es&usel=Credito%20Rural, Interviews and participant observation Mibanco 2006
CMAC Trujillo (as above)	Crédito PYME (microenterprise loan for working capital & investment)	n/a	n/a	Flexible quotas: daily, weekly, monthly, free, grace period possible.	Minimum of 6 months' experience in the business, no delinquent loans in the financial system, RUC/registration SUNAT.	Copy of property title or guarantor.	Loan officer in charge of sales, on-site evaluation and recovery of loans; decisions are largely made by the branch manager deciding on the loan officer's suggestions, only some complex loans approved in a credit committee.	Evaluation and disbursement of the loan in 48 hr, loan and disaster insurance included.	*Identicalto working capital loans because loans are combined working capital and investment loan, separated by target group* Revolving credit line for punctual clients (Crédito Automático).	*Identical to working capital loans because loans are combined working capital and investment loans* *Small clients:* Microenterprise loan without RUC or need of a property/guarantor: Crédito Facilito up 5,325 PEN; small daily loan only based on declaration of goods for vendors in markets of 350 - 5000 PEN (Crédito Rapidiario) *Unexperienced clients:* Young microentrepreneurs financing up to 70% of a presented project without previous business experience (Crédito Credijoven) *Sectoral approaches:* Loans for transportation business based on the property of the vehicle (Crédito Creditaxi) Loans 5,325 PEN for female vendors of products from catalogues based on their client references (Crédito Mujer) *Marginalized clients:* Loan up to 5,325 PEN for handicapped microentrepreneurs (Crédtio Crediamigo) *Larger clients:* Larger loans up to 53,250 PEn (Crédito Clientes Preferenciales), guarantee letters and commercial loans (Carta Fianza & Créditos Comerciales).	http://www.cajatrujillo.com.pe/portalnuevo/02paratunegocio/01pyme/cartafianza.html, http://www.cajatrujillo.com.pe/portalnuevo/02paratunegocio/01pyme/facilito.html, http://www.cajatrujillo.com.pe/portalnuevo/02paratunegocio/01pyme/creditaxi.html, http://www.cajatrujillo.com.pe/portalnuevo/02paratunegocio/01pyme/credijoven.html, http://www.cajatrujillo.com.pe/portalnuevo/02paratunegocio/01pyme/rapidiario.html, http://www.cajatrujillo.com.pe/portalnuevo/02paratunegocio/01pyme/mujer.html, http://www.cajatrujillo.com.pe/portalnuevo/02paratunegocio/01pyme/crediamigo.html, http://www.cajatrujillo.com.pe/portalnuevo/02paratunegocio/01pyme/automatico.html, http://www.cajatrujillo.com.pe/portalnuevo/02paratunegocio/01pyme/clientespreferenciales.html, http://www.cajatrujillo.com.pe/portalnuevo/02paratunegocio/01pyme/comerciales.html, http://www.cajatrujillo.com.pe/portalnuevo/02paratunegocio/01pyme/cartafianza.html, Interviews and participant observation CMAC Trujillo, 2006.
CMAC Cuzco (as above)	Crédito MES (microenterprise loan for working capital and fixed investment)	300 NS/ 5,000 USD – 29,000 USD	Up to 60 months.	Anticipated payment possible.	Have own business, minimum of 6 months' experience in the business, under 75 years old.	Property or possession title or guarantor.	The loan officer is in charge of sales, on-site evaluation, and recovery of loans.	-	*Social projects:* Special loans for people working in/cooperating with municipal social programs, NGOs, civil society organizations only with any kind of document on economic activity (Crédito Solidario).	*Identical to working capital loans because loans are combined working capital and investment loans* *For small clients:* Loan in the commerce with daily repayment of 300-7,000 PEN with the documentation of the business stand/premises and solidary guarantor (Paga Diario) *Sectoral approaches:* Loans for agricultural activity of 300 PEN/5,000 USD-400,000 USD with a special grace period of up to 12 months and a duration of 6-12 months, according to the agricultural cycle (Crédito Agropecuario) *For larger clients:* Commercial loans.	http://www.cmac-cusco.com.pe/pyme.html, http://www.cmac-cusco.com.pe/pagadiario.html, http://www.cmac-cusco.com.pe/agropecuario.html, http://www.cmac-cusco.com.pe/comercial.html, Interviews and participant observation CMAC
CRAC Credinka (as above)	PYME (microenterprise loan for working capital & investment)	500-99,999 PEN	Up to 60 months (depending on loan size).	n/a	Documentation of business and property.	Property or guarantor	After salesperson contacts client, loan officer verifies residence and presents the loan to the credit committee; on-site evaluation.	-	-	*Financial inclusion/products for marginalized rural clients:* As a second step, rural saving groups are offered solidarity group loans for joint microenterprises of the group members (Crédito Solidario); product is presented in social responsibility section of website. *For larger clients:* Commercial loans and guarantee letters (Crédito Comercial & Carta Fianzas)	http://www.credinka.net/ProductosCreditosPyme.html, http://www.credinka.net/ProductosCreditosComerciales.html, http://www.credinka.net/ProductosCartasFianzas.html http://www.credinka.net/ResponsabilidadSocial.html
CRAC Nuestra Gente (as above)	Crédito Agropecuario (agricultural loans for working capital & investment)	According to evaluation.	According to evaluation.	n/a	n/a	n/a	Evaluation and consultation by the agronomists of the CRAC.	Agricultural loans focus on productive chain and agreements, e.g., with milk factories (Leche Gloria).	-	*Main product is a sectoral approach focussing on agriculture* *For MSME and private persons:* Loan for the conversion of vehicles from gasoline to natural gas (GNV)	http://www.cajanuestragente.com/agropecuario.php, http://www.cajanuestragente.com/gnv.php, Interviews CRAC Norperú 2006

Continuation of Table 6.3.1-D2: Overview of long-term investment loans, largely for business use, but also for business premises and education

MSME invest-ment loan	Name of the product & main characteristic	Range of loan amount	Range of loan duration	Frequency of installments & adaptability of repayment schedule	Requirements (existence of business, degree of formality, minimum turnover)	Guarantee needed	Method of assessing the debt capacity of the client, kind of relationship to the client	Other important characteristics (group loans, debit cards offered, grace period, loan insurance)	Other relevant products (loans for education, etc.)	Products targeting at small/new or larger enterprises, sectoral approaches, etc.	Sources (dates of access see table 6.3.1-D1)
EDPYME Financiera Edyficar	Edymaquina	7,000 PEN/ 2,000 USD -100,000 PEN/ 30,000 USD	3-24 months.	Every 30 days or fixed date, grace period up to 6 months	Minimum of 6 months of running the enterprise, without delinquent loans in the financial system.	Any certification on property or guarantor.	Loan officers in charge of sales, on-site evaluation, risk management, and recovery of the loans.	-	Edyequipo	*For smaller enterprises:* Investment loan Edyequipo for smaller loans from 300 PEN/100 USD – 7,000 PEN/2,000 USD offered to smaller enterprises with the same characteristics as Edymaquina.	http://www.edyficar.com.pe/ServletPortal?accion=getPage&idContenido=11&tipo=1%20&categoria=1, http://www.edyficar.com.pe/ServletPortal?accion=getPage&idContenido=10&tipo=1%20&categoria=1, http://www.microfinanzas.net/modules.php?name=News&file=article&sid=384, Interviews Edyficar 2006.
EDPYME Crear Arequipa (as above)	CrearFácil (multi-purpose microen-terprise loan)	According to analysis.	Up to 6 years.	n/a	Documentation of property/rent.	n/a	Loan officer in charge of sales, evaluation, and recovery, with support of a sales team.	Loan insurance obligatory.	-	*For women:* Special loan (CrearWarmi) for female entrepreneurs.	http://www.creararequipa.com.pe/crear/index.htm , http://www.creararequipa.com.pe/crear/index.htm , Maldonado 2008
CAC Santa María Magdalena (as above)	MIPYMES (microenterprise loan)	According to analysis.	1-60 months.	Monthly	RUC or functioning license.	Property title or guarantor.	Limited analysis of the indebted-ness capacity, focus on guarantee.	Also offered as a credit line, loan insurance obligatory.	-	*Smaller clients:* Solidarity groups as guarantee also possible within the village bank approach or rural women saving and loan groups (Programa de Crédito Ahorro Grupal Rural) *Sectoral approaches:* Credit lines for value chains offered in the case of production of purple corn, wheat, textiles and alpaca wool.	http://www.cac-santamaria.coop/mipymes.html, http://www.cac-santamaria.coop/cadenadevalor.html, Pérez 2006: 8ff.
CAC Tocache (as above)	Credipyme (microenterprise loan)	7,000 - 100,000 NS	1-24 months.	Monthly	-	For loans > 5,000 USD, two guarantors and updated financial statements.	n/a	n/a	-	*Smaller clients:* Microenterprise loan from 500-5,000 PEN is guaranteed only with the fixed deposits of the client and does not require business experience (Crecenegocio).	Miller/Villanueva 2006
NGO Finca Perú (as above)	Bancos Comunales (village banks - microenterprise loans from the external/FINCA account)	50-1,000 USD	4-10 months.	Payments within the group weekly or biweekly, monthly to FINCA.	Good reputation within the community (as confirmed by other group members), existence of the business declared (verified by the loan officer), no delinquent loans in the financial system.	Solidarity group/peer pressure (the interest rate of the group goes up if one member defaults).	Smaller loans approved by the credit committee, larger loans approved in the agency with additional assessment of indebt-edness capacity/cash flow by loan officer.	Groups receive basic training in financial literacy; talks on subjects like health follow the financial transactions. BDS also offered.	Loans for more experienced clients.	*More experienced clients* Loans in smaller groups (Grupos Solidarios) and individual loans (Crédito Individual) are available; campaign loans for Christmas for the most experienced members.	http://www.fincaperu.net/cms/index.php/bancomunales_credito/es, Flores 2007: 6ff., Interviews and participant observation FINCA 2006
NGO Prisma (MFP – Microfinanzas Prisma) (as above)	Bancos Comunales (village banks - microenterprise loans from the external/MFP account)	300 PEN-1,000 PEN (1st cycle), - 7,500 PEN (> 8th cycle)	6-12 months.	n/a	Value of the loan depends directly on the savings accumulated in the internal account of the village bank.	Solidarity group.	n/a	Loans are also available in USD.	Loans for more experienced clients.	*More experienced clients* Larger loans up to 3,700 PEN (1st cycle)/10,000 PEN (> 9th cycle) in smaller groups (Grupos Solidarios); individual loans (Crédito Individual) up to 20,000 PEN available. Individual loans based on personal real guarantees, according to the amount.	http://www.mfp.org.pe, Javoy 2008: 6f.

Legend: * Registro Único de Contribuyente (RUC) = tax identification number; NC: National currency – FC: Foreign currency (mostly US dollar; increasingly also Euro).

Source: Own conceptualization and compilation, see column 'Sources' in the table.

Notes: CRAC Nuestra Gente includes the former CRAC NorPerú, CRAC Caja Sur, and EDPYME Crear Tacna; EDPYME Crear Arequipa has the commercial name of Créditos Arequipa; EDPYME Financiera Edyficar is currently registered as the finance company Financiera Edyficar, and Banco de Trabajo as the finance company CrediScotia. For the sampling method applied, see Appendix 6.3.1-A.

Table 6.3.1-D3: Overview of small housing loans and related conditions

Most relevant housing loan	Name of the product & main characteristic	Range of loan amount	Range of loan duration	Frequency of install-ments & adaptability of repayment schedule	Requirements (kind and size of income)	Guarantee needed	Method of assessing the debt capacity of the client, kind of relationship to the client	Other important characteristics (grace period, loan insurance)	Other relevant products (especially for the smallest clients, loans for enlarging houses, etc.)	Sources (dates of access see table 6.3.1-D1)
Banco de Crédito	Financiamiento de bienes inmuebles (for SME, Banca Pequeña Empresa) (microenterprise real estate loan)	1,430 -100,000 USD (no minimum for housing with local savings).	3-84 months.	Fixed monthly quotas.	Minimum existence of business is 1 year; with RUC,* minimum real sales of 10,000 USD annually or 100 PEN daily. Experience of minimum 1 year with investment loans. (For housing with local savings: monthly quota might not exceed monthly savings rate).	Up to 15,000 USD without guarantee.	Imbursement of the loan coordi-nated with owner of the building to finance	In FC & NC, finances up to 80% of the real estate.	Variety of housing loans for low-income population: Housing loans guaranteed with local savings, remittances; housing loans for enlarging housing, etc.	http://www.viabcp.com/zona_publica/02_pymes/interna.asp?SEC=2&JER=487 (real estate for SME); http://www.viabcp.com/zona_publica/01_persona/interna.asp?SEC=1&JER=134, http://www.viabcp.com/zona_publica/01_persona/interna.asp?SEC=1&JER=1482&ENL=1495 (housing for low-income clients)
Banco de Trabajo/ CrediScotia	Créditos para Proyectos de Infraestructura(loan for business premises of groups)	1,000-25,000 USD	Up to 60 months.	n/a	Only for groups of entrepreneurs with a minimum of 3 years' working together and a project approved by the municipal-ity for the construction of a business location.	Self-assessment for existing clients, titles of patrimony only for new clients/without credit history.	n/a	Loan for acquiring a business location was also offered by Banco del Trabajo (Crédito Local Proprio).	For individual microentrepreneurs/ private persons, no housing loan, only a loan for self-construction, financing construction material in associated construction material store chains (Créditos Autoconstrucción).	http://www.bantra.com.pe/negocios_credito_infraestructura.shtml, http://www.bantra.com.pe/credito_establecimiento.shtml, http://www.bantra.com.pe/credito_disponibilidad.shtml, http://www.bantra.com.pe/productos1.shtml.
Scotiabank Perú	Ahorro Futuro Vivienda (savings- or remittances-based housing loan)	According to Nuevo Crédito MiVivienda: 49,700-177,500 PEN.	Up to 20 years.	n/a	Fulfil the requirements for MiVivienda (no ownership of a house within the family), be punctual and exact with the established savings goals with no negative credit records.	Mortgage loan, provide a minimum of 10% of the value, fulfil the savings/ retaining remittance requirements of Scotiabank.	n/a	Grace period of half a year if the building is still under construction.	Savings- and remittances-based products of MiVivienda-loans are most basic ones, differentiated range of larger housing loans.	http://www.scotiabank.com.pe/bpr_prestamos/bp_p_proy_mihogar.shtml, http://www.scotiabank.com.pe/banca_personal_depositos.shtml, http://www.mivivienda.com.pe/portal/Canales/Comprador/Programas%20de%20Vivienda/Cr%C3%A9dito%20MIVIVIENDA/Caracter%C3%ADsticas%20del%20Producto.asp
Banco Financiero	Crédito MYPE para Vivienda (microenterprise housing loan)	Up to 35,000 PEN.	Up to 36 month.	Monthly	RUC, project of the building.	Copy of title of residence or guarantor.	Personalized assessment with the loan officer	Anticipated cancelations of debt possible, one quota for free for punctual repayment.	Consumption loan for microenter-prise: up to 7,000 PEN, without mortgage, either guaranteed with copy of residence title or with guarantor; buy financed electronic domestic goods in store chain Carsa.	http://www.financiero.com.pe/BanMicro/Prests/CdtoMypeVivienda.aspx?idmenu=20, http://www.financiero.com.pe/BanMicro/Prests/CdtoMypeVivienda.aspx?idmenu=20&sbm=rq
Interbank	Techo Proprio/ Ahroro Techo (housing loan based on savings)	n/a (examples with loans of 3,000-30,000 PEN).	n/a	n/a	If client cannot demonstrate her income, she needs to save for 4-6 months the later quota, with a minimum value of 20 USD, not owing a residence, no bad record in the credit bureaus.	None	n/a	Government bonus can be obtained.	Larger savings-based housing loans (Ahorro Casa), in which income also comes from remittances (with 100 USD, the client can access 8,000 USD loan for a period of 20 years).	http://www.interbank.com.pe/
BBVA -Banco Continental	Préstamo Hipote-cario (mortgage loan)	From 5,000 USD on.	Up to 20 years.	n/a	Demonstrate a minimum income of 1,500 PEN, independent workers with RUC, juridical declaration of taxes paid.	Mortgage	n/a	Finances maximum of 90% of the real estate, includes real estate insurance, grace period of 6 months possible.	Special mortgage loan for acquiring business premises.	http://www.bbvabancocontinental.com/tlpu/jsp/pe/esp/paratiN/prestamos/phipotecario/index.jspP, http://www.bbvabancocontinental.com/tlpu/jsp/pe/esp/paratiN/prestamos/phipotecario/index.jsp?&&Pestana=Nuestro%20Producto&SubPestana=Preguntas%20Frecuentes
Banco Ripley	Mejora tu Local o Vivienda (mixed housing & investment loan)	n/a	4-36 months.	Frequency might be weekly, bi-weekly or acc. to the client's preference; the loan might be extended by not paying one quota if needed; 6 months' grace period.	Only with energy/water bill of the residence, without RUC, minimum 6 months' experience in the business.	No guarantee needed.	n/a	Optional loan insurance offered, imbursement in only 24 hours.	None, but current product requires no minimum income.	http://www.ripley.com.pe/financor/microfinanzas/beneficios_mej_nego.jsp, http://www.ripley.com.pe/financor/microfinanzas/requisitos_mej_nego.jsp
Financiera TFC	Crédito Proyecto MiHogar	35,000-87,500 PEN.	10-20 years.	Fixed monthly quotas.	More than 23 years, initial payment of 10%, not owning a house (according to MiHorar criteria).	Mortgage	n/a	Characteristics of MiHogar (MiVivienda).	Other MiVivienda housing loans: Crédito Hipotecario Techo Propio, Crédito Hipotecario MiVivienda.	http://www.tfc.com.pe/cre_hmh.html
Mibanco	MiCasa	1,000 PEN/350 USD – 45,000 PEN/15,000 USD.	Up to 5 years.	Monthly, bi-weekly, weekly, by quota with fixed date, grace period of 2 months.	Documents supporting income, identity, and ownership of real estate; budget of the project.	Without mortgage if total debt with the bank total < 10,000 USD.	n/a	Loan, guarantee and natural disaster and fire insurance are manda-tory.	Aide range of further products: Habilitación Urbana—loan for improving urbanization conditions (access to water, etc.) by a group of neighbours, MiLocal (business premises), MiVivienda (MiVivienda housing loan), Proyectos Especiales (acquisition of a business premise in a market, shopping centre, etc.).	http://www.mibanco.com.pe/nucleo.aspx?nompag=comphtml/urbana.htm&tp=interno&id=es&usel=Habilitacion%20Urbana, http://www.mibanco.com.pe/nucleo.aspx?nompag=comphtml/proyespeciales.htm&tp=interno&id=es&usel=Proyectos%20Especiales, http://www.mibanco.com.pe/nucleo.aspx?nompag=comphtml/proyespeciales.htm&tp=interno&id=es&usel=Proyectos%20Especiales, http://www.mibanco.com.pe/nucleo.aspx?nompag=comphtml/vivienda.htm&tp=interno&id=es&usel=Mivivienda
CMAC Trujillo	Hipotecaja (housing or housing improvement loan)	n/a	3-20 years.	n/a	Dependent employees demonstrate income; for independent workers, RUC, juridical declarations on taxes paid.	Registration document of the building/plot, budget, and control of building project.	n/a	Loan and disaster insurance included.	MiVivienda standard loan also offered.	http://www.cajatrujillo.com.pe/portalnuevo/01parati/03cred_hipotecarios/hipotecaja.html, http://www.cajatrujillo.com.pe/portalnuevo/01parati/03cred_hipotecarios/mi_vivienda_estandarizado.html
CMAC Cuzco	CrediCasa (housing or housing improvement loan)	The total amount might not be more than 5% of the equity of the CMAC.	-	-	Working contract for employees, RUC and last tax declarations for independent workers, under 75 years old, registration document of the building/plot, budget and contract for building project.	Property title or guarantor.	n/a	-	-	http://www.cmac-cusco.com.pe/hipotecario.html
CRAC Credinka	Créditos para Vivienda (MiVivienda housing loans)	n/a	n/a	n/a	Certification of not owning any property, documents on working contract for employees, license of functioning and minimum of 2 years of tax declaration for independent worker.	n/a	n/a	n/a	-	http://www.credinka.net/ProductosCreditosVivienda.html

Continuation of Table 6.3.1-D3: Overview of small housing loans and related conditions

Most relevant housing loan	Name of the product & main characteristic	Range of loan amount	Range of loan duration	Frequency of install-ments & adaptability of repayment schedule	Requirements (kind and size of income)	Guarantee needed	Method of assessing the debt capacity of the client, kind of relationship to the client	Other important characteristics (grace period, loan insurance)	Other relevant products (especially for the smallest clients, loans for enlarging houses, etc.)	Sources (dates of access see table 6.3.1-D1)
CRAC Nuestra Gente	Crédito de Consumo e Hipotecario (housing loan)	n/a	n/a	n/a	Minimum of 1 year's experience in the business, documentation on income.	For construction and housing improvement loans > 3,000 USD with mortgage, < 3,000 USD with guarantor, for purchase only with documentation of real estate and the vendor.	n/a	n/a	-	http://www.cajanuestragente.com/consumo_hipotecario.php
EDPYME Financiera Edyficar	Edyvivienda (housing loan for microentrepre-neurs)	300-20,000 PEN (not in USD).	6-36 months.	Every 30 days or fixed date.	Minimum of 6 months of running the enterprise, without delinquent loans in the financial system .	Any certification on property or guarantor.	n/a	Edylocal	*For business premises:* Edylocal is a larger loan of 1,000 PEN/300 USD-100,000 PEN/30,000 USD and a duration of 3-48 months for the acquisition, enlargement, or improvement of business premises.	http://www.edyficar.com.pe/ServletPortal?accion=getPage&idContenido=14&tipo=1%20&categoria=1, http://www.edyficar.com.pe/ServletPortal?accion=getPage&idContenido=12&tipo=1%20&categoria=1
EDPYME Crear Arequipa	CrearFácil (multi-purpose microen-terprise loan)	According to analysis.	Up to 6 years.	n/a	Documentation of property/rent.	n/a	Loan officer is in charge of sales, evaluation, and recovery, with support of a sales team	Loan insurance obliga-tory.	-	http://www.creararequipa.com.pe/crear/index.htm, http://www.creararequipa.com.pe/crear/index.htm, Maldonado 2008
CAC Santa María Magdalena	Casa Bonita (housing loan)	According to analysis.	120-240 months	Monthly	n/a	Mortgage	n/a	Loan insurance obliga-tory.	-	http://www.cac-santamaria.coop/casabonita.html, Pérez 2006
CAC Tocache	There is no housing loan; although Credipyme could be used for acquiring or building house/business premises, the maximum duration is too short.									Miller/Villanueva 2006: 5ff.
NGO Finca Perú	There is no housing loan; eventually the larger microenterprise loans for more experienced clients could be used for housing purposes (see Grupos Solidarios, Crédito Individual, above).									http://www.fincaperu.net/cms/index.php/bancomunales_credito/es/, Flores 2007: 6ff., Interviews and participant observation FINCA 2006
NGO Prisma (MFP – Microfinanzas Prisma)	There is no housing loan; eventually the larger microenterprise loans for more experienced clients could be used for housing purposes (cf. Grupos Solidarios, Crédito Individual, above).									http://www.mfp.org.pe, Javoy 2008: 6f.

Legend: FC: Foreign currency (mostly US dollar; increasingly also Euro).
Source: Own conceptualization and compilation, see column 'Sources' in the table.
Notes: CRAC Nuestra Gente includes the former CRAC NorPerú, CRAC Caja Sur, and EDPYME Crear Tacna; EDPYME Crear Arequipa has the commercial name of Créditos Arequipa; EDPYME Financiera Edyficar is currently registered as the finance company Financiera Edyficar, and Banco de Trabajo as the finance company CrediScotia. For the sampling method applied, see Appendix 6.3.1-A.

Table 6.3.1-D4: Overview of emergency loan facilities and related conditions

Emergency or small consump-tion loan	Name of the product & main characteristic	Range of loan amount	Range of loan duration	Frequency of installments & adaptability of repayment schedule (grace period, etc.)	Requirements (kind and size of income)	Guarantee needed	Method of assessing the debt capacity of the client, kind of relationship to the client	Other important characteristics (loan insurance)	Other relevant products (espe-cially for small clients)	Sources (dates of access see table 6.3.1-D1)
Banco de Crédito	Crédito en Efectivo (multi-purpose consumption loan)	From 800 USD/2,500 PEN on.	Up to 36 months.	12 or 14 quotas annually; in July and December, double quotas might be paid, prepayment is always possible.	Minimum of 700 PEN monthly minimum income (of the individual or the couple), independent workers/MSME need to show tax paid during last 3 months, statutory declaration, and RUC.	Without guarantor.	New clients: scoring; existing clients: statistical behavior models.	With loan insurance, monthly quota might not be higher than 30% of the income.	Automotive loan and most simple credit card are not alternatives for small clients because minimum income is even higher, at 1,000 PEN monthly.	http://www.viabcp.com/zona_publica/01_persona/interna.asp?SEC=1&JER=1679, http://www.viabcp.com/zona_publica/01_persona/interna.asp?SEC=1&JER=1679&ENL=1681 http://www.viabcp.com/zona_publica/01_persona/interna.asp?SEC=1&JER=2082&ENL=2083 (consumption loan); Banco de Crédito del Perú 2008: 77 (assessment methodology); http://www.viabcp.com/zona_publica/01_persona/interna.asp?SEC=1&JER=1688&ENL=1690 (automotive loan); http://www.viabcp.com/zona_publica/01_persona/interna.asp?SEC=1&JER=285&ENL=394 (credit card)
Banco de Trabajo/ CrediScotia	Créditos en Establecimientos (consumption loans in associated store chains, CrediScotia)	n/a	n/a	n/a	Minimum monthly income of 350 PEN, minimum of 6 months for employees and minimum of 12 months for independent workers in their business.	Without guarantor.	Inspection of living and working place.	With loan insurance (including death and invalidity).	Multiple-purpose consumption loans are offered only to current and retired employees and women (Crédito Libre Disponibilidad).	http://www.bantra.com.pe/credito_establecimiento.shtml, http://www.bantra.com.pe/credito_disponibilidad.shtml, http://www.bantra.com.pe/productos1.shtml
Scotiabank Perú	Préstamo de Libre Disponibilidad (multi-purpose consumption loan)	Up to 15,000 USD (if liquid guarantee, max. 95%).	12-36 months.	Monthly quotas.	Minimum monthly income of 800 PEN, ages 19-70, specific requirements for dependent and independent workers: official declaration of tax paid for independent workers.	Without guarantor nor guarantee.	n/a	Preferred interest rates for clients with fixed deposits accounts, bank certificates or mutual funds.	Consumption loan with liquid guarantee.	http://www.scotiabank.com.pe/bpr_prestamos/bp_p_personal.shtml
Banco Financiero	Préstamo de Libre Disponibilidad (multi-purpose consumption loan)	1,500-45,000 PEN.	Up to 48 months.	Monthly quotas, anticipated cancelations of debt possible.	Minimum monthly income of 700 PEN, ages 20-64, documentation of income, minimum of 6 months for employees, 1 year for independent professionals and 2 years of experience for entrepreneurs.	Without guarantee.	Personalized assess-ment with loan officer.	One quota for free for punctual repayment.	Consumption loan for microenter-prise: up to 7,000 PEN, without mortgage, guaranteed with property or with guarantor.	http://www.financiero.com.pe/BanPer/Prests/PLD.aspx?idmenu=45, http://www.financiero.com.pe/BanPer/Prests/PLD.aspx?idmenu=45&sbm=rq, http://www.financiero.com.pe/BanMicro/Prests/CdtoMypeConsumo.aspx?idmenu=19&sbm=cr
Interbank	Préstamo dejando en garantía tus ahorros (consumption loan with liquid guarantee)	Up to 20,000 PEN.	n/a	Grace period of 2 months possible; prepayment possible.	Show a licit economic activity, up to age 65 without evaluation, based on savings.	Without guarantee.	Based on savings.	-	Consumption loan based on regular income of 1,000/800 PEN (Lima/province) for employees, 1,300/1,000 PEN for independent employees (Préstamo Fácil).	http://www.interbank.com.pe/
BBVA -Banco Continental	Préstamo Personal (consumption loan)	According to evaluation.	Up to 36 months.	n/a	Demonstrate joint minimum income of 1,500 PEN for a couple (or equivalent in USD), with RUC in the case of independ-ent workers, having worked for minimum 1 year in the same job/business.	Without guarantee.	Assessment, not further specified.	Better rates for savers.	Automotive loan only from 1,000 USD monthly income on.	http://www.bbvabancocontinental.com/tlpu/jsp/pe/esp/paratiN/prestamos/ppersonal/index.jsp#0, http://www.bbvabancocontinental.com/tlpu/jsp/pe/esp/paratiN/prestamos/vehicular/index.jsp
Banco Ripley	Libre Disponibili-dad (multiple-purpose consump-tion loan)	n/a	4-24 months.	Frequency might be weekly, bi-weekly, or acc. to client's prefer-ence; the loan might be extended by not paying one quota if needed, 6 months of grace period.	Only with energy/water bill of the residence, without RUC, minimum 6 months' experience in the business, no minimum income needed.	No guarantee needed.	n/a	Optional loan insurance offered, imbursement in only 24 hours.	-	http://www.ripley.com.pe/financor/microfinanzas/facilidades_lib_disp.jsp, http://www.ripley.com.pe/financor/microfinanzas/requisitos_lib_disp.jsp, http://www.ripley.com.pe/financor/microfinanzas/beneficios_lib_disp.jsp
Financiera TFC	Crédito Directo (consumption loan for financing goods from store chain La Curacao)	n/a	6-24 months.	Monthly, payment either on the 3rd or 16th of each month.	Minimum net income of 350 PEN, monthly declarations of sales for independent workers/6 months with RUC; for informal workers – direct assessment (costeo del negocio).	Copy of property or guarantor.	Verification of income declared (with enterprise of employ-ees), tax declaration for formal independent workers and through assessment for informal independent workers.	Loan for financing electronic domestics, furniture, gyms and motorcycles; automatic evaluation if client shows good loan records.	Also informal independent workers are attended by the product presented.	http://www.tfc.com.pe/cre_consumo.htm
Mibanco	MiFacilidad (consumption loan)	From 1,000 PEN/350 USD on.	Up to 24 months in PEN/up to 24 months in USD.	Monthly, bi-weekly, weekly, by quota with fixed date, grace period of 2 months.	Minimum of 12 months of business for natural person, 18 months for juridical person, license of functioning or RUC or membership in business association or receipts for acquisition of business input.	Copy of property, or of rent contract.	n/a	Loan insurance is mandatory.	Fast loan with liquid guarantee, available the same day if 100% guaranteed (Crédito con Garantía Líquida).	http://www.mibanco.com.pe/nucleo.aspx?nompag=comphtml/facilidad.htm&tp=interno&id=es&usel=Mifacilidad , http://www.mibanco.com.pe/nucleo.aspx?nompag=comphtml/ garan-tialiq.htm&tp=interno&id=es&usel=Credito%20con%20Garantia%20Liquida
CMAC Trujillo	Crédito Usos Diversos (Con-sumption loan based on own income or remit-tances)	According to evaluation.	n/a	n/a	Last 2 receipts of payment, or 6 months for honors, or remittances.	Property title or guarantor.	Evaluation (not further specified).	Loan insurance included (for death and permanent invalidity).	Consumption loans guaranteed based on fixed-term deposit (Créditos con Garantía Plazo Fijo), pawn loan/consumption loan guaranteed with gold/ jewelry (CrediJoya).	http://www.cajatrujillo.com.pe/portalnuevo/01parati/02cred_personales/credi_depositos.html, http://www.cajatrujillo.com.pe/portalnuevo/01parati/02cred_personales/credi_usosdiversos.html, http://www.cajatrujillo.com.pe/portalnuevo/01parati/04cred_joya/credijoya.html

Continuation of Table 6.3.1-D4: Overview of emergency loan facilities and related conditions

Emergency or small consumption loan	Name of the product & main characteristic	Range of loan amount	Range of loan duration	Frequency of installments & adaptability of repayment schedule (grace period, etc.)	Requirements (kind and size of income)	Guarantee needed	Method of assessing the debt capacity of the client, kind of relationship to the client	Other important characteristics (loan insurance)	Other relevant products (especially for small clients)	Sources (dates of access see table 6.3.1-D1)
CMAC Cuzco	Crédito Personal (Consumption loan only for employees)	800 PEN/ 5,000 USD – 400,000 USD.	Up to 60 months.	n/a	Minimum family income of 700 PEN, working for the same enterprise at least for 1 year, working contract.	Guarantor with own house.	n/a	-	*For small clients/independent workers* Pawn loan on jewelry/gold with little further documentation, up to 70% of the valuation (Crédito Prendario) *Social projects:* Special loans for people working in/cooperating with municipal social programs, NGOs, civil society organizations only with any kind of document on economic activity (Crédito Solidario).	http://www.cmac-cusco.com.pe/personal.html, http://www.cmac-cusco.com.pe/prendario.html, http://www.cmac-cusco.com.pe/solidario.html
CRAC Credinka	Crédito de Consumo	From 500 PEN/150 USD on.	12-60 months.	n/a	Documentation of working contract for employees, payment receipts for independent workers.	With guarantor.	n/a	Possible duration of the loan changes with value (larger periods are possible with larger values).	*For agricultural clients:* Special multi-purpose consumption loans for the members of coffee and cocoa cooperatives through agreements with Credinka.	http://www.credinka.net/ProductosCreditosConsumo.html, http://www.credinka.net/ResponsabilidadSocial.html
CRAC Nuestra Gente	Crédito Pignoraticio (pawn loan)	n/a	n/a	n/a	n/a	Gold	Assessment of value of the gold article.	-	Only for employees of an enterprise that has firm agreement with the CRAC.	http://www.cajanuestragente.com/pignoraticio.php, http://www.cajanuestragente.com/convenios.php
EDPYME Financiera Edyficar	Edylibre-disponibilidad (consumption loan for micro-entrepreneurs)	300-20,000 PEN (only in PEN).	1-36 months.	Every 30 days or fixed date.	Having a business in commerce, production or services, minimum of 6 months' running the enterprise, without delinquent loans in the financial system.	Any certification on property or guarantor.	n/a	n/a	Also consumption loans for employees.	http://www.edyficar.com.pe/ServletPortal?accion=getPage&idContenido=15&tipo=1%20&categoria=1
EDPYME Crear Arequipa	CrearYapa	According to analysis.	n/a	One month without interest rate, 60-day grace period.	Documentation of property/rent.	n/a	n/a	Loan insurance is obligatory.	Also consumption loans for employees (CrearEfectivo).	http://www.creararequipa.com.pe/crear/index.htm , http://www.creararequipa.com.pe/crear/index.htm
CAC Santa María Magdalena	A Sola Firma (consumption loan for all members)	90% of the member's quota.	9 months.	Monthly.	Identification only.	No additional guarantee needed.	n/a	n/a	Also consumption loans for employees (Creditconvenio).	http://www.cac-santamaria.coop/asolafirma.html, http://www.cac-santamaria.coop/crediconvenio.html, Pérez 2006: 8ff.
CAC Tocache	Crédito Convenio	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	Miller/Villanueva 2006: 5ff.
NGO Finca Perú	Loans from the internal account/ the village bank's own account	Depending on size of the joint account .	Depending on decision of the group.	n/a	Confidence of the other members, eventually urgency of access to credit.	n/a	Criteria of the group.	n/a	-	http://www.fincaperu.net/cms/index.php/bancomunales_credito/es/, Flores 2007: 6ff. , Interviews and participant observation FINCA 2006
NGO Prisma	There are no consumption loans mentioned, although internal loans could be a possibility.									http://www.mfp.org.pe, Javoy 2008: 6f.

Legend: FC: Foreign currency (largely US dollar; increasingly also Euro).
Source: Own conceptualization and compilation; see column 'Sources' in the table.
Notes: CRAC Nuestra Gente includes the former CRAC NorPerú, CRAC Caja Sur, and EDPYME Crear Tacna; EDPYME Crear Arequipa has the commercial name of Créditos Arequipa; EDPYME Financiera Edyficar is currently registered as the finance company Financiera Edyficar, and Banco de Trabajo as the finance company CrediScotia. For the sampling method applied, see Appendix 6.3.1-A.

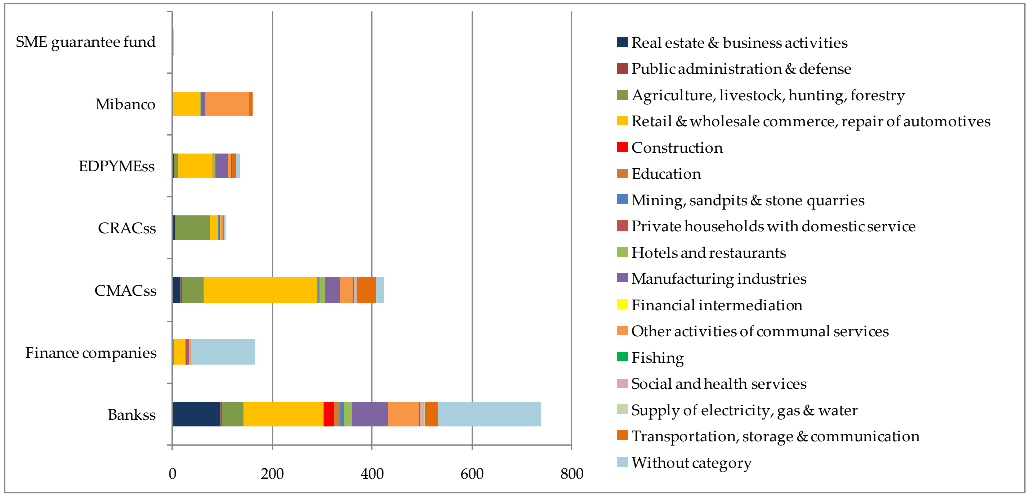
Table 6.3.1-D5: Overview of complementary services: programmes and services for the inclusion of marginalized clients, capacity building , business development of clients, incentivizing local socioeconomic development or other purposes

Complementary services and programmes	Financial arrangements or programmes for promoting the access of unbanked populations (e.g., group approaches, financial education, specific products)	Additional services/programmes for promoting development of the clients and their socioeconomic contexts (e.g., BDS, value chain development, environmental care, etc.)	Cooperation with other financial institutions or local state or development actors
Banco de Crédito	Financial education program for the general public with awareness -raising spots in the radio and television, distribution of educational postcards and posters in public transportation announcing financial education website at htto://www.abcdelabanca.com: 'Aprende de banca y sácale provecho. Con los consejos del ABC de la banca de BCP. Porque la buena información genera confianza. Banco de Crédito – BCP' (BCP 2009); ABC de la banca. Postales y videos, http://www.abcdelabanca.com/pages/inf_descargar_videos.php, accessed 15 February 2009). Program of integral financial assessment for clients, 80% financed by Banco de Crédito, 20% by the client, developed in cooperation with Universidad del Pacífico (interviews Banco de Crédito 2006).	Business management programs for small entrepreneurs in cooperation with NGOs and universities (Propyme, ESAN, USIL) (Programas de Capacitación Empresarial, http://www.viabcp.com/Connect/html_pymes/programas_capacitacion_empresarial/capacitacion_empresarial.html, accessed 15 February 2009), but only a very small number of the bank clients might participate, e.g., 600 microentrepreneurs in 2007 (Banco de Crédito del Perú 2008: 64). Meetings of a limited number of entrepreneurswith practical training in client attention, leadership, sales techniques, etc. (http://www.viabcp.com/Connect/html_pymes/Encuentro_Empresarial/Encuentro_Empresarial_BCP.html (accessed 15 February 2009).	BDS trainings and meetings.
Banco de Trabajo/ CrediScotia	Bank sees its contribution to socioeconomic development in offering tailor-made financial sercives to low-income population: 'Mission of Banco del Trabajo: Brindar soluciones financieras y oportunidades de desarrollo a personas naturales, dependientes e independientes de los estratos emergentes del Perú, ofreciendo productos y servicios financieros diseñados especialmente para atender sus necesidades, ayudando así a lograr el desarrollo de nuestro país' (Nuestro Banco, http://www.bantra.com.pe/nuestrobanco1.shtml , accessed 16 January 2009).		n/a
Scotiabank Perú	There are no special programmes for financial inclusion, BDS, and cooperation with local stakeholders, rather a CSR programme that shows a mix of different activities targeting children and women without a clear strategy (http://www.scotiabank.com.pe/acercade/scotia_comunidad.shtml, accessed 3 August 2009); very short and rather superficial tips for 'making more with your money' on the institution's website cannot be considered a financial education program (http://www.scotiabank.com.pe/videos.shtml, accessed 3 August 2009).		
Banco Financiero	There is no hint to any SCR projects of the bank, and its mission and vision do not include a specific development focus other than the idea that its clients should have sustained development (http://www.financiero.com.pe/General/QuienesMision.aspx?idmenu=560, accessed 4 August 2009).		
Interbank	Interbank sees its contribution to financial inclusion in offering integrated financial services to MSMEs (Interbank 2009b: 40f.).	None (Interbank 2009b).	Interbank cooperates on its CSR programmes with the NGO Asociación Vida Perú and runs different campaigns, e.g., for validating the labour of public school teachers, but no measures are directly linked to the microenterprise clients (Interbank 2009b: 62f.).
BBVA -Banco Continental	BBVA has CSR linked to its main business: Its financial inclusion strategy for Latin America is implemented through its foundation Fundación Micrfinanzas BBVA by the acquisition and merger of existing MFIs; the channelling of remittances from abroad is implemented through the bank itself (BBVA Banco Continental 2008: 15ff.).	None (BBVA Banco Continental 2008).	None, CSR is done by the bank and its foundation in the area of financial inclusion (BBVA Banco Continental 2008).
Banco Ripley	Ripley aims at providing its customers a high quality shopping experience and has a small CSR programme based on volunteering to work with poor children; hence, there is no link to microfinance nor any systematic approach for promoting socioeconomic development (see http://www.ripley.com.pe/ financor/institucional/conocenos_responsabilidad_social.jsp, http://www.ripley.com.pe/financor/institucional/conocenos_grupo_ripley.jsp, accessed 4 August 2009).		
Financiera TFC	Financiera TFC aims at satisfying the consumption financing needs of its customers, especially in terms of durable goods; hence, there is no development mission or vision visible (http://www.tfc.com.pe/somos.htm, accessed 4 August 2009).		
Mibanco	Mibanco contributes to the inclusion of new microenterprise clients in the financial system, having 'bancarizado' 23.3% of the 384,509 new clients in the financial system in 2008, according to data of the credit bureau Equifax. Mibanco presents its microfinance business, the products offered, and the outreach as 'social impact' (Mibanco 2009b: 63ff.).	Important size of BDS training offered for free to large numbers of clients since 2000. In 2008, Mibanco trained 25,000 micro and small entrepreneurs with the free training 'Instruments for growing your business', which meant an invertion of 1 million USD (VIII Programa de Capacitación de Microempresa). Up to now, 75,000 clients have been trained in marketing, finance, sales, administration, business strategies, and legal issues (Mibanco 2009b: 74). Mibanco's environmental policy includes a negative list of economic activities that affect the environment negatively and cannot be financed by the institution (Mibanco 2009b: 87).	Through a cooperation with the enterprise Solergiza, Mibanco finances solar panels in communities without access to electric energy in the rural zones of Puno (Mibanco 2009b: 87).
CMAC Trujillo	In 2003, the CMAC was awarded the 'IADB Prize for Excellence in Microfinance' for innovation in microcredit technology. In 2006, the Brazilian Association for Incentivizing Quality ABIQUA awarded the CMAC the 'Quality Prize South America 2006' (see http://www.iadb.org and www.abiqua.org.br, accessed 4 August 2009).	n/a	CMACs generally cooperate with their municipalities in issues of socioeconomic development (building public market, etc.) (interviews different CMACs 2006).
CMAC Cuzco	CMAC Cuzco has also been awarded various prizes, like being among the first institutions of the 'IADB Prize for Excellence in Microfinance', the first prize of the microfinance rating agency Micro Rate, as most efficient MIF among 40 Latin American MFIs in 2005 (see http://www.iadb.org and http://microrate.com, accessed 4 August 2009).	n/a	
CRAC Credinka	Financial inclusion of rural Andean communities in the financial system, presenting the saving group approach in the communal meeting. The newly formed groups receive a guided visit through the financial institution and are accompanied by instruction (Reinserción de las Comunidades Andinas en el Sistema Financiero, Introducción al Ahorro Colectivo, http://www.credinka.net/ResponsabilidadSocial.html, accessed 2 August 2009). Credinka does not mention the roots of this programme being linked with the Proyecto Corredor (see Trivelli & Yankari 2008).	Linked to the savings groups, Credinka offers solidarity-group-based loans to these groups for the development of joint microenterprises; further talks about business development are offered to individual entrepreneurs within the target group of rural Andean clients (Crédito Solidario y El Desarrollo de Microempresas Colectivas, Generación de Empresas Individuales, http://www.credinka.net/ResponsabilidadSocial.html, accessed 2 August 2009).	Cooperation with the regional development project Proyecto Corredor (Trivelli & Yankari 2008).
CRAC Nuestra Gente	The CRAC develops adapted initiatives of sustainable interventions for low-income population in the zones where the CRAC operates (2 projects shown); the CRAC sees its CSR contribution in the promotion of responsible MSME and agriculture loans and promotes some small campaigns for children, artists, etc. (http://www.cajanuestragente.com/rse.php, accessed 2 August 2009).		-
EDPYME Financiera Edyficar	Edyficar aims at promoting financial inclusion or *bancarization* through the reduction of cost and the increase of outreach to populations far from the urban centres. The institution is second in 'bancarizing' clients with 14% of all new clients of the financial system being Edyficar clients and 11.1% of all new microenterprise clients (Financiera Edyficar 2008: 19; data Equifax 2008). Edyficar was also awarded a prize for serving the most Banco de la Nación clients through the agreement of shared counters (Financiera Edyficar 2008: 23).	-	-
EDPYME Crear Arequipa	n/a	n/a	The EDPYME has alliances with many donor agencies, but also with the national development program FONCODES (http://www.creararequipa.com.pe/crear/index.htm, accessed 4 August 2009).
CAC Santa María Magdalena	-	Training of the members in cooperativism (Pérez 2006: 8ff.). The cooperative offers further social support, loan insurance, and health and burial services to its members through the *Fondo de Solidaridad* (see insurance for further deails; Pérez 2006: 8).	-
CAC Tocache	-	A special committee —the educational committee—is responsible for training on cooperativist values within the cooperative and among its members Miller/Villanueva 2006: 4).	-
NGO Finca Perú	Financial literacy is basic training for the village bank groups of Finca and is fundamentally implemented by the rotating principle of the leadership of the village banks, at some point making all members directors, secretaries, treasurers, and auxiliaries of 'their bank', managing the financial transactions of in weekly meetings (interviews and participant observation Finca 2006), reconfirmed by Finca's membership in PROMUC (PROMUC 2010).	Finca offers the clients a training programme in enterprise management, implemented in partnership with Freedom From Hunger (region Ayacucho) and Atinchik (region Lima) (http://www.fincaperu.net/cms/index.php/bancomunales_programagestion/es, accessed 3 August 2009). On a regular basis, the clients receive training in issues like financial management, entrepreneurial skills, health, the position of the women in the family, etc., during village bank meetings (interviews and participant observation Finca 2006). The subsidiary non-profit Finca Perú Exports provides training, support, and possibility of exporting handicraft through a team of international volunteers (http://www.fincaperuexports.org/about%20FINCA%20Peru%20exports.html, accessed 4 August 2009).	
NGO Prisma	Generally, basic financial literacy and other capacity building is applied in village banking by PROMUC members (PROMUC 2010).	Since 2006, the members receive free training in health-related matters with the programme 'loans with health', which is still to be expanded to accommodate more groups (Javoy 2008: 12).	The parent NGO Prisma provides a wide range of social services for promoting local socioeconomic development, e.g., strengthening local governments and incentivizing the local economy, e.g., through training small farmers and organizing them into small associations (http://www.prisma.org.pe/, http://www.prisma.org.pe/#cabecera , accessed 4 August 2009).

Source: Own conceptualization and compilation, see column 'Sources' in the table.
Notes: See graph 6.3.1-D1.

Appendix 6.3.1-E: Microenterprise portfolio by economic sector and type of financial institution, absolute and relative in 2001 and 2008

*Graph 6.3.1-E1: Microenterprise portfolio by economic sector and type of financial institution, **2001** (absolute, in million PEN)*



*Graph 6.3.1-E2: Microenterprise portfolio by economic sector and type of financial institution, **2008** (absolute, in million PEN)*

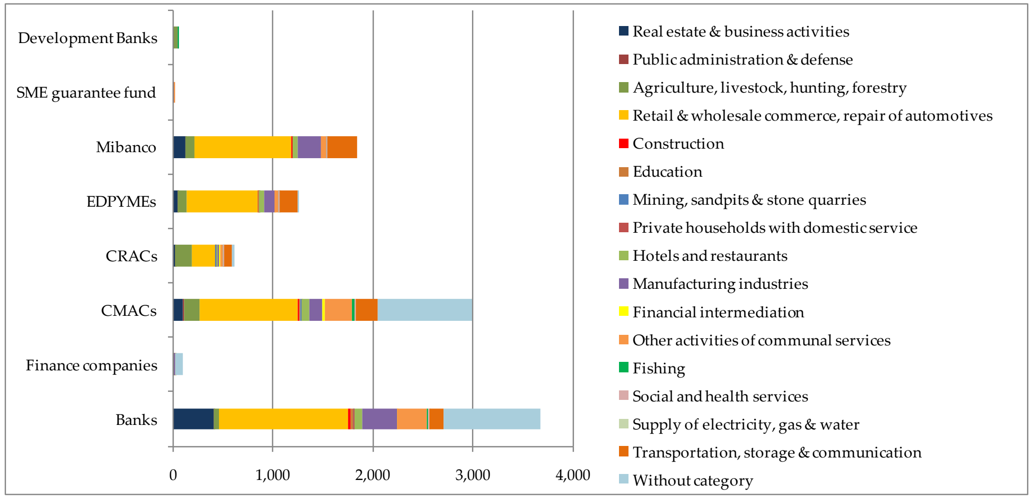


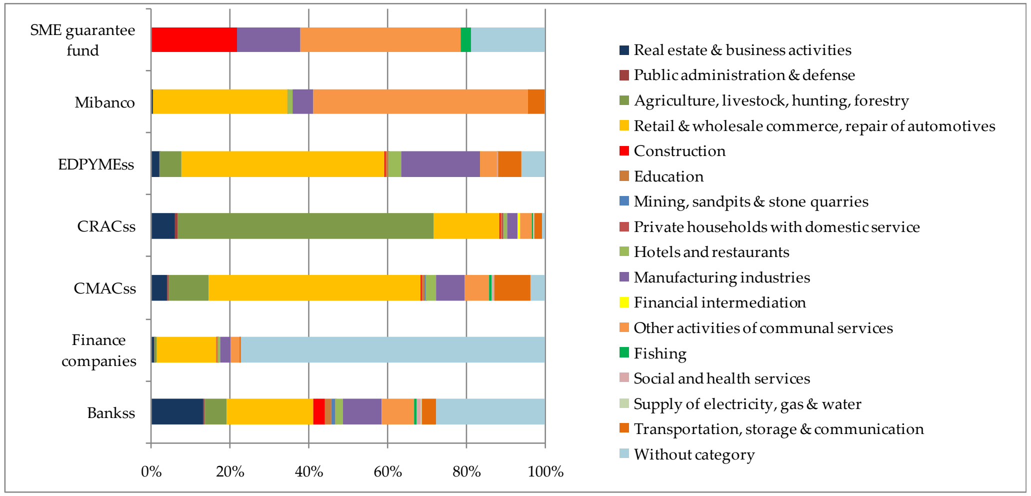
*Table 6.3.1-E1: Distribution of microenterprise portfolio by type of financial institution, **2001***

Banks	Finance companies	CMACs	CRACs	EDPYMEs	Mibanco	SME guarantee fund
42.8%	9.6%	24.5%	6.0%	7.8%	9.3%	0.0%

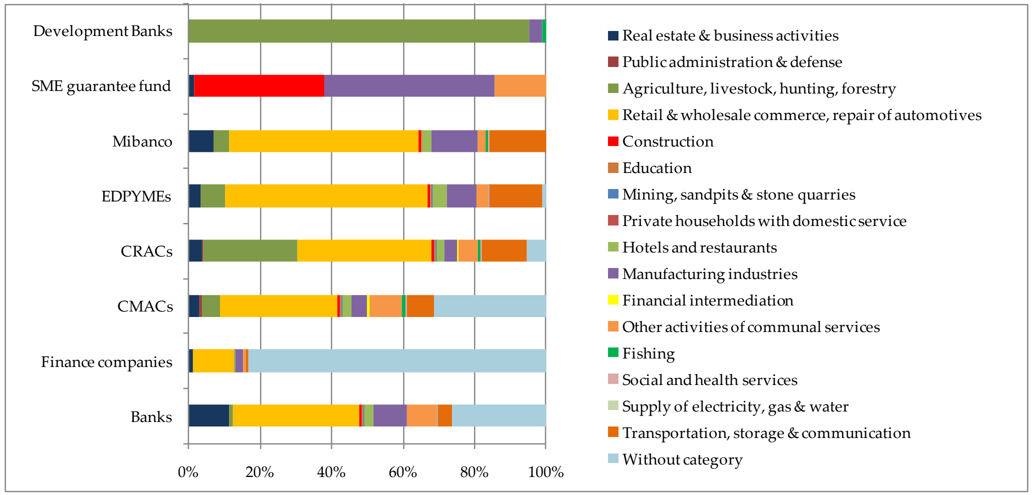
*Table 6.3.1-E2: Distribution of microenterprise portfolio by type of financial institution, **2008***

Banks	Finance companies	CMACs	CRACs	EDPYMEs	Mibanco	SME guarantee fund	Development Banks
34.9%	0.9%	28.4%	5.9%	12.0%	17.4%	0.0%	0.4%

*Graph 6.3.1-E3: Microenterprise portfolio by economic sector and type of financial institution, **2001** (relative, in percent per institution)*



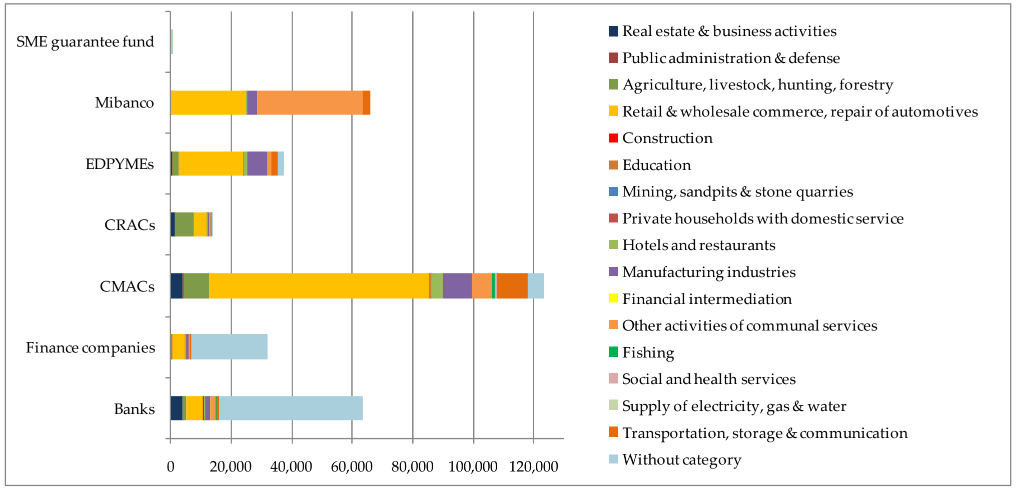
*Graph 6.3.1-E4: Microenterprise portfolio by economic sector and type of financial institution, **2008** (relative, in percent per institution)*



Source: Data from SBS, own elaboration.
Note: According to International Uniform Industrial Classification, *Clasificación Internacional Industrial Uniforme* (CIIU).

Appendix 6.3.1-F: Number of microenterprise loans by economic sector and type of financial institution, absolute and relative in 2001 and 2008

*Graph 6.3.1-F1: Microenterprise loans by economic sector and type of financial institution, **2001** (absolute numbers)*



*Graph 6.3.1-F2: Microenterprise loans by economic sector and type of financial institution, **2008** (absolute numbers)*

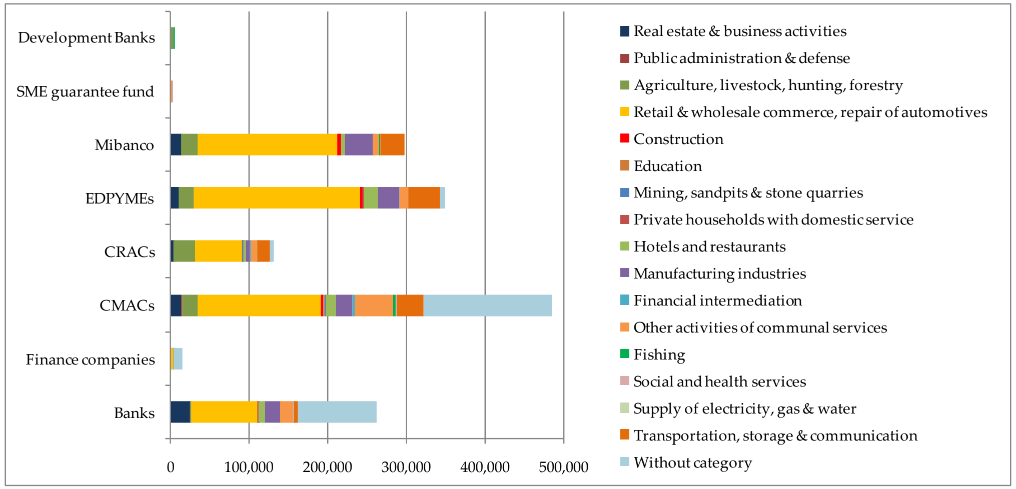


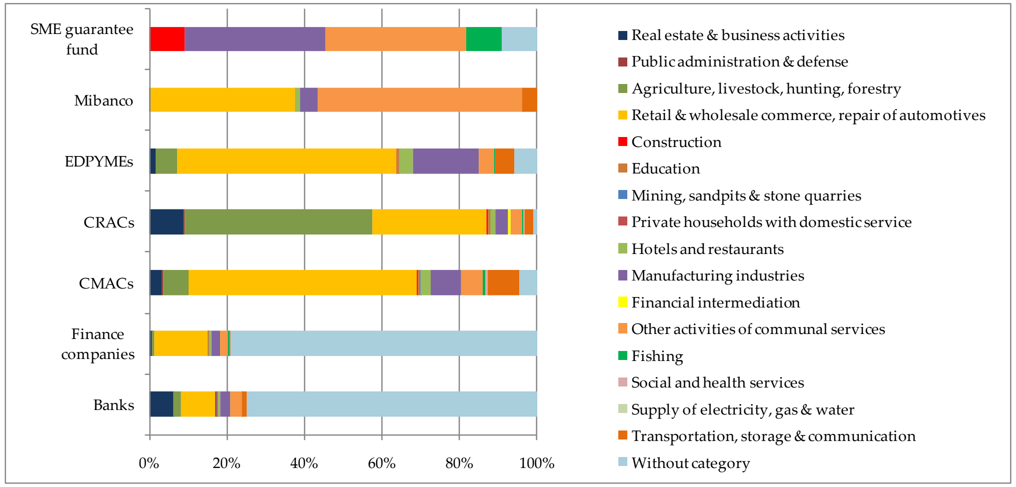
*Table 6.3.1-F1: Distribution of microenterprise loans by type of financial institution, **2001***

Banks	Finance companies	CMACs	CRACs	EDPYMEs	Mibanco	SME guarantee fund
18.8%	9.6%	36.8%	4.1%	11.1%	19.6%	0.0%

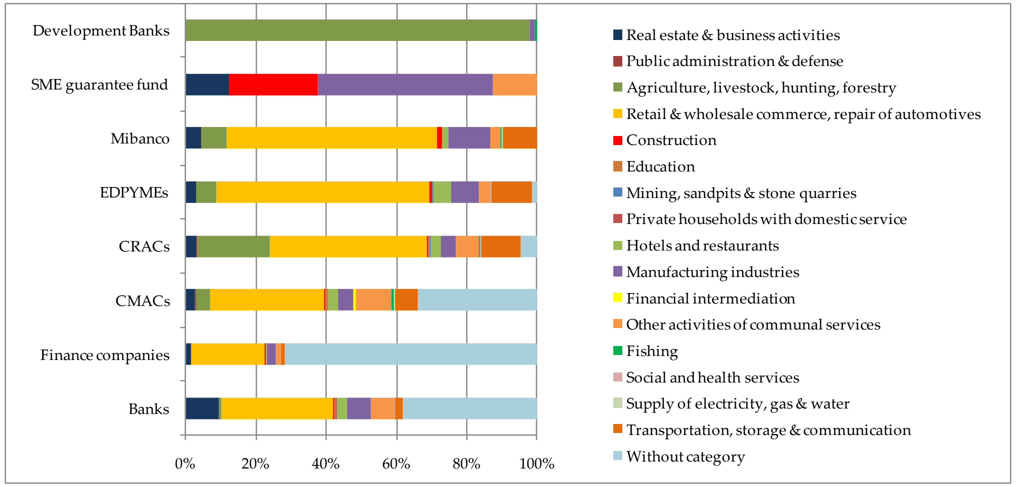
*Table 6.3.1-F2: Distribution of microenterprise loans by type of financial institution, **2008***

Banks	Finance companies	CMACs	CRACs	EDPYMEs	Mibanco	SME guarantee fund	Development Banks
17.0%	1.0%	31.4%	8.5%	22.6%	19.2%	0.0%	0.3%

*Graph 6.3.1-F3: Microenterprise loans by economic sector and type of financial institution, **2001** (relative, in percent per institution)*



*Graph 6.3.1-F4: Microenterprise loans by economic sector and type of financial institution, **2008** (relative, in percent per institution)*



Source: Data from SBS, own elaboration.
Note: According to international uniform industrial classification, *Classificación Internacional Industrial Uniforme* (CIIU).

Appendix 6.3.2-A – Overview of annualized total cost of borrowing and default cost rates

Table 6.3.2-A1: Annualized total cost of borrowing and default cost rate for different sizes, terms, and denominations of working capital loans (by type of financial institution, as of 14 May 2009)

	1,000 Nuevos Soles working capital in 9 months				10.000 Nuevos Soles working capital in 9 months				500 USD working capital in 9 months				3,000 USD working capital in 9 months			
	Min. ATCB	Max. ATCB	Default cost	n	Min. ATCB	Max. ATCB	Default cost	n	Min. ATCB	Max. ATCB	Default cost	n	Min. ATCB	Max. ATCB	Default cost	n
Banks	19.8%	50.5%	28.9%	4	42.3%	50.7%	31.5%	7	38.3%	51.7%	34.4%	4	43.5%	49.5%	23.2%	7
Finance companies	60.1%	65.6%	60.0%	1	31.3%	51.5%	60.0%	1	-	-	-	0	-	-	-	0
Microenter-prise bank	-	65.4%	50.0%	1	-	52.3%	50.0%	1	-	60.2%	50.0%	1	-	44.2%	50.0%	1
CMACs	46.7%	66.7%	82.7%	13	36.4%	49.1%	87.8%	13	23.6%	41.0%	49.3%	11	25.4%	36.9%	46.6%	13
CRACs	44.2%	63.5%	51.8%	10	38.6%	53.8%	52.0%	10	25.7%	35.7%	23.5%	7	26.6%	33.8%	33.9%	10
EDPYMEs	41.4%	77.3%	87.2%	12	33.7%	65.7%	87.0%	12	42.2%	53.6%	59.7%	8	37.6%	47.4%	56.2%	9

Source: Data from SBS, own compilation and elaboration.
Notes: Data according to the tariffs published by the financial institutions with SBS. Annualized total cost of borrowing rate (ATCB) includes one-time fees, which are not included in an annual percentage rate (APR). The annualized default cost rate (default cost) is charged in addition to the APR.

Table 6.3.2-A2: Annualized total cost of borrowing and default cost rate for different sizes, terms, and denominations of investment loans (by type of financial institution, as of 14 May 2009)

	2,000 Nuevos Soles investment loan in 24 months				20.000 Nuevos Soles investment loan in 24 months				1,000 USD investment loan in 24 months				6,000 USD investment loan in 24 months			
	Min. ATCB	Max. ATCB	Default cost	n	Min. ATCB	Max. ATCB	Default cost	n	Min. ATCB	Max. ATCB	Default cost	n	Min. ATCB	Max. ATCB	Default cost	n
Banks	48.2%	58.8%	45.0%	4	34.9%	43.1%	27.9%	7	54.7%	52.6%	29.5%	5	38.8%	42.7%	23.2%	7
Finance companies	-	-	-	0	-	-	-	0	-	-	-	0	-	-	-	0
Microenter-prise bank	-	0.6324	0.5	1	-	0.4098	0.5	1	-	0.5919	0.5	1	-	0.3374	0.5	1
CMACs	53.7%	63.6%	87.2%	12	36.2%	43.4%	87.5%	13	32.1%	39.5%	46.0%	12	28.7%	32.8%	46.3%	13
CRACs	47.2%	64.5%	49.3%	9	40.3%	52.2%	58.0%	9	29.5%	34.8%	30.5%	8	26.7%	31.5%	35.9%	9
EDPYMEs	43.9%	73.4%	81.6%	12	32.1%	62.1%	86.9%	12	40.8%	51.0%	56.4%	9	35.6%	44.9%	56.1%	9

Source: Data from SBS, own compilation and elaboration.
Notes: See notes, table 6.3.1-A1.

Table 6.3.2-A3: Annualized total cost of borrowing and default cost rate for different sizes, terms, and denominations of consumption loans for clients with incomes below 800 Nuevos Soles (by type of financial institution, as of 14 May 2009)

	500 Nuevos Soles low income consumption loan in 12 months				1,000 Nuevos Soles low income consumption loan in 12 months				150 USD low income consumption loan in 12 months				300 USD low income consumption loan in 12 months			
	Min. ATCB	Max. ATCB	Default cost	n	Min. ATCB	Max. ATCB	Default cost	n	Min. ATCB	Max. ATCB	Default cost	n	Min. ATCB	Max. ATCB	Default cost	n
Banks	122.6%	175.3%	177.8%	3	87.6%	161.6%	177.8%	3	21.4%	-	-	2	21.4%	-	-	2
Finance companies	44.6%	192.7%	85.0%	1	41.3%	187.3%	85.0%	1	-	-	-	1	-	-	-	1
Microenter-prise bank	-	0.6472	0.5	1	-	64.1%	50.0%	1	-	65.6%	50.0%	1	-	0.645	0.5	1
CMACs	50.1%	64.0%	94.8%	13	43.4%	60.4%	88.8%	13	29.5%	42.5%	50.5%	10	29.0%	41.6%	50.5%	10
CRACs	47.8%	56.9%	51.2%	9	50.3%	58.7%	54.0%	10	37.4%	36.3%	31.0%	6	29.7%	33.6%	26.8%	8
EDPYMEs	48.1%	91.9%	95.3%	10	46.1%	89.8%	98.1%	10	46.3%	62.6%	73.4%	4	46.3%	62.6%	73.4%	4

Source: Data from SBS, own compilation and elaboration.
Notes: See notes, table 6.3.1-A1.

Table 6.3.2-A4: Annualized total cost of borrowing and default cost rate for different sizes and terms of housing loans in USD (by type of financial institution, as of 14 May 2009)

	40,000 USD mortgage loan in 15 years				80,000 USD mortgage loan in 15 years			
	Min. ATCB	Max. ATCB	Default cost	n	Min. ATCB	Max. ATCB	Default cost	n
Banks	13.1%	13.8%	6.8%	6	12.8%	13.4%	6.8%	6
Microenterprise bank	-	17.3%	50.0%	1	-	17.3%	50.0%	1
CMACs	13.7%	14.5%	63.8%	6	13.7%	14.5%	63.8%	6
EDPYMEs	-	16.4%	44.8%	2	-	19.2%	79.6%	1

Source: Data from SBS, own compilation and elaboration.
Notes: See notes, table 6.3.1-A1.

Appendix 6.3.3-A: Distribution of branches by type of financial institution, 2001 and 2008

Overview of data represented in maps

Methodology of maps:

Pie size is relative to the values in the district. Maps include branches of downscaling banks, finance companies, Banco de la Nación, CMACs, CRACs, EDPYMEs and Mibanco. Because data for COOPACs and NGOs were available only for 2008, these branches are included only in the graph and table, in order to maintain comparability of the maps.

Graph 6.3.3-A1: Number of branches by type of financial institution (without COOPACs and NGOs), 2001 and 2008

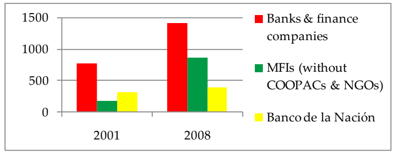
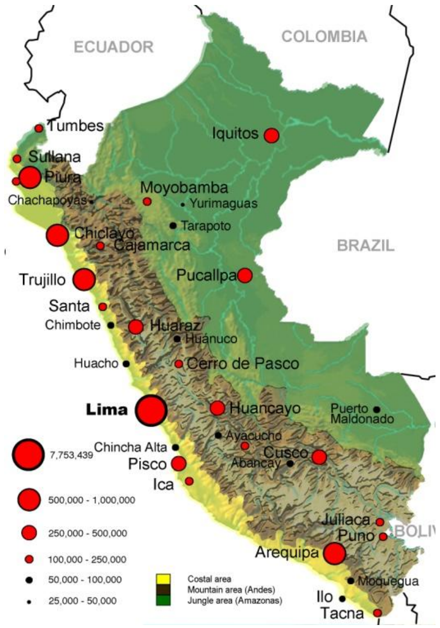


Table 6.3.3-A1: Number of branches by type of financial institution

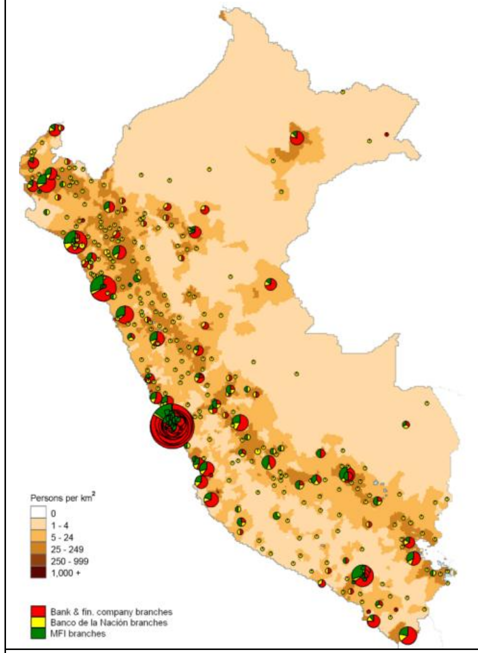
	2001	2008	Growth
Banks	729	1286	1.8
Finance companies	43	129	3.0
Banco de la Nación	310	392	1.3
MFIs (with COOPACs & NGOs)	176	862 (1232)	4.9
CMAC	76	359	4.7
CRAC	38	160	4.2
EDPYME	35	242	6.9
Mibanco	27	101	3.7
COOPACs	n/a	204	/
NGOs	n/a	166	/
Total (with COOPACs & NGOs)	**1258**	**2669 (3039)**	**2.1**

Source: Own elaboration, with data from SBS, COOPACs, NGOs, COPEME, FEN-ACREP (financial data), INEI (demographics), and FONCODES (poverty indicator).

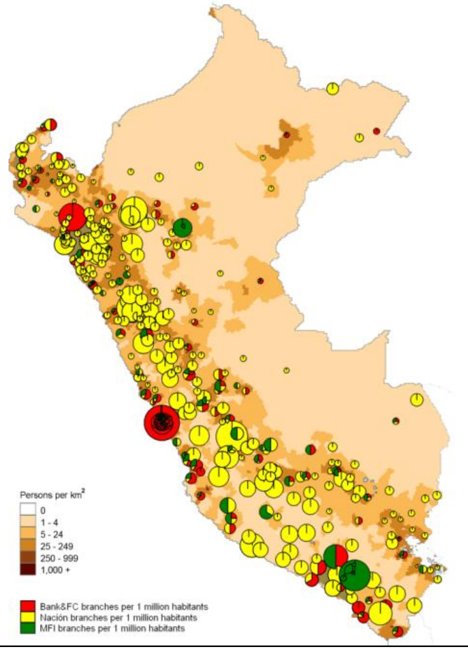
Map 6.3.3-A1: Geographic overview - climatic zones, relief, and important cities of Peru



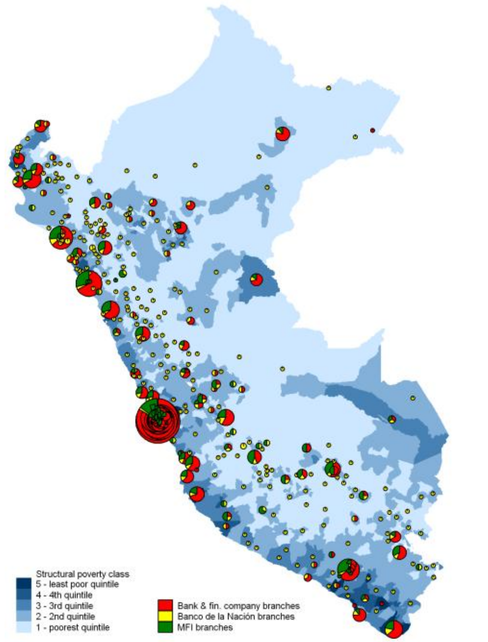
Map 6.3.3-A2: Branches by type of financial institution and population density per district, 2001



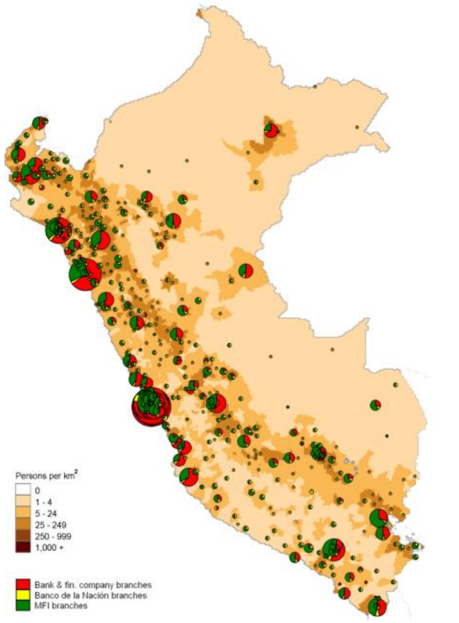
Map 6.3.3-A3: Branches per 1 million habitants by type of financial institution and population density per district, 2001



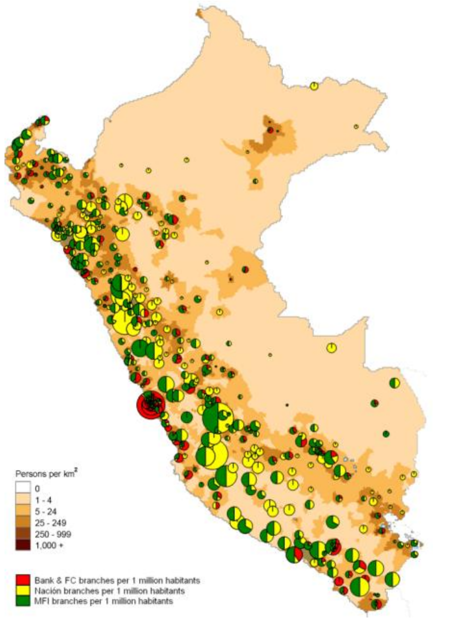
Map 6.3.3-A4: Branches by type of financial institution and poverty status per district, 2001



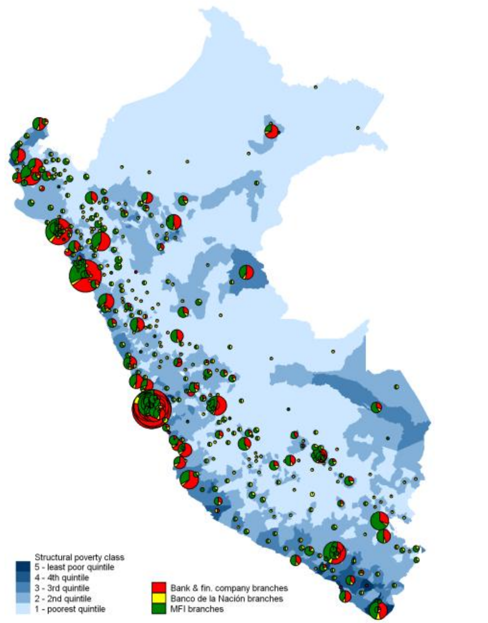
Map 6.3.3-A5: Branches by type of financial institution and population density per district, 2008



Map 6.3.3-A6: Branches per 1 million habitants by type of financial institution and population density per district, 2008



Map 6.3.3-A7: Branches by type of financial institution and poverty status per district, 2008

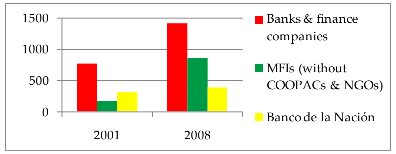


Appendix 6.3.3-A: Distribution of branches II – by type of financial institution, 2001 and 2008

Overview of data represented in maps

Methodology of maps: Pie size is relative to the values in the district.

Graph 6.3.3-A1: Number of branches by type of financial institution (without COOPACs and NGOs), 2001 and 2008



Graph 6.3.3-A2: Number of branches by type of financial institution, 2008

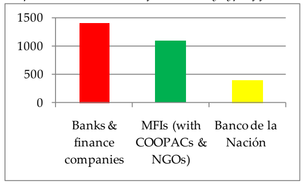
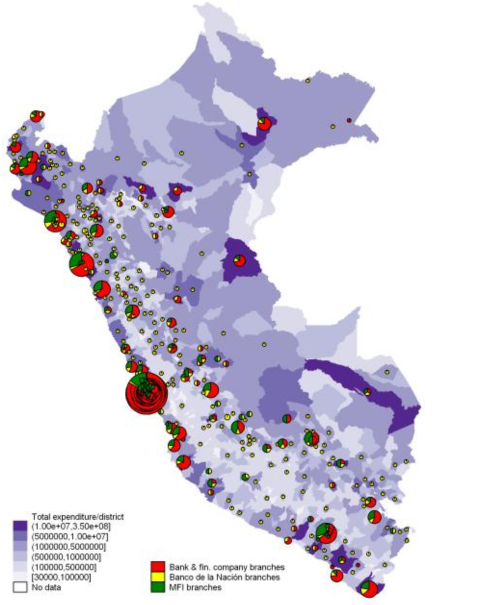


Table 6.3.3-A1: Number of branches by type of financial institution

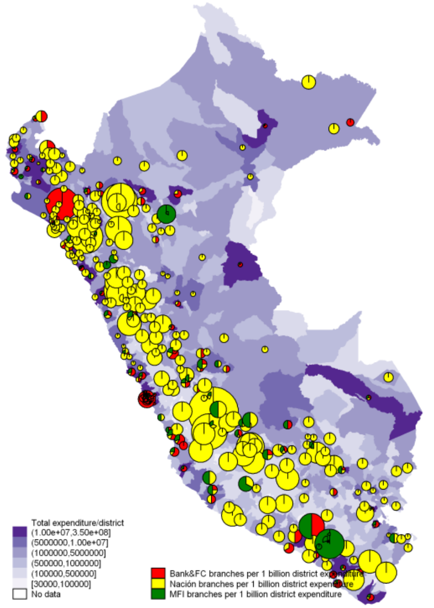
	2001	2008	Growth
Banks	729	1286	1.8
Finance companies	43	129	3.0
Banco de la Nación	310	392	1.3
MFIs (with COOPACs & NGOs)	176	862 (1232)	4.9
CMAC	76	359	4.7
CRAC	38	160	4.2
EDPYME	35	242	6.9
Mibanco	27	101	3.7
COOPACs	n/a	204	/
NGOs	n/a	166	/
Total (with COOPACs & NGOs)	**1258**	**2669 (3039)**	**2.1**

Source: Own elaboration, with data from SBS, COOPACs, NGOs, COPEME, FEN-ACREP (financial data), INEI (demographics), and FONCODES (poverty indicator).

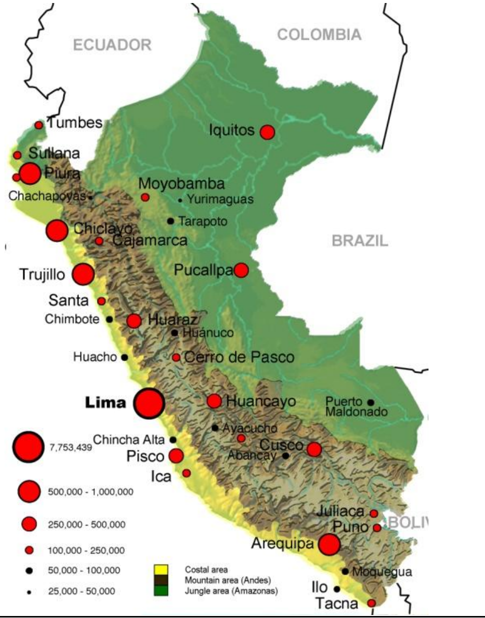
Map 6.3.3-A8: Branches by type of financial institution and total expenditure per district, 2001



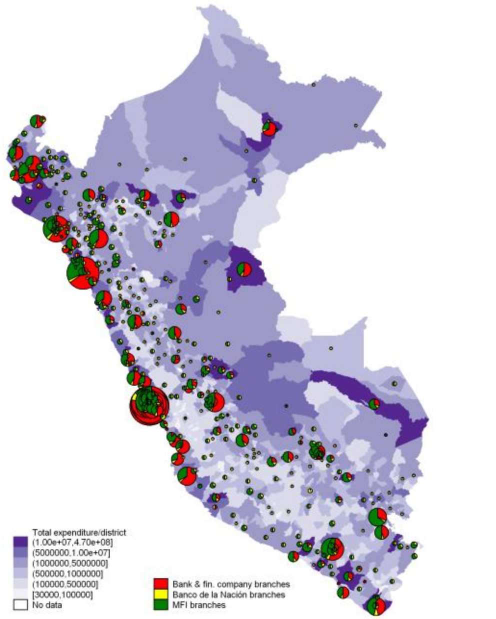
Map 6.3.3-A9: Branches per 1 billion monthly district expenditure by type of financial institution and total expenditure per district, 2001



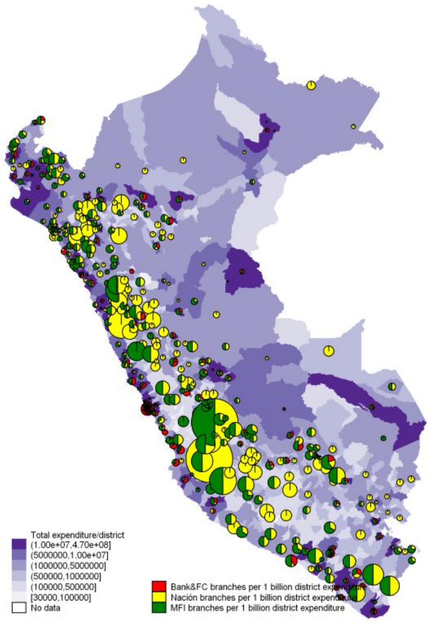
Map 6.3.3-A1: Geographic overview - climatic zones, relief, and important cities of Peru



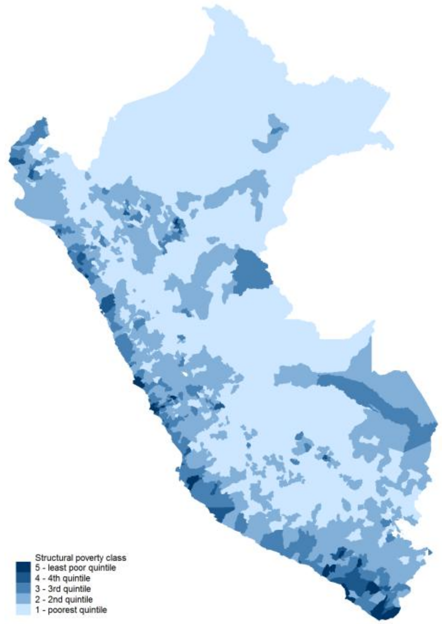
Map 6.3.3-A10: Branches by type of financial institution and total expenditure per district, 2008



Map 6.3.3-A11: Branches per 1 billion monthly district expenditure by type of financial institution and total expenditure per district, 2008



Map 6.1.1-B3: Indicator for structural poverty by FONCODES, 2007



Appendix 6.3.3-B: Financial institutions as unique suppliers in the respective district (*única oferta bancaria*, UOB), 2001 and 2008

Overview of data

Methodology

In order to show which financial institutions serve locations as the only financial institution, the number of districts in which there is no other financial institution present is taken as indicator, considering also service provision of MFIs cooperation with Banco de la Nación *(ventanillas compartidas)* in UOB.

Table 6.3.3-B1: Number of districts in which the financial institution is the only one (UOB), 2001/2008

Financial institution	2001	2008
Banco Azteca del Perú	0	1
BBVA Banco Continental	2	1
Banco de Crédito	5	3
Banco Interamericano	1	0
Banco del Trabajo	1	0
Interbank	2	0
Scotiabank Perú	2	1
Finance company Banco Ripley	0	1
Finance company TFC	0	1
CMAC Arequipa	2	0
CMAC Ica	0	1
CMAC Maynas	0	1
CMAC Piura	2	0
CMAC Tacna	0	2
CMAC Trujillo	2	0
CRAC Credinka	0	1
CRAC Nuestra Gente	1	4
CRAC Señor de Luren	0	1
EDPYME Confianza	0	1
EDPYME Crear Arequipa	1	0
EDPYME Financiera Edyficar	0	2
Mibanco	0	1
NGO Adra Perú	n/a	1
NGO Fodesurco	n/a	2
NGO Fovida	n/a	11
NGO IDESI Chavín	n/a	1
NGO IDESI San Martín	n/a	1
NGO Prisma	n/a	1
NGO Promujer Peru	n/a	3
COOPAC Santa María Magdalena	n/a	3
COOPAC San Martín de Porres	n/a	1
COOPAC Trab.Merc. Central Callao	n/a	1
Banco de la Nación	215	200
Total districts UOB	**236**	**247**

Source: Own elaboration, with data from SBS, COOPACs, NGOs, COPEME, FENACREP.

Table 6.3.3-B3: MFIs cooperating with Banco de la Nación in UOB

Type and name of MFI	Number of shared offices with Banco de la Nación
CMAC Arequipa	30
CMAC Huancayo	5
CMAC Maynas	3
CMAC Santa	3
CMAC Tacna	7
CRAC Caja Nuestra Gente	7
CRAC SR. Luren	5
EDPYME Crear Arequipa	4
EDPYME Pro Empresa	1
EDPYME Financiera Edyficar	5

Source: Banco de la Nación 2008a.

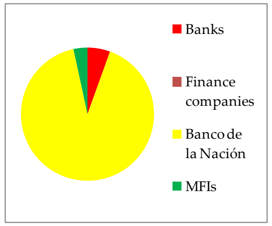
Table 6.3.3-B2: Number of districts in which the type of financial institution is the only one (UOB), 2001/2008

Financial institution	2001	2008
Banks	**13**	**6**
Finance companies	**0**	**2**
Banco de la Nación	**215**	**200**
MFIs	**8**	**39**
CMACs	6	4
CRACs	1	6
EDPYMEs	1	3
Mibanco	0	1
COOPACs	n/a	5
NGOs	n/a	20
Total districts UOB	**236**	**247**

Source: Own elaboration, with data from SBS (financial data).

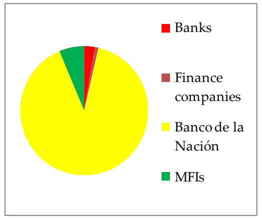
Note: The locations where MFIs serve together with Banco de la Nación are also considered as UOB, such as in map 6.3.3-B1.

Graph 6.3.3-B1: Number of districts in which the type of financial institution is the only one (UOB), 2001



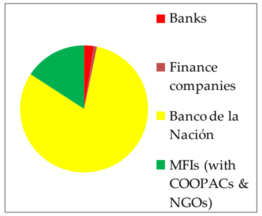
Source: Own elaboration, with data from SBS (financial data).

Graph 6.3.3-B2: Number of districts in which the type of financial institution is the only one (UOB), 2008



Source: Own elaboration, with data from SBS (financial data).

Graph 6.3.3-B3: Number of districts in which the type of financial institution is the only one (UOB) with COOPACs and NGOs, 2008



Source: Own elaboration, with data from SBS, COOPACs, NGOs, COPEME, FENACREP.

Map 6.3.3-B1: Branches and ATMs of Banco de la Nación, indicating branches in places with no other banking services available

Source: Banco de la Nación 2008b: 37.

Appendix 6.3.3-C: Distribution of branches/population (I) by type of financial institution, 2001 and 2008

Overview of data represented in maps

Methodology of maps: Pie size is relative to the values in the district. Maps include branches of downscaling banks, finance companies, Banco de la Nación, CMACs, CRACs, EDPYMEs and Mibanco. Because data for COOPACs and NGOs were available only for 2008, these branches are included only in the graph and table, in order to maintain comparability of the maps.

Graph 6.3.3-A1: Number of branches by type of financial institution (without COOPACs and NGOs), 2001 and 2008

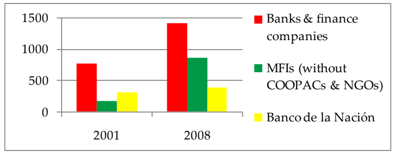


Table 6.3.3-A1: Number of branches by type of financial institution

	2001	2008	Growth
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Banco de la Nación	310	392	1.3
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CMAC	76	359	4.7
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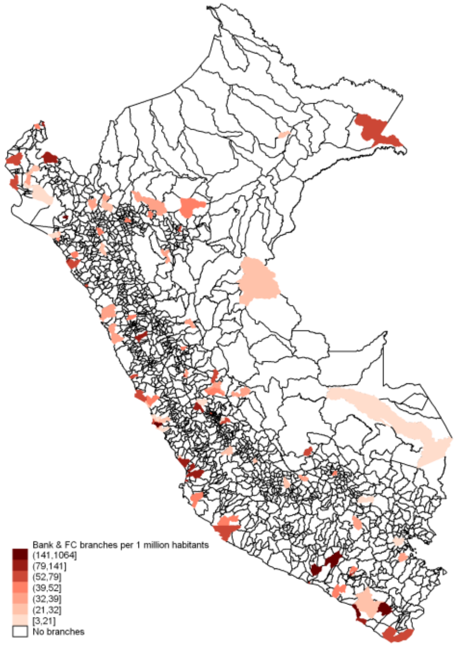
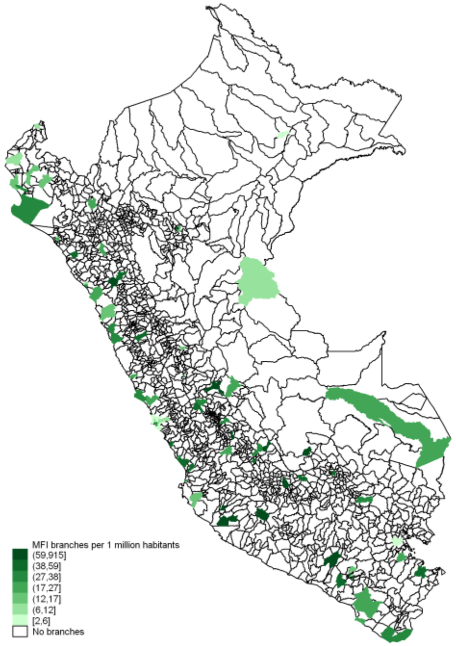
NGOs	n/a	166	/
Total (with COOPACs & NGOs)	**1258**	**2669 (3039)**	**2.1**

Source: Own elaboration, with data from SBS, COOPACs, NGOs, COPEME, FENACREP (financial data), INEI (demographics), and FONCODES (poverty indicator).

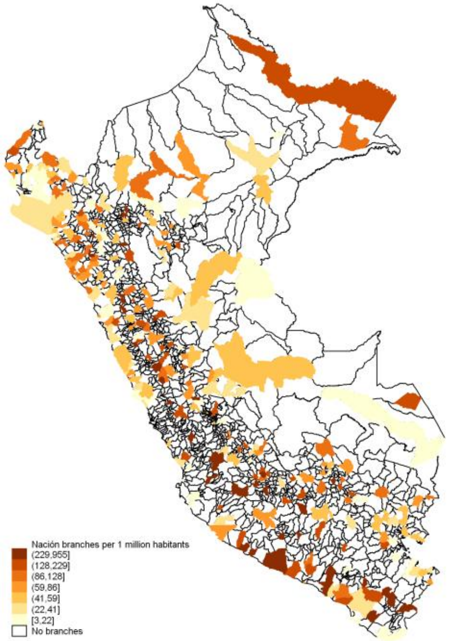
Map 6.3.3-C1: Bank and finance company branches per 1 million habitants, 2001



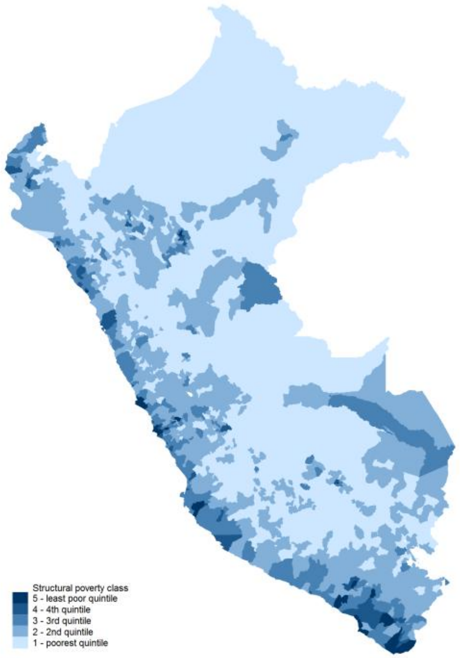
Map 6.3.3-C2: MFI branches per 1 million habitants, 2001



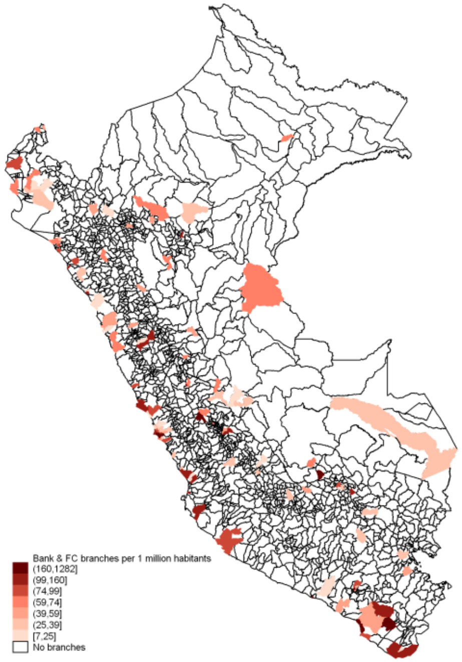
Map 6.3.3-C3: Banco de la Nación branches per 1 million habitants, 2001



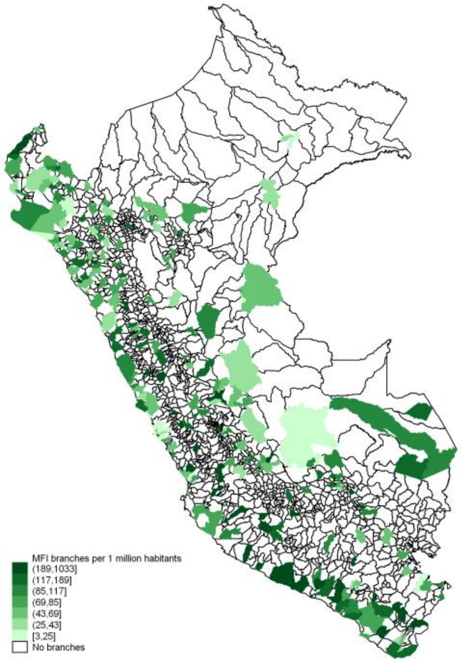
Map 6.1.1-B3: Indicator for structural poverty by FONCODES, 2007



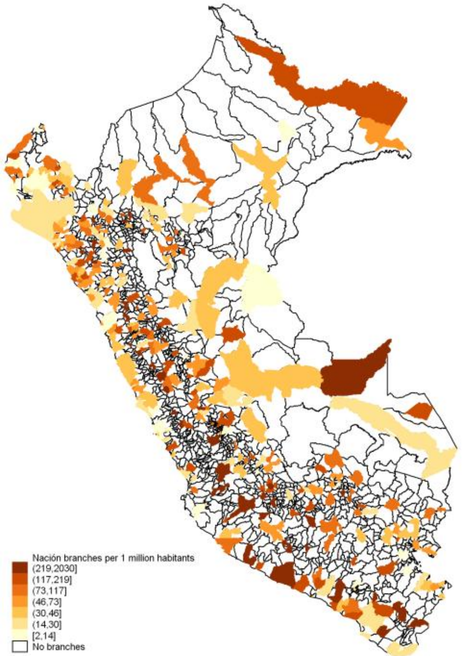
Map 6.3.3-C4: Bank and finance company branches per 1 million habitants, 2008



Map 6.3.3-C5: MFI branches per 1 million habitants, 2008

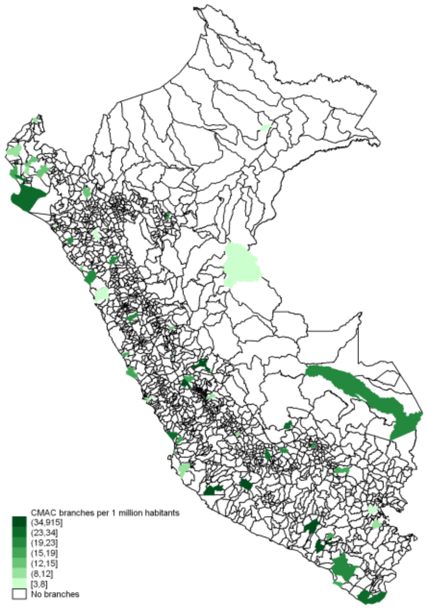


Map 6.3.3-C6: Banco de la Nación branches per 1 million habitants, 2008

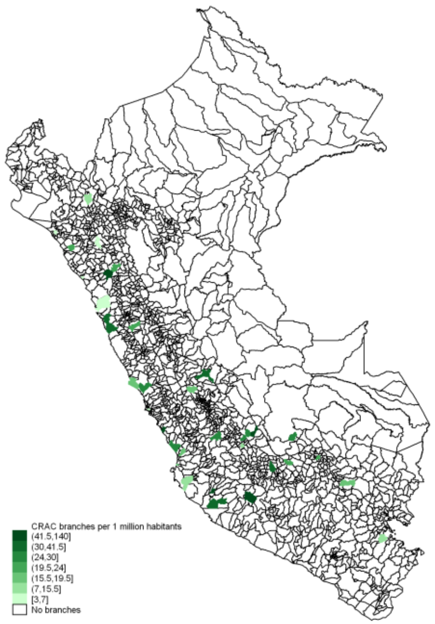


Appendix 6.3.3-C: Distribution of branches/population (II) by type of MFI, 2001 and 2008

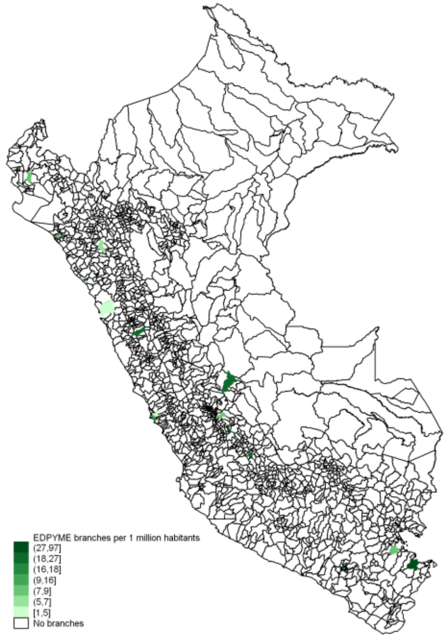
Map 6.3.3-C7: CMAC branches per 1 million habitants,2001



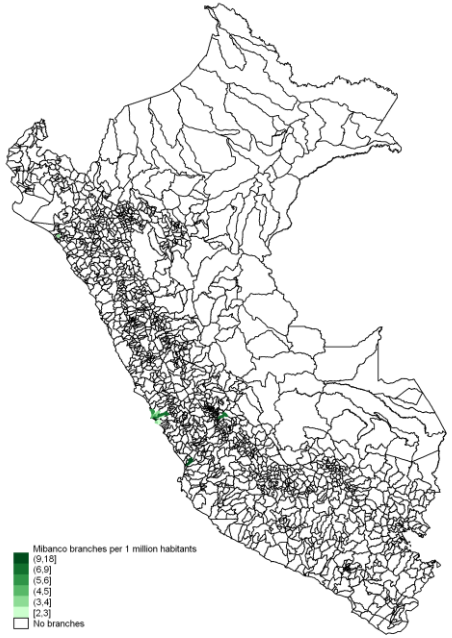
Map 6.3.3-C8: CRAC branches per 1 million habitants,2001



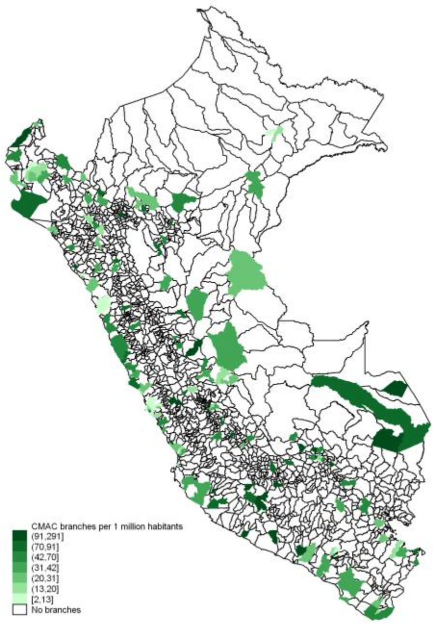
Map 6.3.3-C9: EDPYME branches per 1 million habitants, 2001



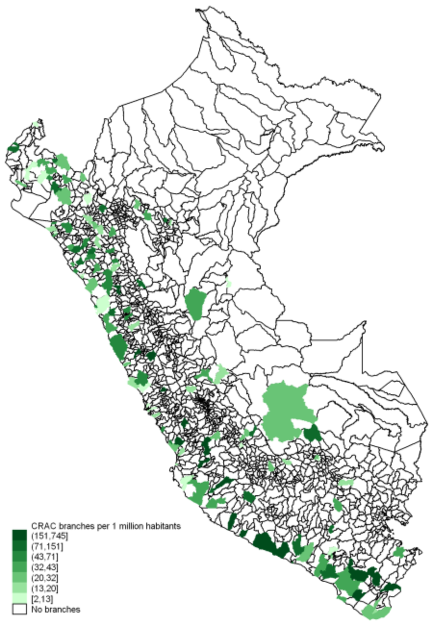
Map 6.3.3-C10: Mibanco branches per 1 million habitants, 2001



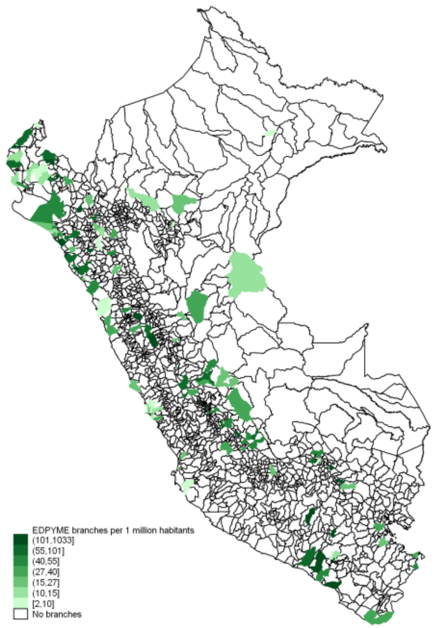
Map 6.3.3-C11: CMAC branches per 1 million habitants, 2008



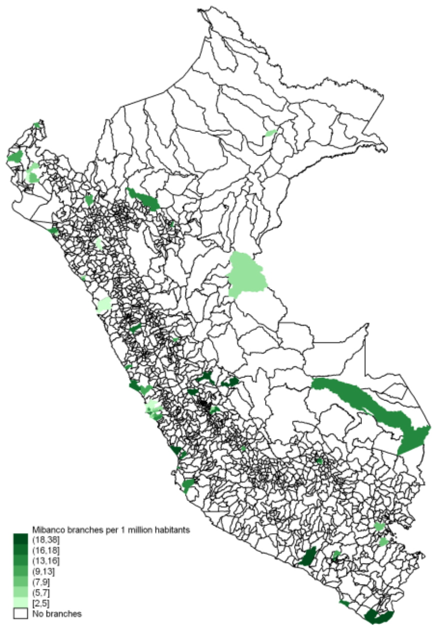
Map 6.3.3-C12: CRAC branches per 1 million habitants, 2008



Map 6.3.3-C13: EDPYME branches per 1 million habitants, 2008



Map 6.3.3-C14: Mibanco branches per 1 million habitants, 2008



Source: Own elaboration, with data from SBS (financial data).

Appendix 6.3.3-C: Distribution of branches/population (III) by type of MFI, 2001 and 2008

Overview of data represented in maps

Graph 6.3.3-A1: Number of branches by type of financial institution (without COOPACs and NGOs), 2001 and 2008

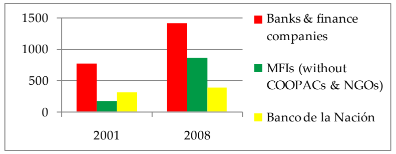
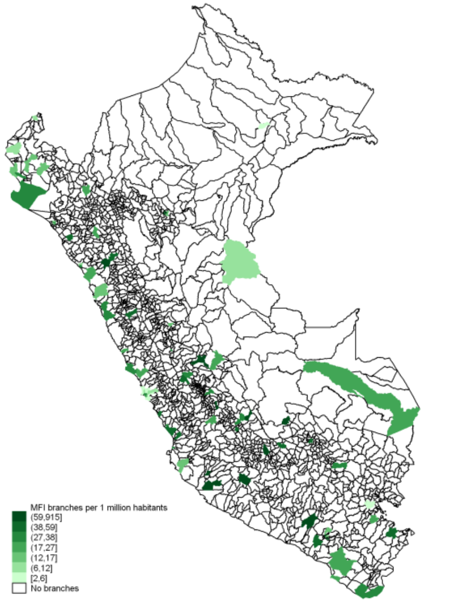


Table 6.3.3-A1: Number of branches by type of financial institution

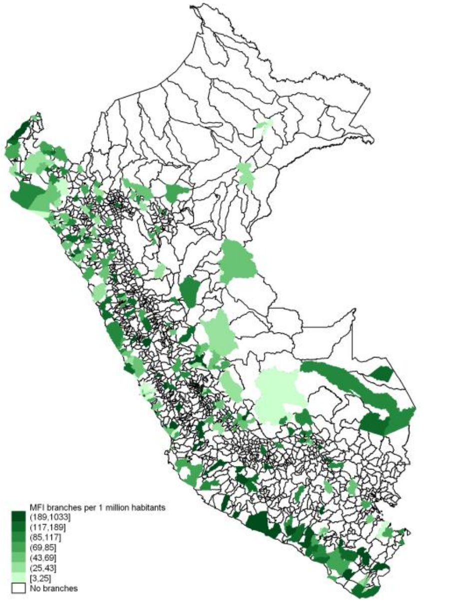
	2001	2008	Growth
Banks	729	1286	1.8
Finance companies	43	129	3.0
Banco de la Nación	310	392	1.3
MFIs (with COOPACs & NGOs)	176	862 (1232)	4.9
CMAC	76	359	4.7
CRAC	38	160	4.2
EDPYME	35	242	6.9
Mibanco	27	101	3.7
COOPACs	n/a	204	/
NGOs	n/a	166	/
Total (with COOPACs & NGOs)	**1258**	**2669 (3039)**	**2.1**

Source: Own elaboration, with data from SBS, COOPACs, NGOs, COPEME, FENACREP (financial data), INEI (demographics), and FONCODES (poverty indicator).

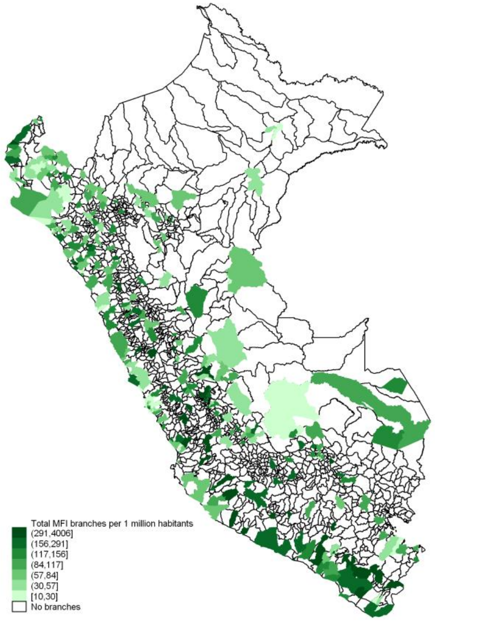
Map 6.3.3-C15: MFI branches per 1 million habitants, 2001 (without COOPACs and NGOs)



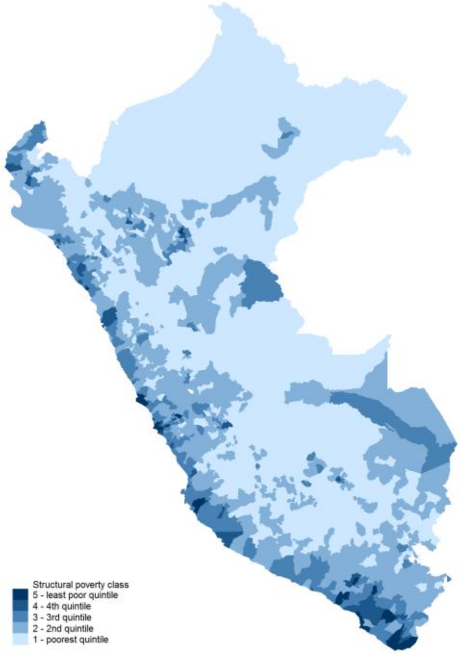
Map 6.3.3-C16: MFI branches per 1 million habitants, 2008 (without COOPACs and NGOs)



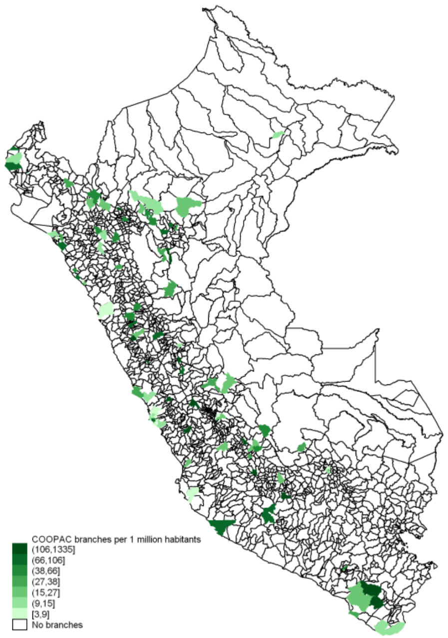
Map 6.3.3-C17: Total MFI branches with COOPACs and NGOs per 1 million habitants, 2008



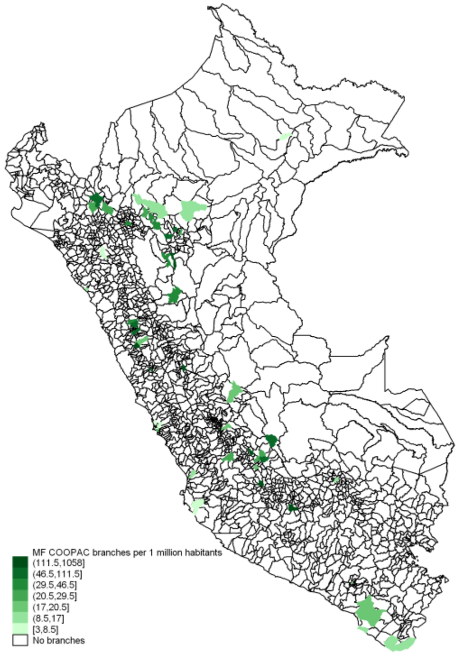
Map 6.1.1-B3: Indicator for structural poverty by FONCODES, 2007



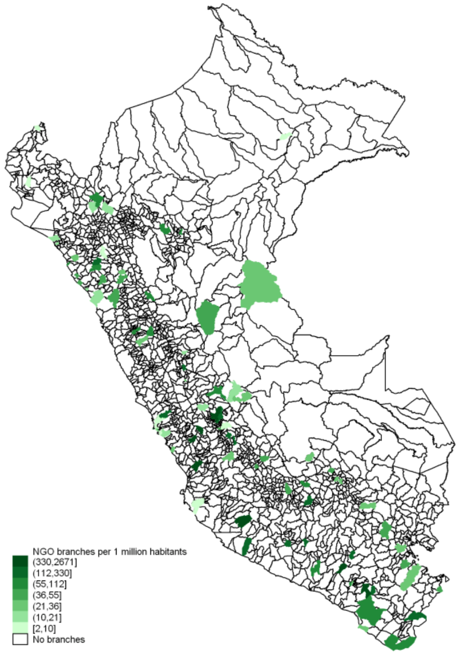
Map 6.3.3-C18: COOPAC branches per 1 million habitants, 2008



Map 6.3.3-C19: Microfinance COOPAC branches per 1 million habitants, 2008



Map 6.3.3-C20: NGO branches per 1 million habitants, 2008



Appendix 6.3.3-D: Distribution of ATMs and banking agents by type of financial institution, 2006 and 2008

Overview of data represented in maps and details on banks

Methodology of maps:
Pie size is relative to the values in the district. In 2006, MFIs are not shown on map due to too few ATMs.

Graph 6.3.3-D1: Number of ATMs by type of financial institution

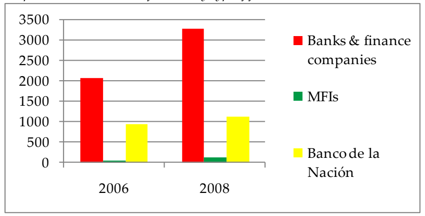
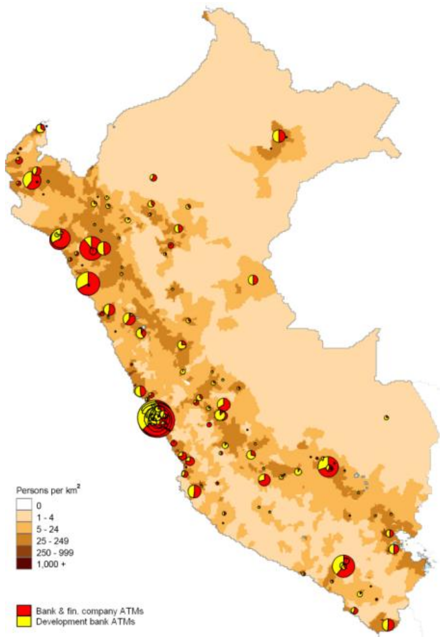


Table 6.3.3-D1: Number of ATMs by type of financial institution

	2006	2008	Growth
Banks	2064	3254	1.58
Finance companies	23	45	1.96
MFIs	52	129	2.48
CMAC	25	94	3.76
CRAC	3	5	1.67
EDPYME	0	0	0.00
Mibanco	24	30	1.25
Nacion	954	1126	1.18
Total	**3093**	**4554**	**1.47**

Map 6.3.3-D1: Number of ATMs by type of financial institution and population density per district, 2006



Map 6.3.3-A1: Geographic overview - climatic zones, relief, and important cities of Peru

Map 6.3.3-D2: Number of banking agents by type of financial institution and population density per district, 2006

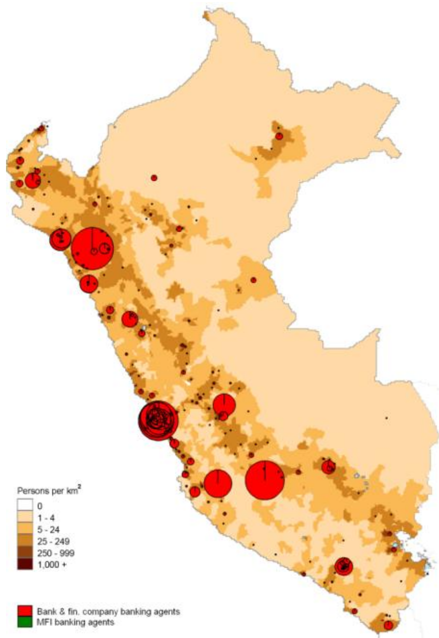
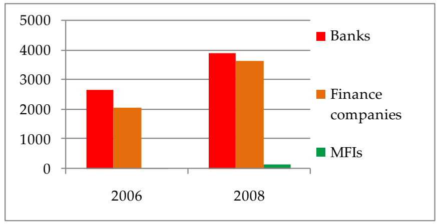


Table 6.3.3-D2: Number of banking agents by type of financial institution

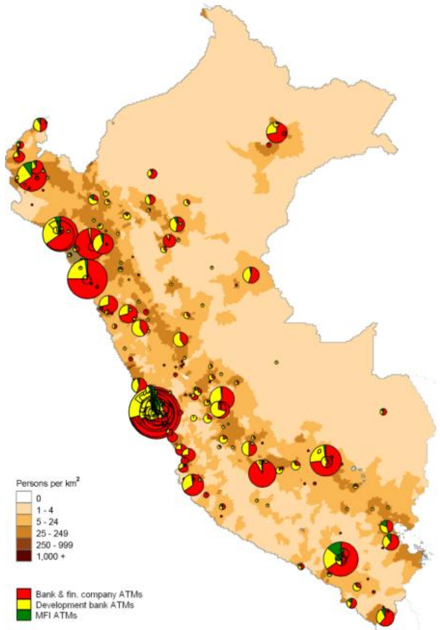


Graph 6.3.3-D2: Number of banking agents by type of financial institution

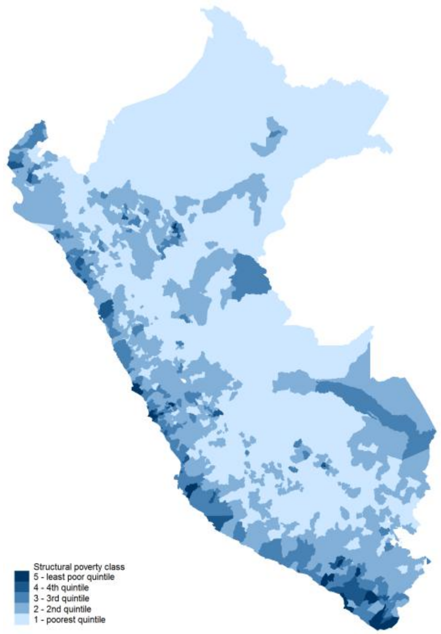
	2006	2008	Growth
Banks	2671	3924	1.47
Finance companies	2055	3659	1.78
MFIs	4	148	37.00
CMAC	4	70	17.50
CRAC	0	0	0.00
EDPYME	0	0	0.00
Mibanco	0	78	78.00
Nacion	0	0	0.00
Total	**4730**	**7731**	**1.63**

Source: Own elaboration, with data from SBS (financial data), INEI (demographics), and FONCODES (poverty indicator).

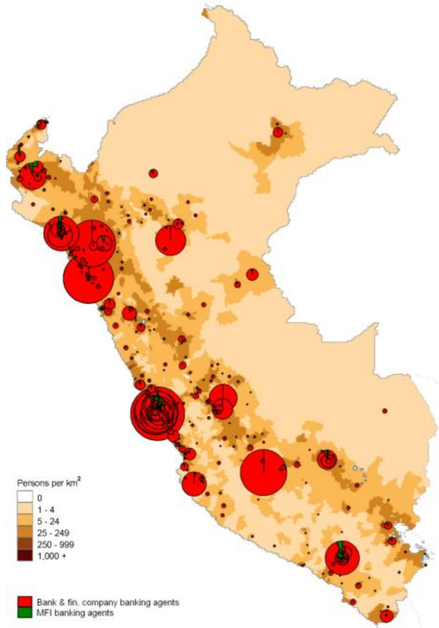
Map 6.3.3-D3: Number of ATMs by type of financial institution and population density per district, 2008



Map 6.1.1-B3: Indicator for structural poverty by FONCODES, 2007



Map 6.3.3-D4: Number of banking agents by type of financial institution and population density per district, 2008



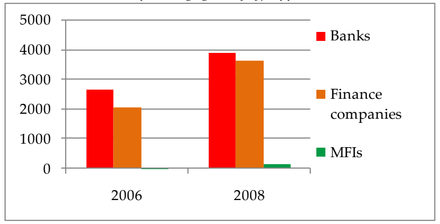
Appendix 6.3.3-E: Distribution of banking agents/population by type of financial institution, 2006 and 2008

Overview of data represented in maps

Graph 6.3.3-E1: Number of banking agents by type of financial institution

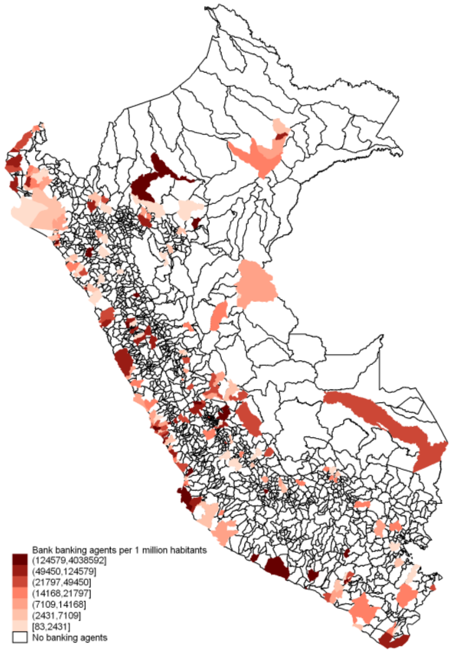
	2006	2008	Growth
Banks	2671	3924	1.47
Finance companies	2055	3659	1.78
MFIs	4	148	37.00
CMAC	4	70	17.50
CRAC	0	0	0.00
EDPYME	0	0	0.00
Mibanco	0	78	78.00
Nacion	0	0	0.00
Total	**4730**	**7731**	**1.63**

Table 6.3.3-E1: Number of banking agents by type of financial institution

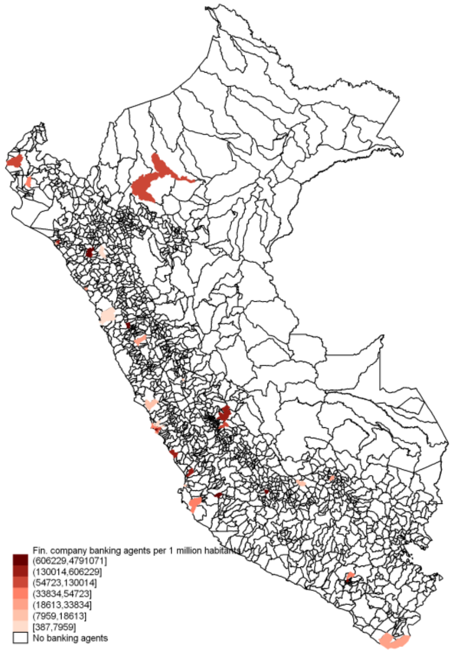


Source: Own elaboration, with data from SBS (financial data), INEI (demographics), and FONCODES (poverty indicator).

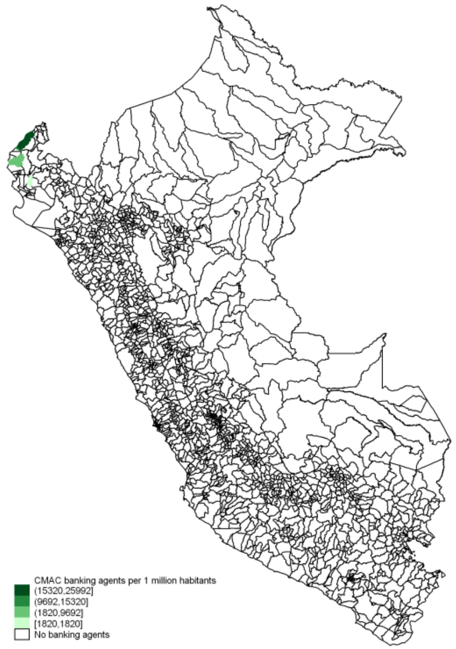
Map 6.3.3-E1: Bank banking agents per 1 million inhabitants, 2006



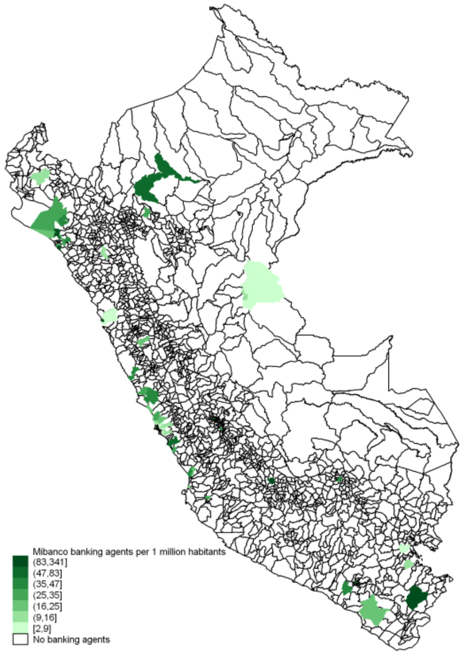
Map 6.3.3- E2: Finance company banking agents per 1 million inhabitants, 2006



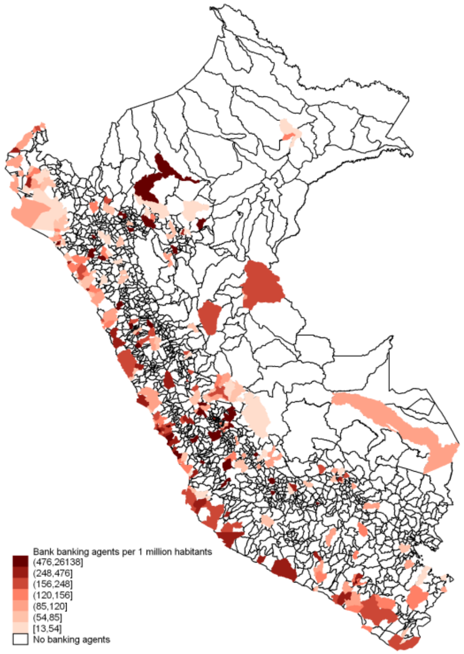
Map 6.3.3- E3: CMAC banking agents per 1 million inhabitants, 2006



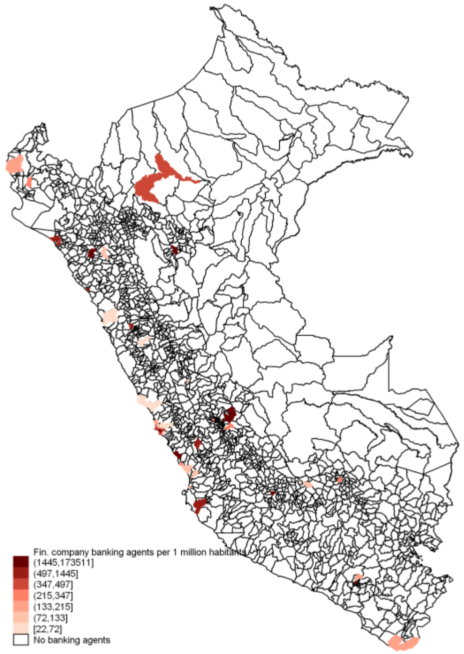
Map 6.3.3-E4: Mibanco banking agents per 1 million inhabitants, 2008



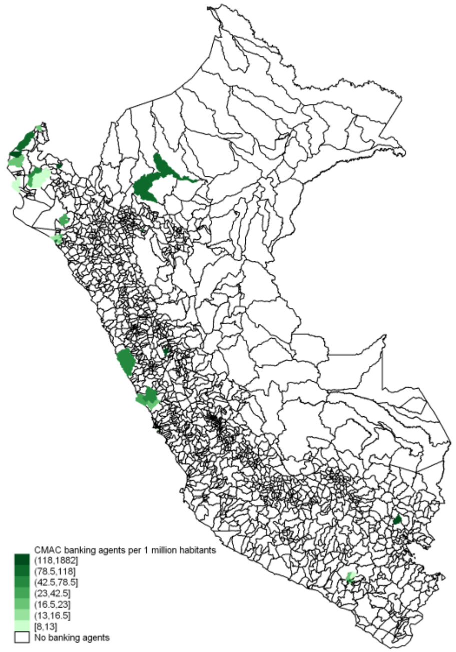
Map 6.3.3-E5: Bank banking agents per 1 million inhabitants, 2008



Map 6.3.3-E6: Finance company banking agents per 1 million inhabitants, 2008



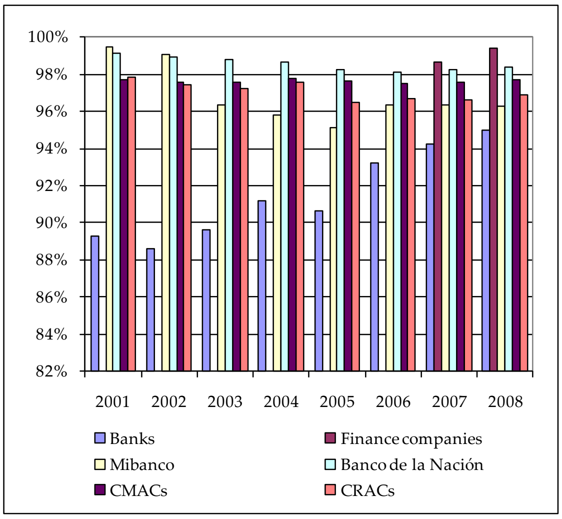
Map 6.3.3-E7: CMAC banking agents per 1 million inhabitants, 2008



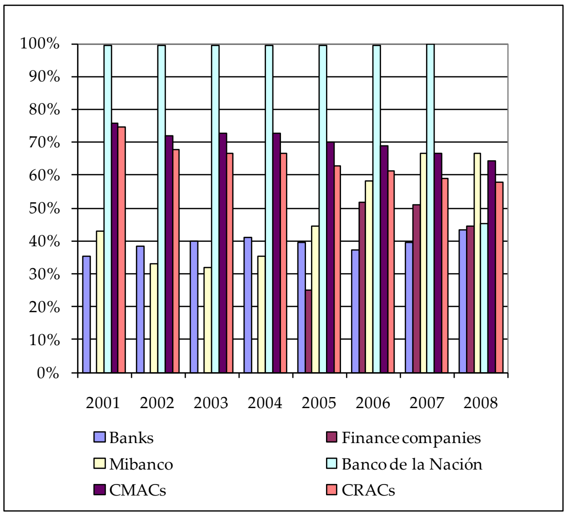
Appendix 6.3.3-F: Shares of small deposits within total deposits by type of financial institution

Graph 6.3.3-F1: Average shares of numbers of smallest savings and fixed-term deposit accounts in total number of savings and fixed-term accounts by type of financial institution, 2001-2008

Savings accounts



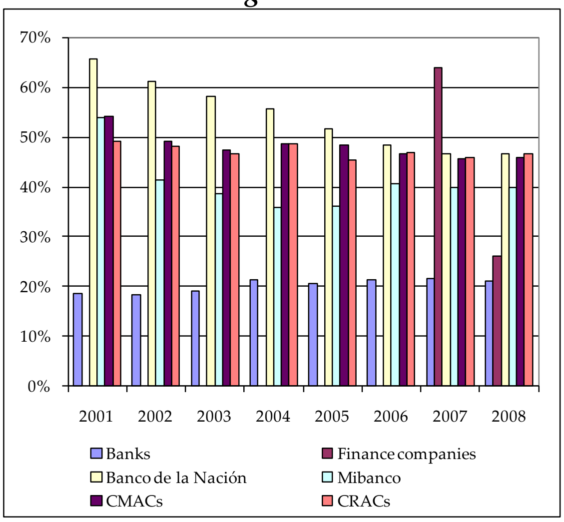
Fixed-term accounts



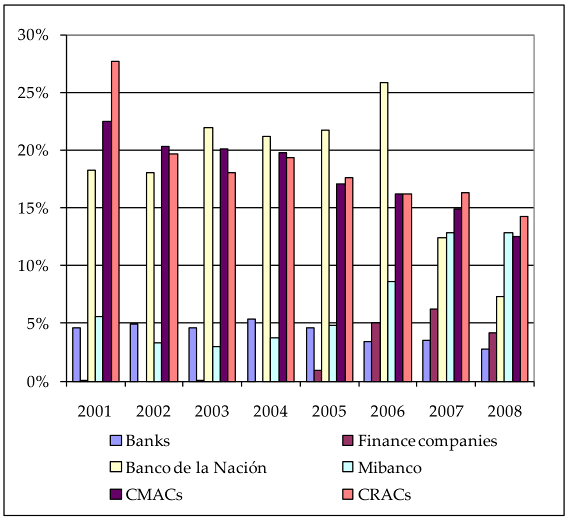
Source: Data from SBS, own elaboration.
Note: Savings and fixed-term deposits up to 10% of FSD; data as of 31 December of each year.

Graph 6.3.3-F2: Average shares of balances of smallest savings and fixed-term deposit accounts in total balances of savings and fixed-term accounts by type of financial institution, 2001-2008

Savings accounts



Fixed-term accounts



Source: Data from SBS, own elaboration.
Note: Savings and fixed-term deposits up to 10% of FSD; data as of 31 December of each year.

Appendix 6.3.4-A: Maps with district balances assessing financial centralization and decentralization (I) by type of financial institution, 2001 and 2008

Overview of maps and methodology

Groups of financial institutions shown on the maps

Red maps	Banks and finance companies
Green maps	MFIs being defined in the present appendix as CMACs, CRACs, and Mibanco and as EDPYMEs and NGOs are not authorized to receive savings directly, and data from COOPACs were not available at district level

Methodology for calculating the district-level balances for assessing financial centralization

The district balances give the percentage of money inflow(+) or outflow(-) at district level relative to the total deposits and loans at district level. The values have been calculated at district level for the respective financial institutions by applying the following formula:
Balance $_{\text{District x}}$ = ((Total loans $_{\text{District x}}$ – Total deposits $_{\text{District x}}$)/(Total loans $_{\text{District x}}$ + Total deposits $_{\text{District x}}$))*100

→ Values > 0 indicate the inflow of money into the district as total loans > total deposits

→ Values < 0 indicate the outflow of money out of the district as total loans> total deposits

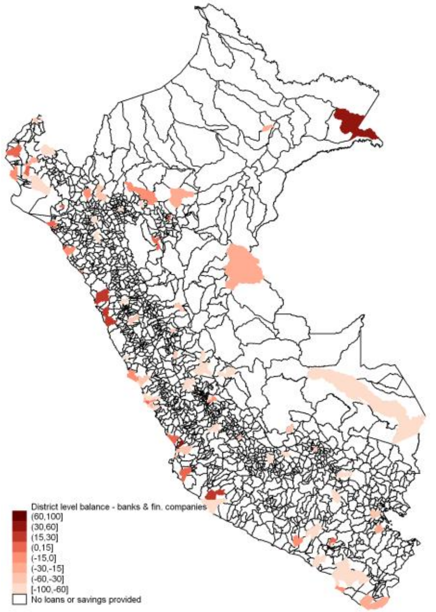
Source

Own elaboration, with data from SBS (financial data).

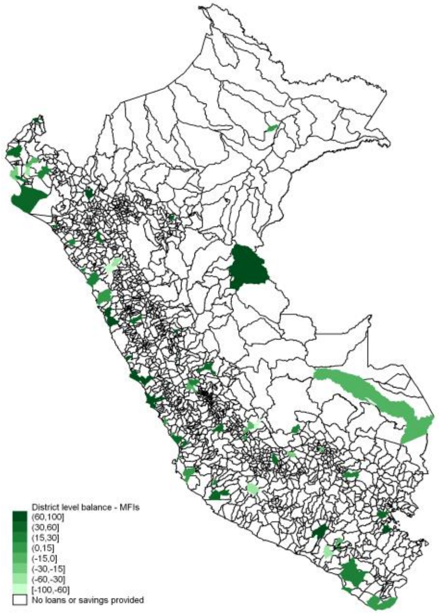
Note

Banco de la Nación is not included with a map because the published data do not allow such analysis.

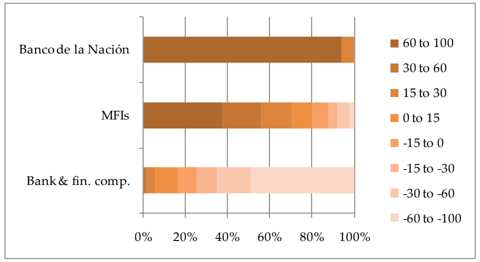
Map 6.3.4-A1: District level balances of banks and finance companies, 2001 (in percent)



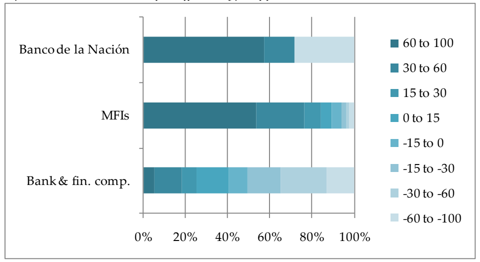
Map 6.3.4-A2: District level balances of MFIs, 2001 (in percent)



Graph 6.3.4-A1: The balances for different types of financial institutions, 2001

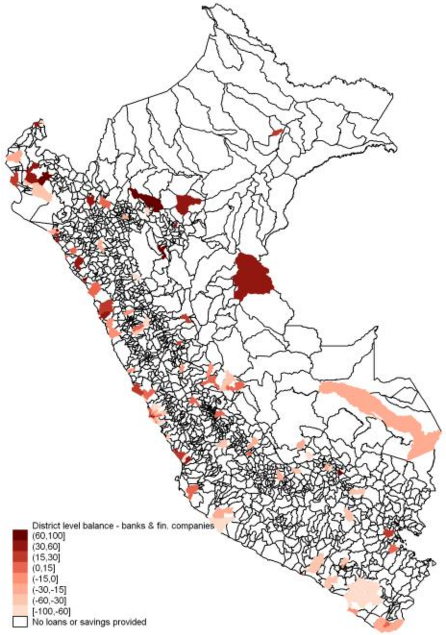


Graph 6.3.4-A2: The balances for different types of financial institutions, 2008



Map 6.3.3-A1: Geographic overview: climatic zones, relief, and important cities of Peru

Map 6.3.4-A3: District level balances of banks and finance companies, 2008 (in percent)



Map 6.3.4-A4: District level balances of MFIs, 2008 (in percent)

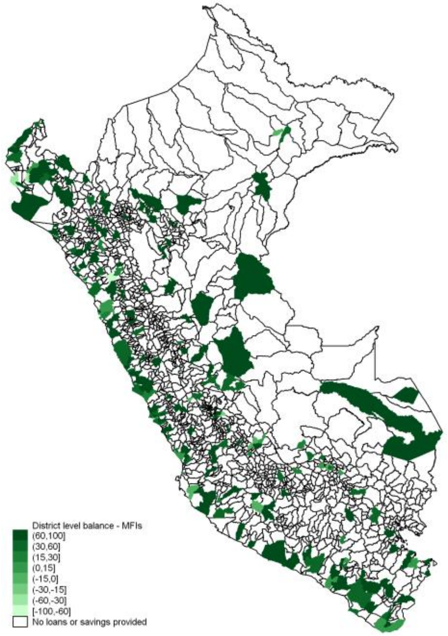


Table 6.3.4-A1: Distribution of total deposits between Lima and province by type of financial institution, 2001 and 2008

	Total deposits	
	Banks & finance companies	MFIs
	2001	
Total	39,221,304,066	980,099,904
Total for Lima province	32,369,064,465	91,900,572
Share Lima province	83%	9%
	2008	
Total	91,010,350,254	7,387,179,739
Total for Lima province	75,930,856,007	2,738,876,860
Share Lima province	83%	37%

Table 6.3.4-A2: Distribution of total loans between Lima and the province by type of financial institution, 2001 and 2008

	Total loans	
	Banks & finance companies	MFIs
	2001	
Total	31,551,692,367	1,185,697,519
Total for Lima province	25,969,185,541	202,798,919
Share Lima province	82%	17%
	2008	
Total	86,237,680,681	9,417,299,311
Total for Lima province	67,223,352,834	1,977,800,077
Share Lima province	78%	21%

Appendix 6.3.4-A: Maps with district balances assessing financial centralization and decentralization (II) by type of MFI, 2001 and 2008

Overview of maps and methodology

Groups of financial institutions shown on the maps

Red maps	Banks and finance companies
Green maps	Mibanco, CMACs, CRACs

Methodology for calculating the district-level balances for assessing financial centralization

The district balances give the percentage of money inflow(+) or outflow(-) at the district level relative to the total deposits and loans at the district level. The values have been calculated at the district level for the respective financial institutions, applying the following formula:

Balance $_{District\ x}$ = ((Total loans $_{District\ x}$ – Total deposits $_{District\ x}$)/(Total loans $_{District\ x}$ + Total deposits $_{District\ x}$))*100

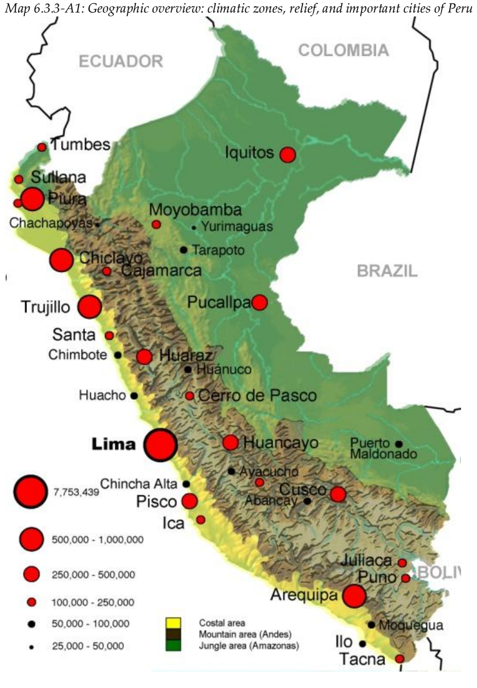
→ Values > 0 indicate the inflow of money into the district as total loans > total deposits

→ Values < 0 indicate the outflow of money out of the district as total loans > total deposits

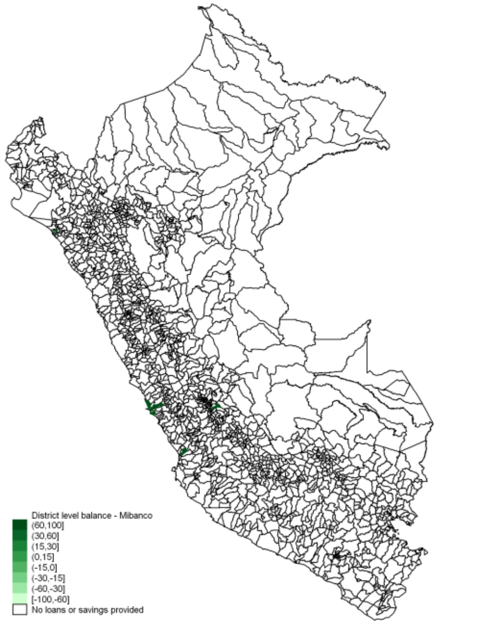
Source

Own elaboration, with data from SBS (financial data).

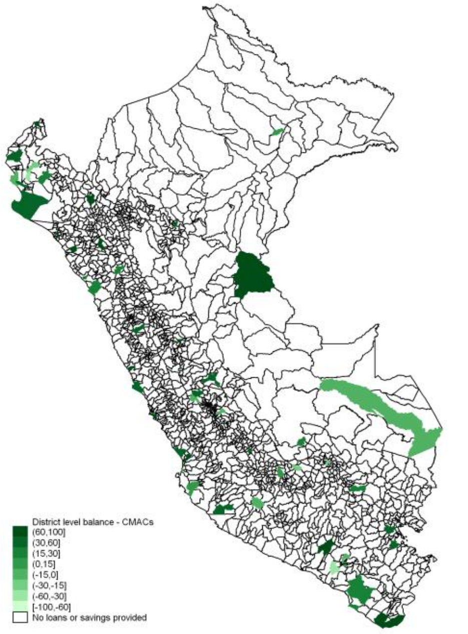
Map 6.3.3-A1: Geographic overview: climatic zones, relief, and important cities of Peru



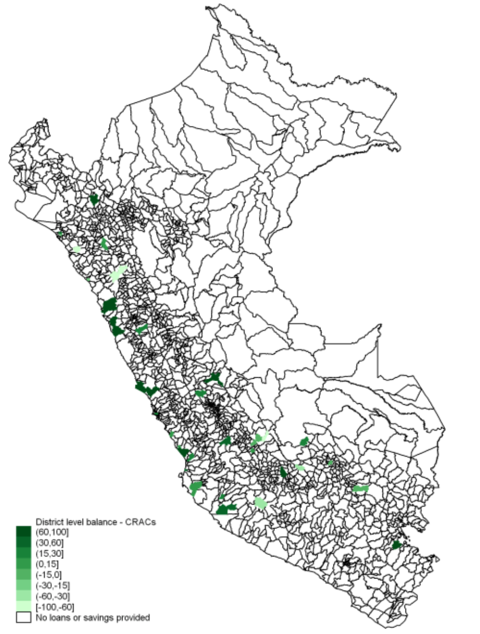
Map 6.3.4-A5: District level balances of Mibanco, 2001 (in percent)



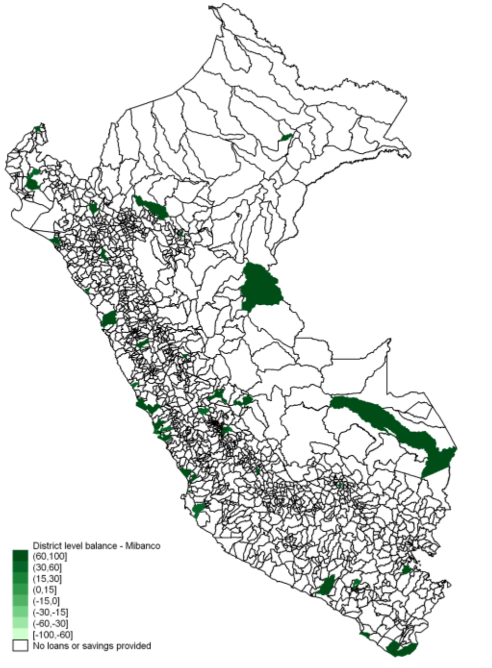
Map 6.3.4-A6: District level balances of CMACs, 2001 (in percent)



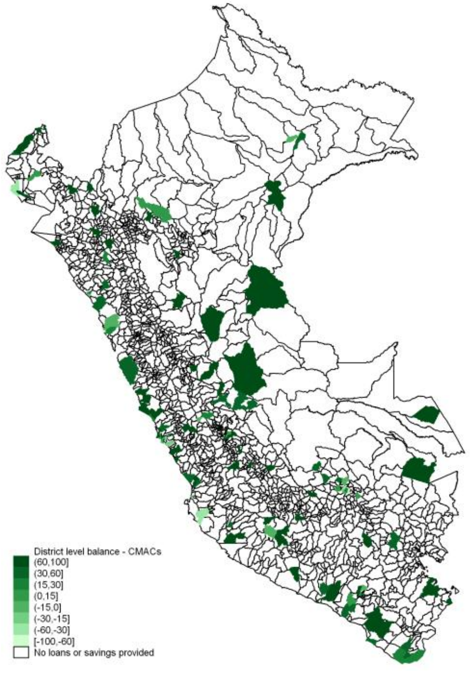
Map 6.3.4-A7: District level balances of CRACs, 2001 (in percent)



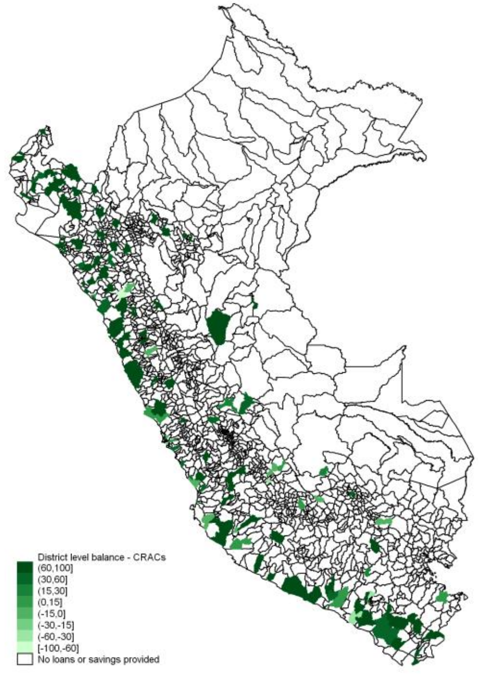
Map 6.3.4-A8: District level balances of Mibanco, 2008 (in percent)



Map 6.3.4-A9: District level balances of CMACs, 2008 (in percent)



Map 6.3.4-A10: District level balances of CRACs, 2008 (in percent)



Appendix 6.3.5-A: Overview of ratings on financial institutions, by financial institution and by rating agency, 1998-2008

TYPE	RATING AGENCY	NAME	1998_03	1999_03	2000_03	2001_03	2002_01	2002_03	2002_06	2003_01	2003_03	2004_01	2004_03	2005_01	2005_03	2005_05	2005_09	2005_12	2006_03	2006_06	2006_07	2006_09	2006_10	2006_12	2007_03	2007_09	2007_12	2008_03	2008_06	2008_12	DATA SOURCE
BANK	Apoyo	AZTECA																												B-	SBS
		CITIBANK	A-	A-	A	A		A			A		A		A				A												SBS
		BBVA CONTINENTAL	B+	B+									A		A				A+									A+		A+	SBS
		CREDITO	A	A	A	A		A			A		A		A				A+									A+			SBS
		FINANCIERO	B-	B-	B-	B-		B-			B		B+		A-				A-												SBS
		INTERBANK	B+	B+	B+	B+		B+			A-		A		A				A									A		A	SBS
		SCOTIABANK PERU (previously WIESE)	B+	B	A-	A-		A-			A-		A-		A-				A-									A		A+	SBS
		TRABAJO	B-	B-	B-	B-		B-			B		B																		SBS
	Class & Asociados S.A.	COMERCIO			C+	C-		C			C		C		B-				A												SBS
		FINANCIERO	B	B	B+	B+		B+			B+		B+		A-				A-												SBS
		INTERBANK	A-	A-	B+	B+		B+			A-		A		A				A												SBS
		TRABAJO											B+		A-				A-												SBS
	Equilibrium	COMERCIO	C+	C	C+	C		C			C		C		B-				B												SBS
		BBVA CONTINENTAL			A	A		A			A		A		A+				A+												SBS
		TRABAJO									B		B+		A-				A-												SBS
	Pacific Credit Rating - PCR (previously DCR Perú)	CITIBANK	A	A	A	A		A			A		A		A1				A1											A+	SBS
		COMERCIO	C	D+															B1											B+	SBS
		BBVA CONTINENTAL	A	A	A	A		A			A		A		A1+				A1+											A+	SBS
		CREDITO	A	A	A	A		A			A		A		A1				A1+												SBS
		FINANCIERO											A		A-				A-											A-	SBS
		TRABAJO	B+	C+	C+	B-		B-			B																				SBS
Microenterprise bank	Class & Asociados S.A.	MIBANCO				B+		B+			B+		A-		A-				A-												SBS
	Equilibrium					B+		B+			B+		B+																		SBS
	Pacific Credit Rating - PCR (previously DCR Perú)														A-				A											A	SBS
CMAC	Apoyo	CMAC AREQUIPA				B-		B-			B		B		B				B									B+		B+	SBS
		CMAC HUANCAYO									C+				B-				B									B			CGAP/SBS
		CMAC MAYNAS						C			C		C																	C+	SBS
		CMAC TRUJILLO						C+																							SBS
		CMCP LIMA																												B-	SBS
	Class & Asociados S.A.	CMAC CUSCO				C+		B-			B-		B-		B-				B-											B	SBS
		CMAC HUANCAYO									B-		B-						B											B	SBS
		CMAC MAYNAS											C+		C+				C+												SBS
		CMAC PIURA				B		B			B+		B+		B+				B+											B	SBS
		CMAC SULLANA											B-		B				B											B	SBS
		CMAC TACNA											B-		B-				B-												SBS
		CMAC TRUJILLO				C+		B-			B		B		B+				B+											B+	SBS
		CMCP LIMA											B		B				B											B	SBS
	Equilibrium	CMAC AREQUIPA				B		B+			B+		B+		B+				B+									B		B	SBS
		CMAC CUSCO				B		B			B-		C+		B-				B-												SBS
		CMAC HUANCAYO									B		B		B				B												SBS
		CMAC MAYNAS									C+																				SBS
		CMAC PIURA				B+		B+			B+		B+		B+				B+												SBS
		CMAC SULLANA											B		B				B												SBS
		CMAC TACNA													B-				B-												SBS
		CMAC TRUJILLO						B			B		B		B+				B+												SBS
	Microrate	CMAC AREQUIPA																									α-				SBS
		CMAC MAYNAS																β+													CGAP
		CMAC TRUJILLO																						α-			α-				SBS
	Pacific Credit Rating - PCR (previously DCR Perú)	CMAC TACNA						C-																							SBS
		CMCP LIMA						D+																							SBS
COOPAC	Planet Rating	COOPAC SANTA MARIA MAGDALENA																						B-							CGAP/SBS
		COOPAC SAN MARTIN																					B-								CGAP/SBS
		COOPAC TOCACHE																				C+									CGAP/SBS
CRAC	Class & Asociados S.A.	CRAC NOR PERU													B-				B-												SBS
		CRAC CRUZ DE CHALPON/ SIPAN																				C									CGAP
	Equilibrium	CRAC NOR PERU												B-					B-												CGAP/SBS
		CRAC PROFINANZAS S.A.A.																							C-						CGAP
	Microrate	CRAC CRUZ DE CHALPON/ SIPAN												γ+																	CGAP
		CRAC LOS ANDES																											β		SBS
		CRAC SENOR DE LUREN										γ+																			CGAP
EDPYME	Apoyo	EDPYME Crear AREQUIPA																										B-		B-	SBS
		EDPYME EDYFICAR																	C+									B-		B-	SBS
	Class & Asociados S.A.	EDPYME EDYFICAR													B-				B-												SBS
		EDPYME CREAR TRUJILLO										C																			CGAP
		EDPYMES PROEMPRESA																		C											CGAP
	Equilibrium	EDPYME CONFIANZA											C		C				C+												SBS
		EDPYME CREAR TACNA										C- aC																			CGAP
		EDPYME EDYFICAR											C+		C+																CGAP/SBS
		EDYPME NUEVA VISION																		C											CGAP
	Microrate	EDPYME CONFIANZA					β+																	β+			β+			β+	CGAP/SBS
		EDPYME CREAR AREQUIPA																						α			α				CGAP/SBS
		EDPYME CREAR TACNA																						α-			α-				CGAP/SBS
		EDPYME PROEMPRESA										β-								β											CGAP
		EDYPME NUEVA VISION								β		β						β													CGAP
	Planet Rating	EDPYME ALTERNATIVA												B+							B										CGAP
Finance Company	Apoyo	C.M.R (FALABELLA)				B		B+			B+		B+		B+				B+									B+		B+	SBS
		CORDILLERA (RIPLEY)				B-		B+			B+		B+		B+				B+									B+		B+	SBS
		SOLUCION				B-		B+			B+																				SBS
	Class & Associados	C.M.R (FALABELLA)				B+		B+			B+		A-		A-				A-												SBS
		CORDILLERA (RIPLEY)				B-		B+			B+		B+		B+				B+												SBS
	Pacific Credit Rating - PCR (previously DCR Perú)	SOLUCION				B+		B+			B+																				SBS
		TFC																												B+	SBS
NGO	Microfinanza Rating Srl	MIDE																								B-					CGAP
	Microrate	AMA																		β-											CGAP
		PROMUJER PERU												α-						α-						α			α		CGAP/SBS
	Planet Rating	ADRA																								B					SBS
		ALTERNATIVA												C-			C-														CGAP/SBS
		ARARIWA												B-			B-														CGAP/SBS
		CARITAS FELICES												D																	CGAP
		FINCA PERU																	B												CGAP
		FONDESURCO																							B						CGAP
		GCOD												D																	CGAP
		PRISMA														C+								B-			B				CGAP/SBS

Source: SBS, CGAP (Rating Fund data); see last row.

Appendix 6.3.5-B: Location of headquarters and main businesses of the financial institutions, by type of financial institution and by bank, 2001 and 2008

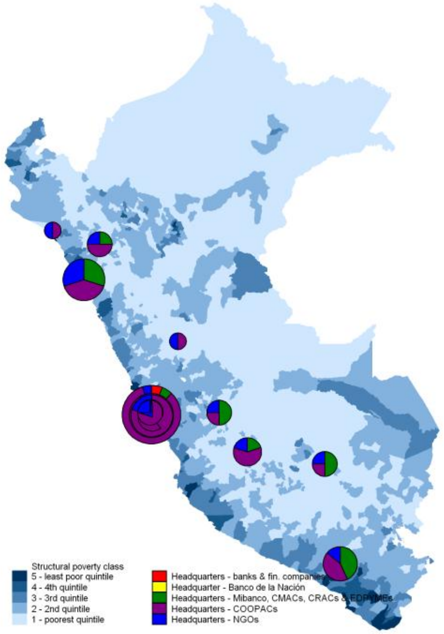
Overview of maps and methodology

Distribution of headquarters, such as defined by resolution SBS no. 775 - 2008: article 2.1: A main office (*oficina principal*) is the legal domicile of the firm, which can realize all kinds of operations and services the firm is entitled to and where, generally, the top management oversees the activities and businesses of the firm.

Source

Own elaboration, with data from SBS and FENACREP (financial data), and FONCODES (socioeconomic data).

Map 6.3.5-B1: Distribution of headquarters of different types of financial institutions and structural poverty, 2008



Map 6.3.5-B2: Distribution of headquarters different types of financial institutions and population density, 2008

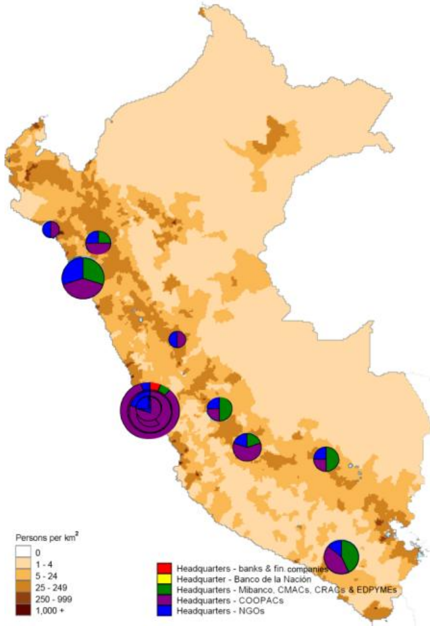


Table 6.3.5-B1: Number of headquarters of different types of financial institutions and distribution per district

	Banks and finance companies	MFIs	Banco de la Nación	COOPAC
	2001			
Headquarters	13	41	1	175
Headquarters in Lima	13	9	1	n/a
Share of HQs in Lima	100%	22%	100%	n/a
	2008			
Headquarters	17	36	1	160
Headquarters in Lima	17	8	1	85
Share of HQs in Lima	100%	22%	100%	53%

Table 6.3.5-B2: Distribution of total loan and deposits between Lima and province by type of financial institution, 2001 and 2008

	Total loans		Total deposits	
	Banks & finance companies	MFIs	Banks & finance companies	MFIs
	2001			
Total	31,551,692,367	1,185,697,519	39,221,304,066	980,099,904
Total for Lima province	25,969,185,541	202,798,919	32,369,064,465	91,900,572
Share Lima province	82%	17%	83%	9%
	2008			
Total	86,237,680,681	9,417,299,311	91,010,350,254	7,387,179,739
Total for Lima province	67,223,352,834	1,977,800,077	75,930,856,007	2,738,876,860
Share Lima province	78%	21%	83%	37%

Table 6.3.5-B3: Distribution of total deposits between Lima and province by bank, 2001 and 2008

	Total deposits								
	BBVA Banco Continental	Interamericano	Citibank	Comercio	Trabajo	Crédito	Financiero	Interbank	Scotiabank
	2001								
Total	9,442,937,649	648,969,784	1,510,333,824	508,852,785	351,447,480	13,178,203,905	1,034,218,273	3,241,828,875	8,884,113,879
Total for Lima province	7,845,570,188	637,811,918	1,510,333,824	482,105,275	259,580,107	9,916,352,710	1,002,822,199	2,511,008,891	7,766,311,220
Share Lima province	83%	98%	100%	95%	74%	75%	97%	77%	87%
	2008								
Total	20,571,843,600	3,151,676,738	1,813,193,752	846,590,015	1,033,948,885	33,827,811,004	1,558,937,529	9,589,988,105	16,058,758,475
Total for Lima province	17,293,686,828	2,936,287,103	1,806,869,301	788,315,262	836,916,915	26,636,382,120	1,426,615,964	8,066,570,832	12,841,218,877
Share Lima province	84%	93%	100%	93%	81%	79%	92%	84%	80%

Table 6.3.5-B4: Distribution of total loans between Lima and province by bank, 2001 and 2008

	Total loans								
	BBVA Banco Continental	Interamericano	Citibank	Comercio	Trabajo	Crédito	Financiero	Interbank	Scotiabank
	2001								
Total	848,908,190	n/a	1,827,361,280	555,065,193	414,148,350	9,530,864,295	961,511,409	3,023,789,455	7,940,414,609
Total for Lima province	834,656,406	n/a	1,827,361,280	532,547,895	203,176,188	7,709,951,511	944,520,755	2,308,880,830	6,430,965,204
Share Lima province	98%	n/a	100%	96%	49%	81%	98%	76%	81%
	2008								
Total	21,580,533,900	2,739,284,265	1,798,305,081	833,865,480	1,169,885,607	28,133,976,069	2,022,467,164	9,387,319,075	14,898,284,716
Total for Lima province	15,665,035,687	2,486,380,071	1,790,787,316	813,117,498	573,365,905	21,288,733,031	1,564,664,018	7,673,853,072	11,752,281,038
Share Lima province	73%	91%	100%	98%	49%	76%	77%	82%	79%

Weitere Anhänge laut Prüfungsordnung

Zusammenfassung der Arbeit auf Deutsch

Öffentliche wie auch private Akteure interessieren sich in zunehmendem Maße für Mikrofinanzen. Dieses Interesse trifft jedoch häufig auf übertriebene Erwartungen hinsichtlich der armutsreduzierenden Wirkung von Mikrofinanzen und fehlende verlässliche Informationen über letzteres. Da nicht auf einen konzeptionell und methodisch überzeugenden Analyserahmen zur Untersuchung von Kommerzialisierung und anderen Veränderungen des Finanzsektors zurückgegriffen werden konnte, wird ein umfassender Analyserahmen zur Untersuchung von armutsreduzierender Finanzsektorentwicklung erarbeitet, der dann auf den peruanischen Fall angewendet wird. Im Teil A der Arbeit wird die aktuelle Situation der Mikrofinanzen und relevante Literatur analysiert. Im Teil B der Arbeit der eigene analytische Rahmen zur Untersuchung von armutsreduzierender Finanzsektorentwicklung entwickelt. Dieser wird im dritten Teil C am Beispiel Peru - ein weit entwickelter, differenzierter Mikrofinanzmarkt mit einer bereits seit einigen Jahren voranschreitenden Kommerzialisierung - angewandt. Im vierten und letzten Teil D werden die Ergebnisse zusammengefasst und diskutiert.

Die Motivation der Arbeit, die die Frage nach der Untersuchung von Finanzsektorentwicklung nach ihrer Armutsorientierung auf Finanzsystemebene hin aufwirft, wird im einleitenden Teil A der Arbeit im ersten Kapitel geschildert. Es werden unterschiedliche Ansätze vorgestellt, die für eine solche Untersuchung in Frage kommen. Nachdem die konzeptionell wichtige Trennung von Zugang und Nutzung verdeutlicht ist, wird die bisherige Forschung über den Zugang zu Finanzdienstdienstleistungen dargestellt. Hier zeigen sich zwar interessante Ansätze, doch wird letztlich die Angemessenheit des Zugangs als entscheidendes Element nicht vollständig definiert und die Studien basieren meist auf eher oberflächlichen quantitativen Daten, wie z.B. der Filialendichte von Finanzinstitutionen. Die wenigen weitergehenden Ansätze, die auch den sozialen Nutzen sowie die Angepasstheit von Finanzdienstleistungen für die Armen diskutieren, werden bei der Erarbeitung des Analyserahmens wieder aufgenommen. Eine zweite Forschungsrichtung, die sich mit dem Thema der armutsorientierten Finanzsystementwicklung beschäftigt, ist die Wirkungsmessung *(impact assessment).* Dieses, ursprünglich aus betriebswirtschaftlichen Zusammenhängen entliehene Konzept, zeigt bei der Evaluierung von sozialen und Entwicklungsprojekten mit heterogener Zielfunktion sowohl konzeptionelle Schwächen als auch Schwierigkeiten bei der Operationalisierung der Forschung. Im Kontext der Mikrofinanzen ist es durch die Fungibilität des Geldes noch schwieriger, die Wirkung von Mikrofinanzen von anderen Veränderungen zu unterscheiden *(additionality).* Die Schwierigkeiten bei der Operationalisierung, wie z.B. Verzerrungen bei der Auswahl der Kontrollgruppen, führen zu wenig vertrauenswürdigen Ergebnissen. Zudem sind solche Wirkungsstudien meistens auf die Untersuchung einer bestimmten oder mehrerer Organisationen ausgelegt und untersuchen nur mögliche Veränderungen bei den Kunden. Um eine armutsreduzierende Wirkung einer Maßnahme zu untersuchen, sind jedoch auch mögliche Auswirkungen auf den Kontext der Programmteilnehmer, in diesem Fall auf das soziale und wirtschaftliche Umfeld der Mikrofinanzkunden von Bedeutung. Neuere Ansätze sind das *Social Performance Management* und Forschung, die mit vor Projektbeginn zufällig ausgewählten Kontrollgruppen arbeitet *(Randomized Control Trials).* Diese Ansätze haben relevante und verlässliche Ergebnisse hervorgebracht, allerdings beschränkt auf Untersuchungen auf der Ebene einzelner Institutionen und kurzer Zeiträume. Um jedoch armutsorientierte Finanzsektorentwicklung zu untersuchen, ist ein Blick auf das gesamte Finanzsystem und längere Zeiträume notwendig.

Im Teil B der Arbeit wird der vorgeschlagene analytische Rahmen zur Analyse von armutsreduzierender Finanzsektorentwicklung erarbeitet. Das Armutsverständnis der vorliegenden Arbeit basiert auf Ergebnissen partizipativer Armutsforschung und Sens (1999) Konzept der menschlichen Entwicklung. Entwicklung wird folglich als ein Prozess verstanden, in dem die Menschen mehr Freiheiten erlangen, um das Leben so zu leben, wie sie es sich wünschen. Armutsorientierte Finanzsektorentwicklung wird folglich als eine solche verstanden, die den Menschen mehr Freiheiten bzw. Wahlmöglichkeiten und Entwicklungsperspektiven ermöglicht.

Als weitere theoretische Basis werden unterschiedliche Ansätze untersucht, die zum einen die Lebens- und Arbeitsbedingungen armer Menschen in Entwicklungsländern thematisieren, zum anderen die Bedeutung von Finanzdienstleistungen für arme Menschen. Wie von Nitsch (2002) ausgeführt, ist die Realität der Entwicklungsländer durch strukturelle Heterogenität gekennzeichnet, und die Lebens- und Arbeitswelten der armen Bevölkerung werden durch eine familienwirtschaftliche Produktionsweise geprägt, die sich hinsichtlich der gesellschaftlichen Arbeitsteilung sowie der Wirtschafts- und Lebensweise von anderen Produktionsweisen, wie der Geldwirtschaft und der Staatswirtschaft, unterscheidet. In Bezug auf die Bedeutung von Finanzdienstleistungen für arme Personen in familienwirtschaftlichen Zusammenhängen wird die Relevanz von unterschiedlichen Arten von Finanzdienstleistungen in den verschiedenen funktionalen Kategorien gezeigt, die aus einer allgemeinen Mikroperspektive abgeleitet werden. Bei der detaillierten Analyse der Bedeutung von Finanzdienstleistungen in der Familienwirtschaft ist zum einen die Verwobenheit der Haushaltsmitglieder mit dem Betrieb und ihrem sozialen und wirtschaftlichen Umfeld von großer Bedeutung. Des Weiteren ist die Art der Finanzierungsbedürfnisse der familieneigenen Betriebe davon geleitet, dass diese nach Schumpeter (1997) eher *Wirten* als innovativen Unternehmern gehören. Folglich funktionieren sie nicht überwiegend auf der Basis von Fremdkapital oder externen Eigenkapitalgebern, sondern werden maßgeblich von der Familie, dem sozialen Netzwerk und den Geschäftspartnern finanziert. Zudem zeigt die Analyse der familienwirtschaftlichen Lebens- und Arbeitsweise die Bedeutung von Finanzdienstleistungen für die Familienmitglieder bei ihrem Umgang mit Lebenszyklen und unvorhergesehenen Ereignissen auf.

Nach der theoretischen Fundierung des analytischen Rahmens werden bisherige empirische Forschungsarbeiten zur Bedeutung von Mikrofinanzen für die Armen – und damit auch deren Wirkungen untersucht. Dabei werden im Rahmen der vorliegenden Arbeit zunächst drei Arten von Wirkungstypen unterschieden: Direkte Wirkungen, als jene, die den Armen durch den Zugang zu Finanzdienstleistungen das Zurechtkommen in ihren Lebenssituationen erleichtern und zur Konsumglättung beitragen. Indirekte wirtschaftliche Wirkungen als diejenigen, die durch das Nutzen wirtschaftlicher Chancen durch Mikrofinanzen erreicht werden. Als dritte Art der Wirkungen werden weitergehende soziale Wirkungen verstanden, die im Zusammenhang mit Mikrofinanzen entstehen können. Diese hängen vom sozialen Umfeld und der Eingliederung der mit den Mikrofinanzen verbunden Transaktionen in soziale Zusammenhänge ab. Die Unterscheidung der unterschiedlichen Wirkungsarten verdeutlicht erstens, dass Mikrofinanzen nicht automatisch zur Reduktion von Einkommensarmut durch steigende Einkommen führen, zweitens, dass die direkten Effekte auf einem verbesserten Finanzmanagement der armen Haushalte basieren und dass schließlich außer den wirtschaftlichen Veränderungen der Kunden auch soziale Veränderungen möglich sind. Dabei ist es grundlegend, neben möglichen positiven immer auch potentielle negative Veränderungen bei den Kunden selbst, aber auch in ihrem Umfeld, insbesondere bei ihren nicht geförderten Konkurrenten, zu untersuchen. Als positive Veränderungen werden diejenigen verstanden, die die Freiheiten der Menschen erweitern und als negative diejenigen, die sie verringern.

Basierend auf den Forschungsergebnissen zu den unterschiedlichen Wirkungsarten werden im weiteren Verlauf der Arbeit analytische Kategorien herausgearbeitet, die für die Untersuchung armutsreduzierender Finanzsektorentwicklung von Bedeutung sind. Auf der Ebene der direkten Effekte zeichnet die Analyse von neueren Forschungsergebnissen der Finanztagebuchforschung, sowie spezieller Umfragen zu Nutzung und Zugang zu Finanzdienstleistungen, ein komplexes Bild des Finanzmanagements der Armen. Dieses besteht meist aus einer Kombination unterschiedlicher informeller und formeller Finanzarrangements, mit denen versucht wird, die Bedürfnisse des Finanzmanagements des Haushalts und ihres (familienwirtschaftlichen) Betriebs zu befriedigen. Dabei werden auch Nachteile informeller Finanzarrangements deutlich, die zwar meist sehr flexibel, jedoch nicht zuverlässig und universell verfügbar sind. Die Analyse indirekter wirtschaftlicher Wirkungen zeigt, dass Einkommenszuwächse zwar zum einen in den Kleinbetrieben der Kunden, jedoch auch durch Beschäftigung in anderen Kleinbetrieben oder durch lokale Marktdynamiken entstehen können. Neben der grundlegenden Abhängigkeit vom sozialen Umfeld benötigen die sozialen Wirkungen meist eine spezielle Plattform, auf der soziale Interaktion und Veränderung geschehen können, wie Gruppentreffen, Weiter- und Ausbildung oder die Präsenz lokaler Institutionen als Beitrag zum lokalen *institution building*.

Der vorgeschlagene umfassende analytische Rahmen zur Untersuchung armutsorientierter Finanzsektorentwicklung basiert auf relevanten theoretischen Ansätzen und den Ergebnissen bisheriger empirischer Studien zu den Nutzungsmustern von Finanzdienstleistungen und möglichen Wirkungen. Armutsorientierte Finanzsektorentwicklung wird dabei als eine bestimmte Form armutsreduzierender Marktentwicklung verstanden, die den Menschen im Sinne von Sen (1999) Möglichkeiten eröffnet, ihr Leben nach ihren Vorstellungen zu leben. Diese Möglichkeiten müssen *reale Möglichkeiten* in dem Sinne sein, dass arme Menschen tatsächlich Zugang dazu erhalten und sie eine vorteilhafte zusätzliche Option darstellen. Für die letztendliche Erarbeitung des vorgeschlagenen analytischen Rahmens werden zudem weitere

Ansätze aus der Forschung zum Zugang zu Finanzdienstleistungen berücksichtigt, die darauf abzielen, die soziale und armutsorientierte Dimension von Zugang zu messen. Für den vorgeschlagenen analytischen Rahmen werden dabei die Kategorien von Breite, Tiefe, Kosten, Bandbreite und Langfristigkeit des Zugangs zu Finanzdienstleistungen (Schreiner 2002) sowie die Messung des Zugangs über Nutzung und weitere Möglichkeiten (Porteous 2004) übernommen. Der vorgeschlagene umfassende analytische Rahmen zur Erfassung armutsreduzierender Finanzsektorentwicklung auf Finanzsystemebene besteht demzufolge aus fünf Dimensionen von Zugang und Reichweite und baut mit der ersten Dimension auf einem Abgleich der angebotenen Finanzdienstleistungen mit den Finanzmanagementbedürfnissen der jeweiligen (potentiellen) Mikrofinanzkunden auf. Auf dieser Grundlage werden als zweite Dimension die Kosten der für die Mikrofinanzkunden relevanten Dienstleistungen untersucht, drittens die Breite im Sinne der Entwicklung der Zugangsmöglichkeiten und Nutzer von Mikrofinanzen sowie viertens die Zugangsmöglichkeiten und Nutzer hinsichtlich geographischer und sozialer Marginalisierung. Schließlich wird die Langfristigkeit der Mikrofinanzdienstleistungen untersucht, im Sinne eines nachhaltigen Bedienens der Finanzmanagementbedürfnisse der Kunden. Dabei werden analytische Kategorien, Analysefelder und Indikatoren für die Untersuchung von armutsreduzierender Finanzsektorentwicklung vorgeschlagen, die an das Ziel der jeweiligen Studie angepasst werden können. Da in Anbetracht der Komplexität der Thematik nicht die Gesamtheit aller relevanten Analysekategorien erfasst werden kann, und der analytische Rahmen offen für die Anwendung in unterschiedlichen Kontexten ist, ist er insgesamt als unvollständig und offen konzipiert.

Im Teil C der Arbeit wird der analytische Rahmen auf den peruanischen Fall der Finanzsektorentwicklung auf nationaler Ebene während des letzten Jahrzehnts angewendet. Vor der Untersuchung der unterschiedlichen Dimensionen und analytischen Kategorien im peruanischen Fall werden die Charakteristika von Armut und Marginalisierung sowie die Bedeutung von (familienwirtschaftlichen) Kleinbetrieben untersucht. Desweiteren wird die Lage im Mikrofinanzsektor skizziert und anhand der vorhandenen Informationen die Nachfrageseite beschrieben. Auf der Angebotsseite ist der peruanische Mikrofinanzmarkt gekennzeichnet von einer großen institutionellen Vielfalt an spezialisierten Anbietern von Finanzdienstleistungen für Mikrofinanzkunden, darunter kommunale und ländliche Sparkassen, Mikrokreditinstitutionen, eine Mikrofinanzbank, Nichtregierungsorganisationen und Spar- und Kreditkooperativen. Dazu kommen seit 2000 vermehrt die größten Banken des Landes sowie seit den letzten Jahren einige Finanzierungsgesellschaften, die begonnen haben Mikrofinanzkunden zu bedienen (*downscaling*). Zudem bietet eine staatliche Entwicklungsbank Finanzdienstleistungen in Standorten ohne die Präsenz anderer Finanzintermediäre für Mikrofinanzkunden an. Die Ergebnisse der vorliegenden beschränkten nutzerbezogenen Daten stellen sich als kohärent mit den Ergebnissen der Finanztagebuchforschung aus den unterschiedlichsten Regionen der Welt dar, was die Basis für die Annahme ähnlicher Nutzungsmuster wie in diesen Ländern darstellt. Durch den Fokus der vorliegenden Studie auf die Entwicklung des analytischen Rahmens zur armutsreduzierenden Finanzsektorentwicklung, war die Erhebung eigener nutzerbezogenen Daten im Rahmen der vorliegenden Arbeit nicht möglich, weshalb der analytische Rahmen auch nicht vollständig auf den peruanischen Fall angewandt werden konnte. Dennoch werden zentrale umsetzbare Kategorien untersucht, die erste Schlussfolgerungen über armutsorientierte Finanzsektorentwicklung in Peru erlauben.

Die Analyse der unterschiedlichen Finanzprodukte, die für Mikrofinanzkunden in Peru relevant sind – als erste Dimension des analytischen Rahmens –, zeigt, dass unterschiedliche Typen von Finanzinstitutionen unterschiedliche Arten von Finanzdienstleistungen anbieten, die für verschiedene Zielgruppen oder Marktsegmente angeboten werden, wie an den Zugangsvoraussetzungen ersichtlich ist. Das heißt, einzelne Institutionen oder Typen von Institutionen bieten meist nur eine beschränkte Produktpalette für ein meist beschränktes Kundensegment an. Die Kosten der unterschiedlichen Mikrofinanzprodukte haben sich während des letzten Jahrzehnts für Kredite verringert. Liquide Sparkonten zeigten während des letzten Jahrzehnts negative Realzinsen, während für Festgeld durchweg positive Realzinsen bei allen Finanzinstitutionen erzielt wurden. Im Falle der Versicherungen gibt es eine relativ große und steigende Anzahl von Mikroversicherungen, die von der peruanischen Finanzaufsicht als Mikroversicherungen anerkannt werden. Jedoch unterscheiden sich die monatlichen Prämien und der damit verbundene Versicherungsschutz deutlich. Dabei bieten Banken, ebenso wie bei Krediten, meist Produkte für Kunden aus den mittleren bis oberen Mikrofinanzmarktsegmenten an. In Bezug auf die quantitative Reichweite hat sich im letzten Jahrzehnt die Anzahl der Zugangspunkte zum Finanzsektor deutlich erhöht. Die geographische Reichweite in den wenig bewohnten Gebieten des Landes, die bislang vor allem von der staatlichen Entwicklungsbank sichergestellt wurde, hat sich im letzen Jahrzehnt vor allem durch die zusätzlichen Filialen der Mikrofinanzinstitutionen gesteigert. Die Präsenz in den strukturell armen Gebieten des Landes – außerhalb der großen urbanen Zentren, in denen die Zugangspunkte der Banken und Finanzierungsgesellschaften konzentriert sind – wird vor allem durch Mikrofinanzinstitutionen und die Entwicklungsbank sichergestellt.

Die Langfristigkeit der angebotenen Dienstleistungen kann nicht endgültig bewertet werden, da beispielsweise nutzerbezogene Daten über die Nachhaltigkeit der Verschuldung der Mikrofinanzkunden nicht vorhanden waren. Durch die relativ große Anzahl unterschiedlicher Institutionen, stabile und zunehmend positive Ratings und Finanzindikatoren sowie die regionalen Wurzeln vieler Mikrofinanzinstitutionen kann die Langfristigkeit zwar als positiv eingeschätzt werden, was aber durch neue Marktdynamiken, die die Verschiedenheit der unterschiedlichen Institutionen reduziert, beeinträchtigt werden kann. Denn derzeit werden unterschiedliche Finanzmanagementbedürfnisse verschiedener Kundengruppen, die in unterschiedlichen Gebieten des Landes wohnen, vor allem durch die Präsenz der unterschiedlichen Anbieter bedient. Vergleicht man die Ergebnisse der unterschiedlichen Dimensionen des analytischen Rahmens, wird klar, dass nur ein holistischer Blick Erkenntnisse über armutsreduzierende Finanzsektorentwicklungen bringt. Im Falle Perus ist beispielsweise die Entwicklungsbank mit ihren Filialen im ganzen Land mit Zugangspunkten präsent, bietet jedoch nur eine sehr eingeschränkte Produktpalette an, die keine Sparmöglichkeiten mit positiven Realzinsen, keine Versicherungen und Kredite enthält. Letztere können nur von kooperierenden

Mikrofinanzinstitutionen angeboten werden. Andere Institutionen, wie beispielsweise Banken, bieten in einigen Fällen eine differenziertere Produktpalette an. Diese ist jedoch durch hohe Anforderungen und Mindestbeträge *de facto* meist nur für die oberen Mikrofinanz-Kundensegmente zugänglich, sowie für die urbane Bevölkerung, durch die Konzentration der Zugangspunkte der Banken in urbanen Gebieten. Für die untersten Kundensegmente werden von NGOs Gruppenkredite, auch in Verbindung mit Sparmöglichkeiten und Versicherungen angeboten, bei denen die Kunden auch noch zu einem relativ breiten Themenspektrum über Betrieb und Familie geschult werden. Kommunale und ländliche Sparkassen sind vor allem außerhalb von Lima präsent und bieten einem verhältnismäßig breiten Kundensegment eine meist differenzierte Produktpalette an Spar- und Kreditmöglichkeiten an, doch meist ohne Versicherungen oder Zugang zu internationalen Rücküberweisungen *(remittances)* und ohne die untersten Kundensegmente zu bedienen. Die spezialisierten Mikrokreditinstitutionen und die Mikrofinanzbank sind erst in den letzten Jahren auch außerhalb der urbanen Gebiete präsent und bieten respektive nur Mikrokredite, beziehungsweise eine differenzierte Produktpalette für eher kleinere Kunden an.

Wie in Teil D abschließend diskutiert, verdeutlicht die vorliegende Arbeit die Bedeutung der Differenzierung zwischen unterschiedlichen Arten von Wirkungen, die mit dem Zugang und der Nutzung von Finanzdienstleistungen für arme Bevölkerungsschichten verbunden sind. Nach dem letzten Paradigma des kommerziellen Mikrofinanzansatzes kann das Bewusstsein über die Unterscheidung der unterschiedlichen Wirkungen und die direkte Bedeutung von Mikrofinanzprodukten für verbessertes Finanzmanagement und weniger für Einkommenssteigerungen als neues Paradigma der Mikrofinanzen angesehen werden. Desweiteren scheint die Bedeutung der genauen Untersuchung von Kundenwünschen und Nutzungsmustern von Finanzdienstleistungen der armen Bevölkerung und ihrer spezifischen Lebens- und Arbeitsweise auch zunehmend Beachtung zu finden. Weitere Finanztagebuchforschung und spezialisierte Haushaltsbefragungen könnten nicht nur die Forschung voranbringen, sondern für die Praxis neues Wissen über Kunden und ihre Möglichkeiten und Bedürfnisse bereitstellen. Inwiefern diese Erkenntnisse den Kunden letztendlich dienen, hängt zum einen von der Kundenorientierung der Anbieter, zum anderen von der Fähigkeit der Kunden mit zunehmend kommerziellen Anbietern umzugehen, ab. Die anfängliche Begeisterung über das Potential kommerzieller Anbieter, schnell große Reichweite zu erreichen, wurde jedoch im peruanischen Fall eher gedämpft: Banken haben zwar bedeutende Ressourcen, handeln jedoch aber eher als *followers*, die mit erprobten Geschäftskonzepten die Kunden der Mikrofinanzinstitutionen bedienen und dabei die Produktpalette nach oben erweitern und diversifizieren, doch dringen sie weder in marginalisierte Gebiete noch in marginalisierte Bevölkerungsschichten vor. Dabei können Akteure der öffentlichen Hand und der Entwicklungszusammenarbeit wichtige Weichen hinsichtlich der Regulierung und Supervision für eine gesunde Entwicklung der Mikrofinanzindustrie stellen. Desweiteren kommt mit steigender Kommerzialisierung Konsumentenschutz und die Vermittlung grundlegender Kenntnisse zu Finanzen wachsende Bedeutung zu. Um armutsreduzierende Finanzsektorentwicklung voranzutreiben, ist es desweiteren wichtig Innovationen zu unterstützen, die darauf abzielen, maßgeschneiderte

Finanzprodukte und Schema des *institution building* zu entwickeln, die Mikrofinanzkunden, ihren Familien und Gemeinden neue Freiheiten eröffnen.