Women's World Banking

Individual Lending for Low-Income Women Entrepreneurs: An Inclusive Approach

In partnership with McGraw Hill

Introduction

Even though more and more financial institutions are serving the low-income market since the introduction of microcredit in 1970, a significant credit gap remains for one particular group in this segment: entrepreneurs. Of the 400 million micro, small and medium enterprises (MSMEs) in developing countries, only 15 percent have access to credit from formal financial institutions and 50 percent are unserved or underserved by the formal financial sector. Twenty-five percent cite access to finance as a major constraint to their business.

The inability to access much-needed capital is a barrier for microentrepreneurs seeking to grow their business and further contribute to the economic well-being of their household and community. Women entrepreneurs in particular are less likely to be served than men: 46 to 56 percent of all women-owned MSMEs in developing economies are unserved or underserved by formal financial services.[1]

This guide focuses on microentrepreneurs and documents Women's World Banking's framework for developing individual lending products for women, outlining specific aspects of the methodology that are necessary to reach the low-income women's market, namely, adapting the products and marketing to women's needs as well as adopting a sustainable operating model.

[1] IFC Enterprise Finance Gap Database; World Development Indicators, The World Bank. http://financegap.smefinanceforum.org

WOMEN'S WORLD BANKING'S WORK IN INDIVIDUAL LENDING

Women's World Banking began working with financial institutions to develop credit products tailored to women's needs in the 1990s with network members in Latin America.

These experiences, coupled with recent lessons learned from a rural credit project in the same region have allowed Women's World Banking to adapt the product development process to the specific needs and characteristics of women in other regions, including Asia, Eastern Europe, the Middle East (Egypt and Jordan) and Africa.

Piloted

Dominican Republic
Costa Rica
Bolivia
Brazil
Mexico
Argentina

Expanded to

India
Bangladesh
Sri Lanka
Philippines
Pakistan
China
Bosnia and Herzegovina
Russia
Egypt
Jordan
Kenya
Nigeria
Uganda
Morocco
Tunisia
Peru
Paraguay
Colombia

The individual lending methodology

In developing countries, the microenterprise segment is characterized by the lack of working capital that limits its development. Microentrepreneurs lack financial data and collateral which prevents them from accessing fast and timely credit from the formal financial sector, which fears the high risk and administrative costs associated with serving this market.

In order to address this financing gap, group lending through village banking or solidarity groups emerged in the 1970s and has since become the hallmark of providing financial services for the low-income population. While the group lending methodology provides an entry point for the unbanked into the formal financial sector, it does not serve microenterprises well as they grow. These loans are, by their nature, limited by the group's collective capacity to repay. Thus they are often smaller in size and cannot keep pace with growing businesses. Individual lending, on the other hand, is tailored to fit the client's business needs: because individual loans are based on a better "know your customer" process and comprehensive risk analysis of the borrower's business, these loans are usually larger in size (to address the capital needs of the business) and have more flexible loan conditions (i.e. grace periods, repayment frequency, loan terms, top ups), allowing microentrepreneurs to grow their businesses. These loans are also often more suitable for established entrepreneurs who may be inconvenienced by frequent group meetings, or a loan that is suspended or delayed due to delinquency within the group. Furthermore, individual loans allow the borrower to build a credit history with the institution.

DIFFERENCES BETWEEN GROUP AND INDIVIDUAL LENDING

Group and individual lending methodologies are differentiated by the criteria used to determine the client's eligibility, the type of product offered, the type of guarantee requested, and the way to assess the client's ability and willingness to repay.

For instance, under the group methodology, the screening process and assessment of the applicants' solvency and/or willingness to pay are fully managed by the group's members. Under the individual lending methodology, it is the financial institution's responsibility, through the loan officer and its internal processes, to assess the feasibility of a loan. Loans offered under the group methodology have predetermined amounts and terms for all its members. Individual loans on the other hand, have varied amounts and terms that suit the business' cash flow.

Financial institutions that offer group lending and are considering introducing individual lending must recognize that this means more than just adding another product to their portfolio. There are vast differences between group and individual lending, and offering individual lending will have a transformational impact on all levels of the institution—from its strategic vision to its day-to-day operations: work processes, staff profile, hiring and training and technology, to name a few. It is critical that the institution fully understands the market and is willing to make the structural changes necessary to implement this new product.

DIFFERENCES IN PRODUCT DESIGN

	GROUP LENDING	INDIVIDUAL LENDING
ELIGIBILITY CRITERIA	Income-generating activity, group member	Microenterprise operating for one year, proven record of reinvestment in business activity
AMOUNT	Standard loan amounts	Amount tailored to the microenterprise need and business cash flow
TERM	4–6 months	Up to 3 years
COLLATERAL	Peer guarantee	Household assets and/or guarantors
DOCUMENTATION	ID	Client and guarantor IDs, proof of address

DIFFERENCES IN MARKETING AND CONSUMER EDUCATION

	GROUP LENDING	INDIVIDUAL LENDING
PRODUCT MARKETING	Mostly in residential communities	Mostly in commercial areas
CONSUMER EDUCATION	Emphasis on timely repayment	Emphasis on timely repayment and becoming a long-term financial partner to support business growth
BRAND	Institution providing small loans for low-income women	Institution providing financing for business growth

DIFFERENCES IN OPERATING MODEL

	GROUP LENDING	INDIVIDUAL LENDING
LENDING METHODOLOGY	Rough estimate of cash flow, emphasis on human capital	Rigorous financial analysis of business and household, personal and business references
LENDING PROCESS	Client selection, loan decision and monitoring led by the group	Client selection, loan decision and monitoring done by loan officer/credit team
PROFILE OF LOAN OFFICER	Knowledge of local community, high school diploma, ability to do field work	Aptitude for numbers and financial analysis, preferably a university degree, ability to do field work
BRANCH MANAGEMENT	Emphasis on administration and team coordinating	Chair credit committees, performance management
TECHNOLOGY	Limited database	Database to capture a full range of business and household data

Women's World Banking's approach to individual lending

The products and services offered by a financial institution largely depend on its mission and objectives. For instance, at their inception, microcredit organizations served the poor as a social mission more than a business opportunity. As microcredit evolved toward microfinance, and microfinance institutions (MFIs) showed that it is possible to serve this segment sustainably, the goal became to provide a full suite of financial and non-financial services. Against this backdrop, the individual lending methodology has been adopted by financial institutions willing to support the growth and development of low-income individuals' businesses and see it as a growth opportunity for its client base. While it may come with increased loan processing costs, it presents a benefit for institutions in the process: the opportunity to cross-sell other financial products.[2]

This evolution marks a subtle shift in how institutions perceive their low-income clients: from a customer with simple needs, to one with complex, multiple needs.

Based on its vast experience introducing financial products to women-focused financial institutions globally, Women's World Banking developed a conceptual framework of product development built on three fundamental pillars:

1. product design,
2. marketing and consumer education and
3. operating model.

[2] Venkata, N.A., Anup Singh, and Trevor Mugwanga (April 2010). "Breaking the Barriers: Market Expansion through Individual Lending." MicroSave Briefing Note #88.

Product Design

Product Attributes
Adapting product design (amount, terms, type of payments, interest rate) to needs

Guarantees
- Adapting guarantees to assets
- Identifying innovative types of guarantees

Access and Eligibility
Mitigating criteria that prevent access to products, especially women

Marketing And Awareness

Promotion
Developing a range of marketing materials and strategies

Financial education
Developing greater awareness and knowledge of financial and money-management terminology

Brand positioning
Building a robust brand that ensures a long term connection with clients

Operating Model

Loan methodology
Adapting loan analysis and lending processes to the client's activities and needs

Capacity building
Training personnel from various areas to ensure the methodology is used together with sound portfolio management

Performance management
Appropriate and timely reporting supported by monitoring protocols

Technology
- Supporting loan process through IT system
- Linking IT system to technology applications

This framework is implemented through a robust product development process that starts with research. Women's World Banking places special emphasis on understanding the needs and barriers that are specific to women clients. Our experience has shown that products developed with women clients in mind are relevant, affordable and accessible not only to women but to men as well, but not the other way around. Pilot testing and rigorous assessment must take place before rollout to the entire institution.

IMPORTANCE OF MARKET SEGMENTATION IN RESEARCH

Even within the microenterprise segment, clients have very different needs and requirements. Market segmentation helps a financial institution determine its target market in order to design a product and marketing mix that meets their needs.

For instance, Microfund for Women (MFW) started operating in 1997 by providing group loans to women. In 2003, MFW asked Women's World Banking for support to introduce individual lending as an additional product for its top group loan clients. Women's World Banking prepared a detailed financial analysis based on a significant sample of MFW's clients in order to segment its client portfolio and evaluate the potential of an individual lending product. The sample was segmented using four parameters: a) net benefit created by the activity, b) asset value, c) reliance on income derived from the activity and d) client's repayment capacity.

Financial Profile		Product Development strategy based on financial capacity
- Continuous cash flow and reinvestment in business - Income from microenterprise is the main source of family income - Mostly located outside of households	Segment 3 **Microenteprises** 15%	**Significant capacity to absorb additional financing** Focus on expending the credit product offer; Leasing; Housing improvement
- Women with continuous income-generating activities (all home-based) - Net income from economic activities is about 45% of total family income	Segment 2 **Stable Income-Generating Activities and Businesses in Expansion** 25% of clients	**Limited capacity to absorb additional financing** Focus on expanding the non-credit product offer; Hospitalization insurance; Education; Training
- Women with occasional income-generating activities (all home-based) - Net income from economic activities is supplementary to other family income	Segment 1 **Seasonal Income-Generating Activities or Start-up Businesses** 60% of clients	**No capacity to absorb additional financing** Focus on expanding the non-credit product offer; Hospitalization insurance; Education; Training

This segmentation study informed the strategic change adopted by MFW. Microenterprises were seen as a priority market; however, only 15 percent of MFW's existing customers qualified for an individual loan. By identifying those potential clients, MFW was able to uncover needs of this specific segment and adapt the product to meet these needs. Leadership was also able to reassess their product offerings to segments 1 and 2 (as shown in the graph above) and discovered high demand for other products, particularly insurance. These changes, and the introduction of individual credit, allowed MFW to expand its customer base and continue to grow.

Product Design

The primary financial need of a microenterprise is working capital. However, the amounts required as well as the guarantees these entrepreneurs can provide vary significantly. Because individual credit products serve a wide range of business types, with varying sizes, cash flow and repayment capacities, classifying businesses by economic sector (trade, services or manufacturing) is a critical first step. This classification provides the basis for the loan amount, repayment term and frequency of payment.

PRODUCT ATTRIBUTES

One of the main barriers faced by microentrepreneurs seeking capital is their inability to meet the minimum loan amounts set by commercial and development banks. Financial institutions tend to fix minimum loan sizes to cover their expenses, including the cost of doing a financial analysis of the risk posed by the business. These amounts are often rigid and do not adapt to the microenterprise's needs. To serve microenterprises, an institution must understand the business' size and financial activities (i.e. whether sales are made with cash or credit, whether suppliers are paid with cash or credit, the businesses' debt and inventory turnover), to determine a loan size and frequency of repayment.

For instance, based on the segmentation study mentioned above, MFW's potential individual lending clients were mostly in the trade and services sector and required a broader range of loan size than was available through small group loans. However, these amounts fell beneath the minimum amount offered by banks and other financial institutions.

MFW thus introduced 'Tatweer,' an individual lending product that would cover clients who fell within this gap, offering loans between 500 to 5,000 dinars (US$ 700 to 7,000). This range allowed MFW to serve a significant portion of the market, mostly in the commerce sector, and directly respond to their financial need for small amounts of working capital and fixed assets such as a sewing machine, delivery van etc.

At the end of 2013, Tatweer loans were averaging $3,000 and represented 18 percent of the total outstanding loans—38 percent of MFW's total outstanding portfolio. Furthermore, 80 percent of Tatweer clients were women, showing that MFW has been able to meet women's needs.

These changes contributed significantly to attracting new customers and building greater loyalty among existing clients whose financing needs MFW is now able to completely meet.

GUARANTEES

Another distinct characteristic of microenterprise individual lending is the use of different kinds of guarantees to ensure loan repayment. Instead of requiring guarantees like those requested by traditional banks (typically homes, appliances etc.), financial institutions that offer microenterprise individual loans accept guarantees that are adapted to what microenterprises can provide, namely, collateral, guarantors, stock inventories and fixed assets (owned by the business) or small-value assets (owned by the household).

Providing guarantees is usually a bigger challenge for low-income women than men because they typically have less capital invested in their business, and their fixed assets are basic and can't be easily pledged (old sewing machines, home pots, shelves, etc.). They are also less likely to have access to property titles, and even if they do, they often require the agreement of their husbands to use it for their own purposes. In addition, there are cultural barriers to asking friends or family to serve as guarantors and, in many cases, women prefer not to involve their husbands in their businesses.

In the case of Caja Arequipa in Peru, the standard in the market requires women to have a male counterpart to guarantee a loan. Single, widowed or divorced women or women who did not want to or could not include a husband on the loan document had to find another guarantor or secure collateral. Thus, the institution created "Superate Mujer," a loan product that did not require a spouse as a co-signer or guarantor. Incredible uptake of the product by women (more than 4,000 women reached in 18 months) shows that women benefited from this product feature.

Besides guarantees, a financial institution can incorporate incentives to ensure loan repayment. For instance, rewarding good client behavior or a strong credit record through access to larger loans, other financial products and better interest rates, produces a strong incentive to repay a loan. Financial institutions are also paying increased attention to clients' credit record by checking with credit bureaus, where available. Information provided by credit bureaus is used to prepare scoring models that reduce the default risk during the loans' initial stages. Other successful approaches include clearly-defined internal processes for defaulting loan recovery and comprehensive risk analysis by the risk department.

Women's World Banking's experience has shown that the best way to ensure loan repayment for microenterprises is through performing an exhaustive review of the business and understanding the environment where that activity takes place. With that information, the applicant's ability and willingness to pay becomes more relevant than typical collateral which, given microentrepreneurs' limited assets, would be difficult or impossible to collect.

LOAN RECOVERY FOLLOW-UP PROCESS

INSTITUTION: INTERFISA BANCO, PARAGUAY

PRODUCT: NDÉ VALE

Consistent and systematic follow-up helps build a permanent credit relationship with clients and keeps rates of past-due loans low. This keeps a financial institution's portfolio return rates and liquidity high. At minimum, a financial institution must publish a daily list of near- and past-due loans as a prompt to loan officers.

At Interfisa Banco in Paraguay, the recovery process starts with each loan officer calling his or her clients two days before their due dates to remind them of their loan repayment date. The following calendar shows an example of a loan officer's recovery process schedule that starts on the first past-due day:

DAYS PAST DUE	ACTION
DAY ONE	Call the client who is one day overdue to establish a repayment commitment.
DAY THREE	Send a payment notice to the client and guarantors.
DAY SIX	Deliver a second payment notice to the client and guarantors; fill out a past due follow-up management form.
DAYS 7–15	Follow up on the client's repayment commitment by visiting his/her business, together with immediate superior if required.
DAY 16	Send a third notice to the client via the financial institution's legal counsel (court notice).
DAYS 31–60	With support from the regional manager or credit head, and possibly the financial institution's legal counsel, prepare a potential payment agreement.
DAYS 61–90	Send the loan document (promissory note) to the financial institution's legal counsel for judicial loan recovery.
DAY 180	Write off the loan from books, although court proceeding may continue through a final decision.

ACCESS AND ELIGIBILITY

Requesting audited financial statements is a common practice for banks serving medium and large companies. This, however, is a major barrier for microenterprises. Because microentrepreneurs typically do not keep official ledgers (receipts and proforma invoices come at a major transactional cost for this market), requiring this level of formal paperwork is a barrier to accessing credit. Because the individual lending methodology emphasizes on-site analysis, clear eligibility criteria must be established to prevent unnecessary visits to clients who may not qualify for a loan. To determine simple and clear eligibility criteria, institutions must have a sound understanding of existing regulation (including business registration, property titling and commercial issues). While it will not unilaterally reduce credit risk to the institution, these criteria are a first step in determining client risk.

Understanding the physical, cultural and emotional barriers women experience when it comes to accessing financial services is also critical. Women's World Banking's research and experience around the world has found that women face greater emotional barriers to accessing loans: they feel that they lack a formal business (since their enterprises are often not registered/licensed); that their activity is too small to be financed; or they have lower levels of self-confidence in making the first step in looking for credit. While many of these barriers can be addressed through communication and marketing, clear eligibility criteria that address these barriers are key to attracting the women's market. How eligibility is communicated is important—women are often put off by the formality of official financial language. The use of a different terminology or something more colloquial and less formal may be sufficient, such as calling eligible enterprises a "business activity" as opposed to an "enterprise."

For example, Fundación delamujer wanted to offer individual loans, however, most of the women they were trying to reach were precluded by eligibility criteria: the business should be in operation for at least three years; three to six months invoices as proof of sales and purchases were required; and a co-debtor, typically their husbands, was also required. They thus modified their eligibility criteria to be able to reach more women while still mitigating client risk by reaching women with demonstrated permanent market activities:

1. Be engaged in some business activity in the manufacturing, trade and services industries and need working capital or fixed assets;
2. Have an identity document; and
3. Have a functioning business activity for at least one year.

Marketing and Consumer Education

Women's World Banking's research shows that a well-designed product is often not enough to effectively reach the women's market. It is critical to communicate the product's terms and benefits in a clear and simple manner in language that can be understood by clients and is appropriate to their level of financial literacy. Strategic marketing and communication efforts with multiple touchpoints have always been essential elements in Women's World Banking's approach to developing and rolling out financial products for women. These stages include introducing the client to the product, on-going engagement through loan renewal to increase product awareness, as well as awareness of how to use financial products.

PRODUCT MARKETING

Loan officers implementing the individual lending methodology are engaged in what is known as an end-to-end process, meaning they are in charge of the entire loan process, from sales and promotion to new clients to loan closeout or renewal. Given an increasingly competitive environment as more institutions enter the low-income market, this task is becoming more challenging. Research in various countries has shown that clients find it difficult to differentiate among the products of various financial institutions. Clients may also come with preconceived, sometimes false, notions about loan requirements or features of the product, making client acquisition more challenging for loan officers.

Research has shown that women prefer some marketing channels over others. A financial institution must identify these channels and build marketing programs around them. Door-to-door promotion by well-trained loan officers together with tailored print materials (such as educational leaflets) have shown to be the most effective tactics in reaching the microenterprise market. When that direct interaction is not possible, loan officers can also organize information sessions or meetings in places where women typically gather: business support organizations, trade associations, local organizations and

CUSTOMER JOURNEY

MARKETING STRATEGY

	AWARENESS & CONSIDERATION	ACTIVATION	RENEWAL	ADVOCACY
Objectives	- Build awareness about the product - Show her the benefits of the product	- Motivate her to act by making it easy for her to use the product	- Deliver on the product promise to her	- Inspire customers to tell others about the product and refer new clients
Sample Tactics	- Mass media such as radio - Outdoor advertising such as billboards - Key Influencers such as community associations and leaders - Direct promotion such as door-to-door outreach and leaflets - Posters in branches	- Application incentives such as giveaways - Simple application process —paperwork, requirements - Sales tool with FAQs so loan officers can answer any question	- Turnaround time within client needs - Minimal processing for renewal - Responsive customer service	- Consistently over-deliver on client expectations - Resolve pain points or complaints quickly - Ensure loan officers are equipped to offer the right product every time

schools. If they are well-designed and consistent, these direct marketing and targeted information sessions can be quite effective. Women interested in applying for loans tend to stay behind for one-on-one discussions, providing an opportunity for the loan officers to further engage.

Appropriate language and terminology is critical in reaching out to women entrepreneurs. In many countries, low-income populations, whether living in urban or rural areas, often speak and/or prefer local native dialects. Financial institutions must invest in promotional material in native languages for print as well as radio, since literacy rates for women are often lower than for men.

Research[4] conducted by Women's World Banking on behalf of Interfisa Banco revealed that while rural women often contributed significantly to the household's finances, their contribution was often "invisible." Both rural women and men consider women's roles as a homemaker first, and any income she earns from raising small animals, providing farm labor or selling food are seen as merely "helping" but not as having a significant impact on the household finances. However, when researchers performed a cash flow analysis of the household, they found that women's income nearly equaled or sometimes exceeded the men's contribution.

Because rural women (and larger society) do not see themselves as entrepreneurs, Interfisa Banco needed a marketing campaign that communicated to their target market that the institution recognizes women's work and capabilities. Hence the campaign concept, Nde Valé, a well-known colloquialism in the local dialect Guarani, which means "you can do it." For Interfisa Banco, this concept encapsulated a sense of women being able, skillful, brave and valued for their work. Through this individual credit product specifically for women, Interfisa Banco is communicating to its clients that "you are important and we recognize and value you." Having a Guarani-based campaign also helped the institution ensure that low-income women who spoke the local dialect were also included.

The product rollout was such a success and the concept so effective that it has been expanded to Interfisa Banco's other financial products.

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[3] "Making Women's Work Visible: Finance for Rural Women." Women's World Banking. 2014. http://www.womensworldbanking.org/publications/making-womens-work-visible-finance-rural-women/

CONSUMER EDUCATION

Consumer education can provide low-income customers with the knowledge and confidence they need to fully utilize their financial products. Women's World Banking embeds financial education into every product rollout to help increase uptake.

For many years, financial education has been synonymous with classroom education and unfortunately, research has shown that, as a stand-alone activity, this does not usually impact long-term behavior. Women's World Banking believes that financial education can and should happen at every client interaction; that daily or weekly transactions provide an opportunity to reinforce basic information that can help women access, use, and benefit from a financial product. Women's World Banking has pioneered new models of financial education guided by five core principles. Financial education programs must be:

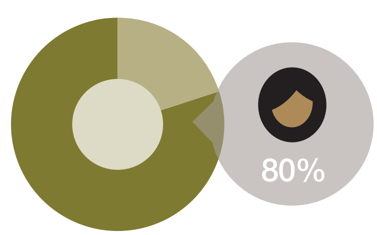
- **Concrete**—provide specific information that is relatable and tangible
- **Relevant**—demonstrate the benefits of the product, speaking her language on her terms
- **Actionable**—provide step-by-step guidance and link to a product or service that she can easily access
- **Buildable**—reach her in "surround sound" by delivering messages through multiple channels to reinforce them every time she comes in contact with the institution
- **Measurable**—link to sales objectives and coordinate with sales team; measure behavior change through product activity: uptake, frequency of use and transaction amounts

For example, Fundación delamujer runs "Saberes," an entrepreneurial development program in partnership with Colombia's National Service of Learning or SENA. SENA runs technical trainings while Fundación delamujer manages the financial education and business administration programs, which cover money management and basic accounting; the separation between family and business budget; creating an enterprise and increasing market share and use of technology.

The programs were originally available only to Fundación delamujer's clients but were subsequently opened to family and friends on the suggestion of the participants, saying that it helped underline the importance of a woman having a network of peers in her business. Upon the request of clients, Fundación delamujer has also added leadership training in which women entrepreneurs share their experience with peers. As of 2014, 42,000 clients have been trained under the Saberes program, 80 percent of whom are women.

Given the particular requirements of communicating an individual lending product to women, an organization must dedicate human resources to marketing to understand its target market, develop strategies to reach that market and track the effectiveness of these activities to be able to measure and improve campaign performance. For more information about developing your institution's marketing capacity, please refer to Women's World Banking's guide, "Marketing for Microfinance."[5]

Nearly 42,000 clients have been trained under the Saberes program



80% are women

[4] "Marketing for Microfinance." Women's World Banking. 2008. http://www.womensworldbanking.org/publications/publications_marketing-microfinance/

BRANDING

An institution's ability to create an emotional connection with each current or potential client rests on the image it projects to the market. Women's World Banking sees brand positioning as a key element in creating this connection with women.

An institution's brand reflects the organization's essence, what it is, what it does and what it believes in. Consequently, brand creation must combine these elements into a unified identity to which individuals can relate and distinguishes the institution from its competitors. Research shows that low-income women often feel that financial institutions are not "for them." Institutions must build a brand that makes women feel that the financial institution is accessible to them and that it understands their needs. Some indicators of a successfully established brand include client loyalty and retention, their willingness to pay for products and services and pride of being associated with the institution.

For example, customer service is the primary way that clients experience the brand. Institutions must take care to train staff and establish protocols that reflect the values of the institution at every client interaction.

Consider the experience of MI-BOSPO, one of the leading microfinance institutions in Bosnia-Herzegovina serving the low-income women's market with credit and non-financial services. Given its competitive market, MI-BOSPO wanted to differentiate from other institutions by focusing on women. Their branding process began with internal organizational research and a client survey, which pointed to two distinct areas for action: 1) women clients did not recognize themselves as entrepreneurs and 2) MI-BOSPO's staff were committed to the organization's mission to empower women but felt as though they were measured only by productivity and profitability metrics.

Based on these insights, MI-BOSPO positioned itself as an organization that recognizes businesswomen's efforts and celebrates their success. It developed a visual and verbal identity that encouraged women to identify themselves as entrepreneurs, regardless of the size of their endeavors and showed them they could access loans for their enterprises. Their product offerings (a new individual loan offering as as well as a previously offered solidarity loan for women microentrepreneurs) were then tailored to reflect this brand. To address staff's sense of disconnect between their work and the institution's mission, the brand was first rolled out internally, including training for staff on how to provide outstanding customer service while recognizing the staff's work as a catalyst for achieving women's empowerment.

The marketing department identified the percentage of new clients and client retention as indicators that would measure the effectiveness of the brand launch. The results were positive: client retention increased considerably between the baseline year (2005) and the campaign year (2006) from an average 56 percent to 90 percent of individual loan renewals. In addition, new client recruitment for this product increased at a monthly 15 percent rate.

Operating Model

The individual lending methodology is built upon four principles:

a. on-site analysis,
b. building a long-term relationship,
c. the role of guarantees and
d. loan portfolio diversification.

Introducing this methodology requires building and/or adapting an operating model that allows each functional area to contribute to appropriately enforcing this methodology. Thus, the operating model is arguably the most complex of the three pillars, as it includes managing human resources and introducing changes in work styles.

Training staff from various functional areas about the characteristics of microenterprise individual lending facilitates acceptance of new workflow changes. Monitoring and portfolio follow-up through systematic reporting are needed to create a performance target-oriented organization that will contribute to product sustainability. Lastly, gender-diverse leadership is essential if a financial institution intends to serve the low-income women's market: Women's World Banking's research has shown that women leaders at all levels of a financial institution are instrumental to effectively serving this market as well as reinforcing the organizational commitment to do so.

LOAN METHODOLOGY

Customizing assessment procedures is the first stage in properly serving the microenterprise market. Many developing countries still lack appropriate laws to regulate microenterprise operation. Generally, business registration is tedious, costly or both. For microenterprises, preparing the required financial statements such as a balance sheet and a profit/loss statement can be an expensive endeavor. Since most microenterprises lack financial statements or accounting records and typically do not document their transactions, loan assessments for this market must rely on assessing clients' businesses through on-site information gathering at applicant's place of business and their home. These visits, where loan officers collect information that can be used to analyze and assess the applicant's repayment willingness and capacity, and find ways to mitigate credit risks, are the first stage in the loan assessment process. This adapted assessment process allows financial institutions to base their loan decisions on truthful and reliable information provided by loan officers who are well-trained in the lending methodology and identify with the financial institution's mission. It also prevents incurring high transactional costs, both for the financial institution and their clientele.

The objectives of the on-site visit include:

a. Create contact with clients.
b. Explain that the visit's main purpose is showing the financial institution's interest in better understanding the current financial needs of the client.
c. Assess size of facilities; volume, quality and value of inventories, vehicles, machinery and equipment; order and cleanliness of the operations and the true importance of the loan for the applicant's business and finances.
d. Get a sense of the business owner's capabilities as well as the attitudes among members of the household in relation to the loan and relevance of the business to the family's income.
e. Identify issues that might put the business or household at risk or impede repayment such as difficulties with selling, manufacturing and distribution.
f. Understand future investment plans of the entrepreneur and identify likely obstacles to growth.
g. Alleviate any doubts the client may have about the loan conditions and/or the financial institution's procedures.

The most daunting challenge for a loan officer is determining client risk. Preparing financial statements for the applicant and estimating her willingness to pay will help the loan officer better understand the business' financial position. Customizable forms that can be used to quickly collect information about the business and the family unit will simplify the loan officer's task.

Not surprisingly, some clients may be skeptical, shy or feel deceived (especially if they do not end up with a loan) by this visit. The loan officer must reassure the client that any information will be kept strictly confidential and make clear to the clients that the quality of the information they provide will have an influence on determining the loan's characteristics (amount, installments, terms), should they be approved.

Standardized Process. In order to adequately serve this market, financial institutions must offer timely and nimble services to allow clients to take advantage of emerging business opportunities. Creating standardized loan procedures will allow them to serve clients quickly and properly, ensuring ideal turnaround time from application to disbursement, i.e. three days for new transactions and 24 hours for renewals.

Each stage of the loan procedure has several steps, and each of these steps must be concluded and fully documented before moving on to the next one so it is critical to have an IT system in place that supports and documents each of the steps. Data entry personnel, office managers, tellers, members of the credit committee and internal auditors also play an important role in ensuring that the entire process is under control at each stage.

CAPACITY BUILDING

Successful implementation of the individual lending methodology requires training the organization's staff on how to serve microenterprises, first through understanding the segment's characteristics and then knowing how to apply the methodology's basic principles. Training must include a customized curriculum for each type of personnel being trained (operations, field, management, etc.).

CREDIT PROCESS

PROMOTION

- Direct promotion by loan officers following a pre-established timeline
- Objective: all sales must result in a loan application

ASSESSMENT

- Collect required information about business and family
- Check references
- Check credit bureau information, when available
- Assess the applicant's repayment capacity and willingness
- Assess client risk

APPROVAL

- Defend loan officer proposal before a loan committee
- Committee members evaluate the proposal and make the final approval or rejection decision
- Decide on loan conditions

DISBURSEMENT

- Prepare documentation (agreement, IOU, repayment schedule)
- Explain loan conditions to client, emphasizing importance of punctual repayments

RECOVERY

- Monitor past due portfolio
- Enforce recovery steps: visits, calls, letters, visits to guarantors
- Understand reasons for delays and negotiating solutions with client
- Document recovery efforts

THE LOAN OFFICER

Loan officers are responsible for ensuring that financial institutions capture the required information about the business as well as mitigating possible risk by analyzing the data. They also help applicants fill out forms, reducing operational costs by minimizing clients' transactions with the institution to disbursement and repayment only. Loan officers' responsibilities necessitate a clear moral and ethical center because they are tasked with ensuring a long-term relationship between borrowers and lenders, while keeping borrowers' data confidential. An inappropriate profile or poor personnel recruitment may result in high personnel turnover, fraud, and financial and credibility risks for the financial institution, as well as borrower over-indebtedness and poor customer service.

Globally, high turnover of loan officers is an unfortunate characteristic of financial institutions serving the low-income market. However, loan officers at financial institutions that are just beginning an individual lending program will enjoy greater possibilities of growth within the institution's organizational structure. It is crucial for the organization to encourage a culture of retention early on by designing a career path that will allow potential loan officers to see the professional growth opportunities provided by the financial institution.

LOAN OFFICER PROFILE

AGE	20–35 years old
SEX	Not relevant
MARITAL STATUS	Not relevant
EDUCATION	- University graduate in economics, accounting, business management, finance, law, marketing and/or communications - Technical training in accounting, sales
SKILLS	- Ability to communicate clearly and simply - Ability to create relationships with customers - Strong ethical principles - Ability to work with low-income individuals - Ability to work under pressure
JOB CHARACTERISTICS	- Willing to work 60 percent in the field - Open to work for performance-based remuneration
EXPERIENCE	- Not required but could be an advantage if there is prior experience in sales or working with customers

The above profile must be adapted to fit the country's labor market. In certain countries, university students would rather work at banks or fill positions that do not require field work. Under such circumstances, educational requisites must be adapted and the training curriculum for loan officers modified.

DOES LOAN OFFICER GENDER MATTER?

Women's World Banking's research found that in societies where there are strict social norms about how men and women interact, such as Muslim countries, hiring women loan officers proved a boon to institutions, like Lead Foundation in Egypt, in increasing their outreach to low-income women.

Disbursements as of July – September 2013

This however, was not the case for the financial institutions Women's World Banking worked with in Latin America where there are less social taboos about unrelated men and women interacting with each other. Male loan officers were as successful as female loan officers in recruiting and serving clients and success seemed tied more to their ability to understand rural businesses. Nevertheless, in both cases, gender disaggregated data helped loan officers identify success factors for reaching women and adjust their tactics accordingly (i.e. hiring, area assignments).

LOAN OFFICER CURRICULUM —SAMPLE TRAINING MODULES

1. Institutional Background

- Vision
- Mission
- Values
- Strategy
- Organizational structure
- Results to date

2. Microfinance Landscape

- Regulation
- Competitors

3. Individual Lending Methodology

- Eligibility Criteria
- Term
- Financial and risk evaluation of client's economic activities
- Amounts
- Collateral
- Documentation
- Gender Awareness Training

4. Workflow

- Product promotion
- Client recruitment
- Family unit evaluation
- Financing proposal preparation
- Guarantee proposal
- Financing proposal presentation
- Proposal defense in front of the credit committee
- Loan portfolio oversight and follow-up
- Explanation of past-due rates in front of the past-due committee

* Each activity in the credit process must be presented in a training document that includes all the forms and documents used by the organization, an explanation of the principles underlying each procedure and case examples of concepts using real-life case scenarios.

Loan Officer Training. Training loan officers is essential for financial institutions serving microenterprises because individuals possessing the required knowledge are not readily found in the labor market and every financial institution varies in their lending approach.

To a certain extent, loan officers are tasked with predicting the future of their clients' business and must have general knowledge of local industry, with an emphasis on economics, accounting and legal issues, and the ability to assess the client's character.

Consequently, financial institutions must conduct their own proprietary training for staff while taking into account the required cost and time investments, particularly when first setting up the program.

Training must focus on imparting the skills needed to support the loan officer's ability to complete four basic tasks, including:

1. Promoting credit products and screening potential clients;
2. Evaluating the applicant's business and family unit to prepare a financial proposal;
3. Defending the financial proposal before a credit committee; and
4. Monitoring the loan portfolio and reacting quickly in case of loan repayment issues (past-due portfolio) while promptly serving follow-up loan requests for returning and drop-out clients.

For example, Fundación delamujer has set up virtual training programs to reach more staff in a way that doesn't require them to travel to training centers. This approach is more cost-effective than in-person training and enables the institution to control quality of the curriculum.

Caja Arequipa (Peru) has established loan officer academies in three regions throughout the country (Lima, Arequipa and Juliaca) that cover almost all branches. These academies have a set curriculum and a new training session starts every month, ensuring a permanent pool of trained personnel for Caja Arequipa.

The curriculum should combine theoretical concepts and practical examples to allow loan officer trainees to understand the credit process and their target clientele.

Senior Management Training. When introducing the individual lending methodology for the first time, it is ideal to start by training the organization's top and middle management. Training at this level focuses on strategy, planning, product portfolio follow-up and staff management. These modules may include some loan officer training components, especially if management personnel is newly recruited and needs to be trained on the institution's methodology.

PERFORMANCE MANAGEMENT AND TECHNOLOGY

Credit process follow-up and loan portfolio monitoring allows financial institutions to consistently assess whether they are reaching their business and outreach goals. Successful loan portfolio monitoring largely depends on first establishing a clear set of indicators to measure performance and then using a management information system (MIS) to track these indicators and handle a significant amount of data about clients' businesses and financial behaviors. The MIS enables staff to produce useful and actionable reports in a timely fashion. These reports are critical for ensuring the institution is serving women.

Designing Performance Indicators. Women's World Banking's experience shows you can only do well what you can monitor and control. For this reason, Women's World Banking designs performance indicators for each of the activities involved in a new product's design and roll out process to ensure that objectives are being met.

Key performance indicators (KPIs) are usually set at the beginning of each phase of product development to measure the critical links in a project. There are so many indicators that an institution can use, so it is important to focus on those causal links that are considered most critical to achieving project success at the output, outcome, and impact levels.

Selecting key performance indicators requires time and thought. In general, a "good" indicator should be useful, practical and measure, as directly as possible, what it is intended to measure. For example, if the result being measured is an increase in women participation in the portfolio, then the best indicator is the number and percent of women accessing loans. If the objective is to increase loan officer's productivity, then the number of active clients per loan officer will be a good indicator.

Frequency of reporting depends what stage of the product development phase the institution is in. For instance, weekly reporting of all KPIs related to outreach and marketing efforts is ideal during the pilot, while a monthly report will suffice during the roll out phase.

ENSURING GOOD SERVICE TO WOMEN

In 2011, Women's World Banking launched the Gender Performance Initiative (GPI) to demonstrate the benefits of financial inclusion for women, and ultimately, build the business case that women are valuable customers and employees, as well as catalysts for social and economic change. To do this, we developed a set of indicators to measure gender performance, based on Women's World Banking's extensive qualitative research on the needs and behaviors of women clients. The resulting manual, "Gender Performance Indicators: How well are we serving women?," is a comprehensive tool with indicators for financial institutions to track, evaluate and improve gender performance. The full set indicators can be found on womensworldbanking.org.[6]

Women's World Banking recognized the importance of identifying a few key indicators that can serve as a starting point for institutions and help promote the wider adoption of these indicators. The "Select Five" indicators are:[7]

1. Percentage of new women borrowers
2. Average loan size per woman borrower
3. Women borrower retention rate
4. Women's PAR30
5. Women staff attrition rate

[5] "Gender Performance Indicators: How well are we serving women?" Women's World Banking. 2015. http://www.womensworldbanking.org/publications/gender-performance-indicators-how-well-are-we-serving-women/

[6] "The Select Five Gender Performance Indicators." Women's World Banking. 2014. http://www.womensworldbanking.org/publications/gender-performance-indicators-select-five

SAMPLE INDICATORS TO BE TRACKED DURING THE PILOT AND ROLL OUT PHASE OF A NEW PRODUCT INTRODUCTION

	KEY PERFORMANCE INDICATORS
PRODUCT ATTRIBUTES	- Average and distribution per loan disbursed - Average and distribution per loan term - Causes of loan rejection (i.e. eligibility criteria)
OUTREACH	- Number of loans disbursed vs projected number of loans disbursed - Distribution of disbursements by gender - Distribution of disbursements by new and repeat clients
EFFICIENCY OF LOAN PROCESSING	- Lead-time between application and disbursement - Pending applications by loan officer
MARKETING EFFORTS	- Number of clients acquired through each promotional tactic implemented
PORTFOLIO QUALITY	- Portfolio at Risk (PAR) in number of loans and due amount by different ranges of number of days overdue (1-16 days, 16-30 days, 30 -60 days, etc.)
PROFITABILITY	- Return on portfolio - Return on assets and return on equity
RECRUITING AND TRAINING	- Number of CVs that are received after two weeks of advertising vacancies - Percentage of candidates that remain in the process after each activity - Results of the test that trainees take after training
PRODUCTIVITY OF LOAN OFFICERS	- Number of loans disbursed per week/month - Number of active loans per loan officer
PRODUCTIVITY PER LOAN OFFICER*	- Number of active loan officers - Number of active loans per number of active loan officers - Gross porfolio outstanding per number of active loan officer - Average size of loans - Percent of written-off loans

* Reaching optimum levels of loan officer productivity is a milestone that indicates the institution is serving microentrepreneurs in a profitable and sustainable way.

Core System Development. Financial institutions should invest in technology that will allow them to store and organize relevant information, both about the applicant's business and household, as well as information about previous loans and loan behavior patterns. Having a system to support the entire credit process is indispensable in accomplishing efficient credit facilitation to microenterprises, a must-have if the product is to achieve sustainability. In addition, data mining will give the institution a better understanding of the risks in its portfolio, segment the institution's client base and customize its products based on this information.

Reporting Types. KPIs also help to define which types of information are relevant and can contribute to timely decision-making. An institution's MIS should include several types of reports, some for daily follow-up and oversight and others for strategic monitoring, such as reporting the default rate to other management departments or the institution's board on a monthly basis.

Periodical reports (monthly, quarterly and/or half-yearly) are typically designed for trend monitoring, such as loan portfolio tendencies. These reports include information about loan disbursements and distribution of the outstanding portfolio by several criteria: amount and number of transactions per economic sector, ranges of loan sizes, agreed terms of repayment and type of repayment, and transaction collateral among the most frequent. Financial institutions with an explicit focus on serving women can also report many of these indicators by gender.

Recent advances in technology and connectivity have increased financial institutions' efficiency in delivering products to microentrepreneurs. For example, Women's World Banking encouraged network member Banco ADOPEM to use technology to help increase loan officer productivity. Analysis revealed that low productivity was mainly due to the lengthy time needed to gather and process data in the MIS. By replicating the loan application forms and allowing the loan officers to enter the information directly into the system and submit it electronically, they increased productivity by more than 100%.

The use of technology increased efficiency, expanded outreach and vastly improved customer service for clients in remote areas. Through connections with credit bureaus and expanded internet coverage, online working has resulted in even faster processing and improved portfolio oversight.


AmericanGirl

Looking Forward

Providing low-income women, access to a tailored line of credit not only gives her the ability to expand her business, but also helps the financial institution expand its client base and create capacity to serve more of her financial needs. By developing the processes necessary for offering individual loans, a financial institution can collect a tremendous amount of information about its clients' businesses, households and financial behaviors. With this database, they can develop a portfolio of products that includes housing improvement, leasing and much more.

Care must be taken to ensure that women's unique needs are considered in all aspects of product development—product design, marketing and consumer education, and the operating model. This does not preclude serving men, for we have found that financial products that appeal to women also attract men. We are currently taking this inclusive approach to individual lending to India, Egypt and Mexico, supporting institutions in developing the strategic and technical capacities necessary to provide low-income women and men with much-needed credit to support their businesses. It is our hope that financial institutions seeking to serve low-income women will use the concepts found in this guide to aid in the planning and execution of their individual lending program.

For a step-by-step guide for evaluating the viability and implementing individual lending to microenterprises, download: "Individual Lending, A Women's World Banking How-To Guide." 2006. http://www.womensworldbanking.org/publications/publications_how-guide-individual-lending/

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