EUROPÄISCHE UNION
Europäischer Sozialfonds

Bundesministerium
für Wirtschaft
und Arbeit

Gemeinschaftsinitiative Equal

Micro-lending

A workshop of the Transnational Partnership CEFT in the Framework of the Equal Programme

EXZEPT

Cyfenter (UK-gb-77)
EXZEPT (DE-EA-54090)
Flevoland (NL - 2001/EQC/0008)
TwaEn (CZ-10)

11 October 2002

Offenbach, Rathaus, Saal 1, Berliner Str. 100

Table of Content

FOREWORD 3

1. REPORT ON THE CEFT MICRO-LENDING WORKSHOP 4

1.1. Introduction 4
1.2. Synthesis of the presentations and the discussions 4
1.3. Conclusions and the way forward 10

2. PRESENTATIONS 12

2.1. Micro-lending in Germany 12
Dr. Alexander Kritikos, Europa-Universität Vladrina
2.2. Micro lending for specific target groups in the Netherlands 15
Marilou Keller, STEW, Centre for small business development
2.3. Mama Cash - an independent women's fund 17
Tendayi Matimba, Guarantee Fund of Mama Cash
2.4. Micro-lending experience in the Czech Republic 22
Richard Neugebauer, National Association for the Development of Business
2.5. Proposed Micro-Credit Scheme for business women in Wales 26
Tricia Wargent, Chwarae Teg
2.6. Enigma Siebte Säule Microlending 31
Dr. Thomas Panzer and Stefan Spieker, Enigma
2.7. Financing for Business Start-Ups. The EXZEPT approach 34
Brigitte Maas / Falk Zientz, GLS Gemeinschaftsbank eG

3. ANNEX I: AGENDA OF THE WORKSHOP 36

4. ANNEX II: LIST OF PARTICIPANTS 37

Foreword

While setting up the Transnational Partnership CEFT, it became clear that micro-lending and access to finance were issues for all four development partnerships. Access to finance is a universal obstacle to business promotion and growth, especially to disadvantaged groups targeted by the Equal programme: women, unemployed, migrants, disabled and socially disadvantaged groups. In particular, there is a need to improve access to finance in Germany. Micro finance has been debated for many years; currently the political climate seems favourable to change in the underlying framework conditions.

Most of the CEFT partnerships include organisations or banks such as Mama Cash, Princes Trust, the GLS Bank or Chwarae Teg which are specifically looking at the issue of micro- or peer lending schemes. It was thus decided that the German partnership EXZEPT was to organise two workshops on the subject with the aim to exchange experiences amongst the partners, identify best practice and mainstream them as far as possible as well as to disseminate the results to a wider European audience.

This first workshop presented practices and experience from the four countries involved – the Czech Republic, the UK (Wales), the Netherlands and Germany. The workshop does not aim to provide a complete overview of practices in the countries of the participating development partnerships but rather a starting point for further common work in this area.

In 2004 the CEFT Partnership plans to organise a second workshop on micro-lending where the partnership will present results. As the CEFT Partnership is principally open to other Development Partnerships working in this area we will broaden the participation beyond the existing Trans-national partnership in the workshop to come. We hope that the workshop and our activities raise interest among practitioners and policy makers across Europe. We welcome any feedback and interest for co-operation. Please email us at info@exzept.de.

We would like to thank all speakers and delegates, who actively participated in the workshop. We also wish to express special thanks to Dr. Schulze-Böing and the City of Offenbach for supporting and hosting the workshop.

Dr. Bernd Curtius
EXZEPT GmbH

Sylvie Feindt
SFC

1. Report on the CEFT micro-lending workshop

1.1. Introduction

The micro-lending workshop brought together 37 participants from the four CEFT partnerships, - Cyfenter, EXZEPT, Flevoland and TWaEn. Among the participants were micro-lending experts, practitioners from start-up support centres, representatives of development agencies and policy makers of the four countries.

The aim of this very first workshop enabled the Transnational Partnership to:

- Learn about the situation, problems and initiatives in partner countries
- Identify common issues, common goals and initiatives for the trans-national partnership.

Accordingly, presentations included more general overviews of the micro-lending situation in Germany, the Netherlands and the Czech Republic, examples of existing practice such as Mama Cash and ENIGMA Siebte Säule as well as initiatives to be developed in the framework of the of the Equal development partnerships including the lending scheme for women of the Chwarae Teg and the EXZEPT approach.

The first part of this report contains the presentations and the discussion of the workshop which then draws out the main conclusions and a perspective for future work of the CEFT Transnational Partnership. The second part of the workshop contains the presentations of the speakers.

1.2. Synthesis of the presentations and the discussions

What is micro-lending?

Many successful peer-lending or micro credit schemes already exist. One notable scheme is the Grameen Bank, in Bangladesh, which since the 1970's has given small loans totalling billions of dollars to (mainly) women to help them start farming or hand craft businesses. Best practice of micro-lending also exists in EU and accession countries such as France, the Netherlands, the UK, Germany, Poland or the Czech Republic.

The credit provision schemes are used as an instrument for poverty alleviation. Typically this motivation can be found in developing countries, but also as part of community based initiatives in low-income neighbourhoods. The most important rationale for micro-lending schemes in the developed world is to create employment. It is seen as an important solution to high unemployment rates, integration of minority groups, and increasing female labour participation. Typically, this will take the form of a defined target group approach on a regional or national level. Also in this case, it basically focuses on the promotion of self-employment. Credit provision as an instrument for economic development is usually left to the commercial banking sector, but in most EU-countries governments have various policy measures for semi-state credit schemes

available. In practice, this is on the level of entrepreneurs with growth ambitions, and the potential of becoming sizeable employers.

Microfinance can be an effective way of helping under represented entrepreneurs set up, sustain and grow their businesses enabling them to access loans, build up income and assets, and manage risk. Experience demonstrates that Micro credits can make the difference in meeting the challenge of satisfying the massive unmet demand for financial services for those entrepreneurs who are not able to access finance from mainstream banks. By responding more broadly to the needs of a wider range of potential clients, micro loans can extend the financial frontier to realise their true potential.

The special features of microfinance include:

- Making very small, short term loans with gradual increases in loan sizes and maturities.
- Using simple processes for evaluating business and credit risk
- Implement effective systems to ensure excellent on-time repayment.
- Providing efficient, responsive financial services which can be easily accessed across urban as well as dispersed rural areas.

In many microfinance methodologies, traditional collateral is replaced. Risk is reduced through:

- Evaluation of the cash-flow of the micro-business and the household, complemented by the provision of very small loans with short maturities, with the amounts and maturities increased based on previous on-time repayments.
- In group lending, peer pressure and guarantees, mandatory savings amounts, and disciplined delivery and collection on small loans are used to reduce risk.

The insistence by bank regulators that Microfinance Institutions use conventional collateral would radically reduce the ability of those institutions to serve clients with limited assets.

The link to start- up support

All presentations stressed the importance of access, advice and guidance from start-up centres to founders that received micro credit. In the Czech Republic private business support centres, which co-operate under the umbrella of the National Association for Development of Business, are not only the dominant providers of counselling services but they are also a principal gateway for loans. Recognising the importance of start-up support, the Czech Government has set up a new educational project to increase the chances of survival of newly created companies. In several German cities start-up centres offer micro-loans to their trainees. Essential is the combination of credit and follow-up programs. Extensive contact with founders from the centres which participate in the credit programs need to be extended and developed. When participating in the credit programme "compulsory coaching" with real contact to the coach is a precondition. At the end of the process the participating entrepreneur should be bankable. Similarly, the Guarantee fund Mama Cash stresses the importance of coaching of receivers of micro-loans. It does however not offer extensive advisory services itself, as in the

Netherlands there is an extensive network of different types of advisory organisations such as STEW.

Thorough, well justified business plans are essential for the creation of a new company. Accordingly, computer plans were dismissed as "terrible". Applicants could do them in an afternoon. Real business plans need to show the personality of the founder behind it.

General overviews of the micro-lending situation in the Czech Republic, the Netherlands and Germany

In all three countries a variety of credit programmes are available, finance by different sources. In Germany, there are currently heavily subsidized but limited credit programs by government banks. In addition, start-up centres in several German cities (e.g. Hamburg, Berlin, Offenbach) offer micro-loans. In the Netherlands people on social security schemes, unemployment benefits and disability benefits are eligible for a specific micro-lending scheme. Artists represent an extra category, which can benefit from a similar scheme. Presenting a concept and documenting their educational background, they can equally apply for a loan. The Czech Republic offers a broad services spectrum for small business and start-ups. The most important support activities comprise counselling and training activities, and the credit programmes START, SMALL LOANS, CREDIT and MARKET (support SMEs in trade). There are also micro-loans up to 1.600 Euro for unemployed which can be accessed through a simple procedure from the ministry of labour. The loan can be provided very fast, in some cases over a week-end. In some regions certain minorities are targeted and there are also schemes for disabled. However, an unemployed will rarely go through this procedure as business creations from this group remain uncommon.

In consequence in the Czech Republic small loan schemes concentrate on small companies. The business development agencies run a scheme called SMALL LOANS which is targeting small companies. The programme exists since six years and loan are provided on bank-like criteria (turnover, investment, etc). Another scheme for small companies is CREDIT: provided by the Czech – Moravian Guarantee and Development Bank it is an advantageous bank credit of a maximum of about 16.000 Euro (in selected regions 32.000 Euro).

Workshop participants stressed the importance of income support schemes for unemployed creating their company in Germany and the Netherlands. In the UK no such support schemes exist for starters out of unemployment or social benefits schemes. In Germany starters out of unemployment receive a one-year bridging allowance. In the Netherlands, persons that received a micro-loan under the above mentioned scheme are also entitled to income support for up to three years, if necessary. In order to be entitled for this extra income support the presented business plan (no paper start-up) should be reviewed and accepted as a feasible option with sufficient potential. This benefit is reviewed every six months. It is expected that founder makes enough money with their start-ups after one- two years.

Persons aiming to start a business in the Netherlands can request a pre-start-loan of 2.500 Euro and are entitled to a loan up to 27.000 Euro when presenting an accepted business plan. (6% interest, payback time: 5 years, which can be expanded to 10 years). They then have one year to follow training and business

advice in order to increase their entrepreneurial skills to an acceptable level and write and present their business plan of the running business. However, in order to avoid unfair competition between pre- starters and excising entrepreneurs one of the restrictions on the scheme is that one can not work more then 23 hours.

Most critical were German participants with their current system: existing government programmes put too much emphasis one the one-time easy access. The schemes attract high risk borrowers and put all risk borrowers in an ineptness trap. The current system also does not provide collateral substitutes, new screening and self-selection methods or access to subsequent loans. Despite good intentions, many programs proved to be costly and did little to help the intended beneficiaries.

Some start-up centres perform effective micro-lending to a certain extent (geographical and target group limitations). There are, however, several regulations and institutional obstacles making effective micro-lending almost impossible. Obstacles on the lending side include the legal setting which excludes lending beyond the commercial banking system. However, commercial banks have no interest to engage into micro-lending schemes. The current solution of the start-up centres is to establish a co-operation with local banks. A more desirable solution would either be to create a Micro-Bank, to adopt new regulation in Germany similar to Community Reinvestment Act in the US or co-operations with the Deutsche Ausgleichsbank (DtA) and local banks.

Also, regulations forbid subsequent loans and loans to persons who are no longer unemployed. The successful founder can not receive another loan, even if he/she is not bankable yet. Such an exclusion of consecutive lending is, however, against the micro-lending idea. The solution desired by the EXZEPT project is to enable lending without the prerequisite to be unemployed, backed up by a loan loss reserve fund.

Existing practice in the countries of the development partnerships

In the framework of the workshop, two development partnerships presented two very different approaches to micro-lending. Mama Cash was presented as a successful example of a guarantee fund. The second case, Enigma Siebte Säule represents a successful small scale micro-lending scheme targeting young entrepreneurs. In the very beginning of its existence Mama Cash had provided direct loans to women co-operatives. However, it lost a lot of money and the direct means of providing funding was felt inadequate to make an impact on society so that women have an easier access to finance. Mama Cash thus became a guarantee fund, which it felt has some distinctive advantages:

It not only has access to banking practices and expertise which is passed to its clientele, but it undertakes mainstreaming credit provision: instead of a separate credit facility for women, Mama Cash contributed to closing the gap between banks and female entrepreneurs. It directly increased the access to credits on the individual level.

A Guarantee Fund also increases the financial capacity: Mama Cash can support more women, as no money is actually transferred when a guarantee is completed. Mama Cash binds itself to pay the balance of the guarantee if the

entrepreneur defaults to comply with credit redemption. In the beginning Mama Cash provided a 100% guarantee to a bank loan of any established bank, but over time this was reduced gradually to its present level of 50%. There are practical reasons behind this decrease. Invested assets bought with the bank loan are also taken into account in the guarantee coverage scheme, as taken up as a condition in the bank agreement. Together they must account for 30-40%, and the banks bear the remaining part, which is in general no more than 15%. This shared risk is very important, as experience has shown Mama Cash that it reduces the chance of banks relaxing their appraisal of the business plans, because they do not bear any risk. For Mama Cash it is also an important principal issue that banks must be prepared to take a certain level risk. Over time banks more and more accepted this requirement and Mama Cash now works with all major and some smaller banks in the Netherlands. Annually 5-12% of the guarantees are claimed by the banks.

Mama Cash is mainly active in the Southern and Eastern part of the Netherlands. It only gets 100 applications per year and provides a guarantee for about 15 of them. The guarantee is limited to 25.000 Euro. It is however not so much the number but the visibility of the organisation, as it aims at changing the habits of commercial banks. It thus paid ample attention to its PR-strategy and became widely known and appreciated as an organisation that believed in the entrepreneurial qualities of women. As a result Mama Cash's influence stretches far beyond the realms of its individual clientele, influencing public, government and bank opinions on female entrepreneurship and its creditworthiness. The guarantee fund has thus a strong catalytic function for policy change.

Mama Cash has largely achieved its emancipational goals in the Netherlands. It is now looking into new issues such as sustainability. Enigma Siebte Säule is pursuing a more local approach in the city of Hamburg but with a higher number of actual founders being supported. The best practice micro-lending scheme also puts considerable effort in its PR activities: it is broadly disseminated for others to mainstream the model. Since its creation two years ago, Enigma has evaluated more than 240 credit applications and about 100 micro-credits have been allocated. Already, the model has been copied in a micro-lending initiative for young founders in Offenbach, Germany.

Enigma Siebte Säule offers two products: Kredit One is a pure individual loan requiring two guarantors each guaranteeing 50% of the loan. Kredit peer is an individual loan with some peer lending components. In Kredit Peer the peer group guarantees for repayment through a group internal instrument fund in which each of the group members pay 10% of the credit amount he/she received. The internal fund works like a contingency reserve. To reach the next step for a new loan the internal fund must be refilled.

Both products are step loans with annuity repayment method. Loan duration is four to twelve month. After full repayment there is an opportunity for a new and larger loan. Condition for access is a free cash flow – the size of the loan is limited to a monthly repayment rate of 75% of the monthly free cash flow.

Independent of the means used to financially support start-ups, the two cases seek to support economically viable business creations from their specific target group, women or young people. Criteria for creditworthiness evaluation are in both approaches the entrepreneur him/herself, the cash flow situation, the

company and the market strength. The cash flow evaluation demonstrates that no paper start-ups but starters beyond the planning phase are targeted.

Initiatives in the framework of the Development partnerships

Two of the CEFT development partnerships are working on two initiatives with respect to micro-lending. The Welsh partnership Cyfenter comprises the organisation Chwarae Teg, who aims to pilot a peer lending scheme to provide small, flexible loans for women. The German development Partnership EXZEPT aims to develop, implement and distribute models, with which founders can be provided with small yet cost covering credits via close cooperation between start-up initiatives and banks.

Chwarae Teg will use a scheme in Norwich called 'Full Circle' set up by Women's Employment Enterprise and Training Unit (WEETU) as a template. Chawarae Teg has secured financial backing for the pilot scheme from Finance Wales and from the Welsh Development Agency. It will input some of its own money and other funding needs to be secured before the project can begin. The pilot will last for 2 years (April 2003 until April 2005) and 2 schemes will be set up initially, one in a rural area and one in an urban area. The scheme will be limited to women, who either want to set up in business or who have been in business for less than 18 months.

Any woman participating in the scheme will be required to attend training once a week for 6 months. The meetings will be facilitated by a micro-credit adviser, who can help with the identification of individual and group training needs. The training will encompass personal development training e.g. assertiveness training, time management, anti-stress techniques as well as financial training. At the 6 month point, women will then be encouraged to form small mutually supportive groups with approximately 4 - 6 members, who meet regularly to discuss their business development. The role of the group is mutual development and support. Groups will have autonomy to make decisions on policies, procedures, lending guidelines repayment schedules – with support from staff - and are responsible for loan assessment and monitoring repayments. The women in the group will now be eligible to take out a loan.

The first loan will be anything from £250 to £2000 and when that is repaid, they can request loans of £2000 - £5000 at an interest rate of 2% above the bank base rate. The Norwich scheme, on which ours will be modelled, reports a 99% repayment rate. Advisers will be actively encouraging women to move onto mainstream financial institutions as soon as they are ready, in order to release places for other businesswomen requiring assistance. A successful pilot scheme will then be extended to the whole of Wales.

The EXZEPT project aims to overcome the above described structural barriers in Germany and is thus not linked to a specific target group as Chwarae Teg. To this end it has developed a "one stop shop" concept which will ensure access to all resources for disadvantaged founders via individual founder initiatives, including start-up capital. In this context, micro-lending is to be seen as an instrument between bank business and social/labour market policies, for which new paths for collaboration between banks and business start-up initiatives are to be sought. The solution desired by the EXZEPT project is to enable lending without the prerequisite to be unemployed, backed up by a loan loss reserve fund replenished

by the European Union, private banks and/or government banks ('DtA – Micro-loan').

Integral elements of credit allocation models are standardized evaluation methods for small and smallest business start-ups, a uniform, bank-approved preparation of the credit documents and a shielding of credit risks. In addition, follow-up support and target group specific control mechanisms are required.

EXZEPT has created a model for a process of accreditation and administration of loans for start-ups from disadvantaged groups. This model is based on the co-operation between the founder initiative and a bank. The founder is supported by the founder initiative to develop a business plan which he/she then presents to a credit allocation board, composed of representative from banks, business, founder initiatives, etc. If the credit allocation board takes a positive decision provides the loan. A loan security fund secures the loan 100% against credit failures.

In order to achieve the defined task, EXZEPT is to evaluate existing best practice models. These models are then demonstrated at banks via cooperation with founder initiatives, small credits which cover their costs can be provided. Regional work groups with banks, public offices and founder initiatives including present and future EQUAL partners will be established. Existing founder initiatives will be advised and accompanied. The process is evaluated and optimized, which leads to the definition of new models. These new models are then mainstreamed by dissemination to founder initiatives, banks, political actors, etc. The results will provide input for EXZEPT activities aiming to change the legal and institutional environment for founders of disadvantages groups.

1.3. Conclusions and the way forward

Participants found the workshop relevant and useful in terms of exchange and identification of experiences, good practice and policy inputs. It was agreed that no harmonised EU model was the way forward but rather a mutual learning from diversity. Partners could then pick and chose from the wealth of best practice and initiatives and mainstream best fitting practice in their own country.

The partners decided to address commonly the subject micro-lending in the framework of the Transnational Partnership. A useful tool is certainly the benchmarking process which is part of the CEFT work plan. The following issues were identified in the workshop to be systematically compared between the four countries:

1) The **overall environment** including the regulatory environment, tax incentives and access to financial support systems for the business founders from disadvantaged groups in the start-up phase.
2) The **product** including access conditions, target groups, collateral requirements and collateral substitutes, duration and repayment methods, etc. Products will need to be viable and diverse to be accepted by borrowers. The focus will be a non-patronising, user-centred approach (ease of process, paper work, etc.).

3) The **methodology** including procedures of approving the loan and the follow up; peer-lending elements, flexible loan procedures, repeat lending. The process orientation will also look at the improvement of acceptance with users and commercial banks.

4) The availability of **funding** for the micro-lending and guarantee schemes, including sources for a loan loss fund, acceptance with commercial lenders, etc.

The results of the benchmarking exercise and the follow up to the presented initiatives of the CEFT development partnerships will be presented a public workshop in the first half of 2004.

2. Presentations

2.1. Micro-lending in Germany

Alexander Kritikos, Institute for Microeconomics, Europa-Universität Vladrina

A typical problem of a start-up

Let's consider a hypothetical start-up: Berta wants to set up a kiosk and sell sausages in front of the airport Schönefeld in Berlin. She intends to use an old VW bus as kiosk, which however needs to be equipped for this purpose. She figures that she needs about 5.000 Euro to start her business and cover basic costs for the first couple of months, and another 8.000 Euro in the next winter, if and only if the business turns out to work well. Having been unemployed for about a year she does not have any collateral to offer.

The typical problem of such a start-up created by an individual that be longs to disadvantaged group, is that it requires a loan of less than 25.000 Euro, preferably in a staggered payment in the first years. The founder typically lacks collateral and/or is currently unemployed. If the founder from the disadvantaged group addresses a private or a savings bank for a loan, the typical answer the founder receives is a rejection. The negative response is justified due to a mixture of a cost and a risk component.

Firstly, for banks screening costs are too high due to the German regulation (KWG) which requires extensive checks. Secondly there is no adequate product in this loan segment. In consequence, loans of less than 50.000 Euro are not profitable. In addition, less than 50% of the start-ups survive in the first three years. A failure of the venture often leads to a complete loss of the invested money, thus the risk that the bank will face repayment problems is high. Moreover, there is no method to screen out the successful 50% of the start-ups. The perceived wisdom is that lending to unemployed is doomed to failure. In consequence there are almost no loans to small and micro start-ups, resulting in the first vicious circle:

Potentially successful start-ups are mostly underfinanced

The typical reaction of a bank to the above analysis is: "Its all wrong". There are loans of the required size and provided even without collateral. In fact, 10% of loan applicants receive loans from state savings banks and about 1% from private banks. Those who are financed are rather over-financed in their start-up phase as there is no adequate financial product. Due to the sized loans they risk stepping in a heavy indebtedness trap. Indeed, every second of the start-ups that receive a loan becomes insolvent. In case of our founder, Berta would only be offered 50.000 Euro or nothing, i.e. instead of repealing the old bus, she could buy a new one, an investment that is not crucial for her and indebts her unnecessarily. The result is a second vicious circle: banks receive support in their prejudice. Even worse, start-ups out of unemployment and of founders from disadvantaged groups are stigmatized:

"the start-up business is too risky, start-ups out of unemployment or out of social welfare even more"

There are however two principle reasons for failures, wrong decisions in the start-up phase and unsuitable financial instruments. In the following I will focus on solutions for the latter.

Ten advantages of effective Micro-lending
Best practice of micro-lending is no myth, it is already existing, even in EU countries. Successful micro-lending has three basic components:

- Minimize the risk of default: This requires a staggered lending with short term repayment schedules related to the expected cash flow in near future. Resulting advantages are:

  1) Demand oriented loan sizes
  2) Smaller risks for borrower and lender
  3) Long-term partnership between lender and borrower until the borrower becomes bankable or does not require any further loans
  4) Early crisis intervention possible due to delinquency signals
  5) Low risk borrowers are attracted more than high risk borrowers as the anticipation to get subsequent money when the loan is repaid makes it worth for low risk borrowers to apply for small sums. For high risk ventures a one-off cycle is more favourable.
  6) Incentive for repayment: creditworthiness by credit history.

- Optimize the cost of screening: using three means: No loans are given to "paper-start-ups", first contracts need to have been completed by the applicant. Secondly, "responsible" references substitute collateral. Referees or a peer group with joint responsibilities face sanctions if the business fails. Thirdly, the use of collateral with asymmetric value, meaning collateral that is important to the borrower but has a low market value. It provides the signal that the borrower believes in its business. In the case of Berta the old VW bus would be a collateral with asymmetric value.

  Advantages:

  7) Loans are given to start-ups who are aware of their market
  8) Effective collateral substitute/high flexibility
  9) Positive self-control

- Create products which induce a self-selection process: The demand for collateral substitute (in addition to credit rationing) induces self-selection

  10) Almost all potentially successful start-ups will receive a loan

Public Micro-lending in Germany
Currently, there are heavily subsidized but limited credit programs by government banks. The programmes put too much emphasis one the one-time easy access (high volume-low interest rate instead vice versa), which have not much in common with effective micro-lending. The schemes attract high risk borrowers and put all risk borrowers in an ineptness trap. The current system does not provide collateral substitutes, new screening and self-selection methods or access to subsequent loans. Repayment rates lie between 70 to 80% at best, but may be less than 50%. Repeated failures of start-ups appear to confirm the

prejudice that start-ups out of unemployment are not creditworthy. Despite good intentions, many programs proved to be costly and did little to help the intended beneficiaries.

In several German cities start-up centres offer micro-loans. They perform effective micro-lending to a certain extent. There are, however, several regulations and institutional obstacles making effective micro-lending almost impossible.

Obstacles on the lending side include the legal setting which excludes lending beyond the commercial banking system. However, commercial banks have no interest to engage into micro-lending schemes. The current solution of the start-up centres is to establish a co-operation with local banks. A more desirable solution would either be to create a Micro-Bank, to adopt new regulation in Germany similar to Community Reinvestment Act[1] in the US or co-operations with the Deutsche Ausgleichsbank (DtA) and local banks.

On the passive side, the co-operation with local banks requires a loan loss reserve fund covering losses up to 100%. The loan loss reserve fund is replenished with public funding and funding from private foundations. In both cases, regulations forbid subsequent loans and loans to persons who are no longer unemployed. The successful founder can not receive another loan, even if he/she is not bankable yet. Such an exclusion of consecutive lending is, however, against the micro-lending idea. The solution desired by the EXZEPT project is to enable lending without the prerequisite to be unemployed, backed up by a loan loss reserve fund replenished by the European Union, private banks and/or government banks ('DtA – Micro-loan').

Conclusions

Self-employment is supported by private organisations through training, coaching etc. Banks are in many cases the key barrier for this type of start-ups. Public banks have started many programs for start-ups but not for loan volumes less than 25.000 Euro. There is thus a need for decentralized financial intermediaries combining lending with training so that only the viable start-ups are self-selected and financed. Only if we obtain global budgets for the micro-lending activities of the start-up centres, micro-lending is not conditioned to the unemployment state of the borrower, borrowers obtain long-term access to micro-lending of 5 years with staggered financing, we are able to create a Secondary Credit Market for a 2nd chance.

[1] The Community reinvestment Act forces banks to support other financial intermediaries, allows these intermediaries to lend small amounts up to $20.000 and allows new lending technologies as "joint-liability".

2.2. Micro lending for specific target groups in the Netherlands

Marilou Keller, STEW, Centre for small business development

STEW Centre for small business development has operated for almost 30 years as a guide for (starting) entrepreneurs and other organisations involved in the many facets of conducting business. STEW is based in Amsterdam and also offers services in Almere, Huizen, Diemen, Zaanstad, and Utrecht.

In the Netherlands people on social security schemes, unemployment benefits and disability benefits are eligible for a specific micro-lending scheme. Persons aiming to start a business can request a pre-start-loan of 2.500 Euro and are entitled to a loan up to 27.000 euro when presenting an accepted business plan. (interest of 6%, payback time: 5 years, which can be expanded to 10 years). They then have one year to follow training and business advice in order to increase their entrepreneurial skills to an acceptable level and write and present their business plan of the running business. However, in order to avoid unfair competition between pre- starters and excising entrepreneurs one of the restrictions on the scheme is that a beneficiary cannot work more then 23 hours. (In order to get tax reduction as an entrepreneur one should at least put 1225 hours of labour into the business which is about 23 hours a week, so with the restriction of less then 23 hours one can not benefit from the tax reductions).

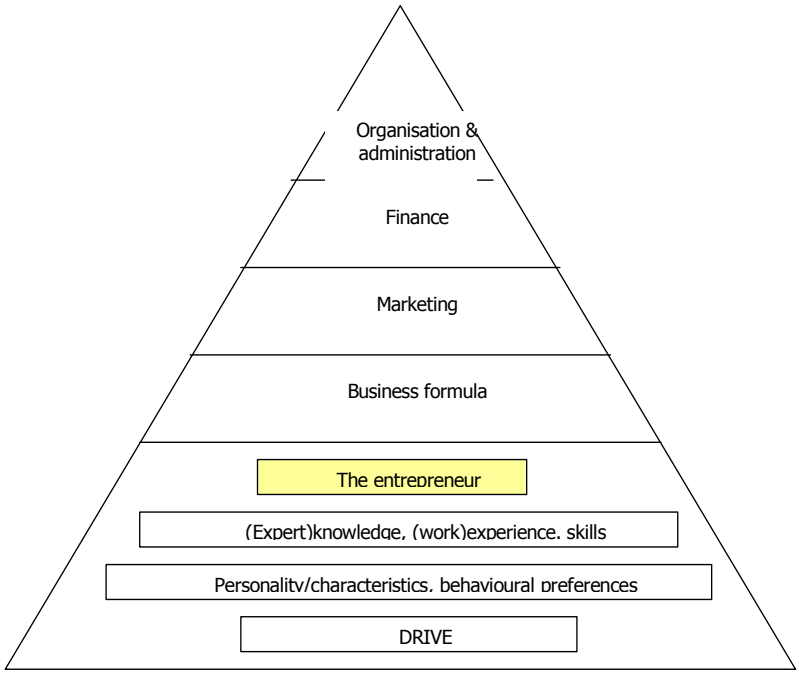
In parallel the persons on the scheme receive income support for up to three years, if necessary. In order to be entitled for this extra income support the presented business plan (no paper start-up) is reviewed and needs to be accepted as a feasible business option with sufficient potential. This benefit is reviewed every six months. It is expected that founder makes enough money with their start-ups after one- two years. Upon presenting a business plan, founders from these groups can also apply for a loan following their business creation.

Artists represent an extra category, which can benefit from a similar scheme. Presenting a concept and documenting their educational background, they can equally apply for a loan. They can also claim benefits from the social security, amounting to 70% of income support while earning up to 125 % of level of social security.

All parts of the scheme pre-start loan, loans and income support are financed by social security and organisations paying sick and unemployment benefits.

The founders from these groups have access to guidance, advice and training of organisations such as STEW. The following pyramid shows the entrepreneur centred approach of STEW.

The Pyramid



Candidates for the training support programme of STEW go through an interview (and for people on social security also an entrepreneurial test) to assess the potential. On the basis of this interview (and test) a specific training scheme is then developed, according to the needs of the individual. This training scheme includes several individual consultations with a personal business consultant and the necessary business courses (a selection of marketing, finances, time-management, writing your business plan, bookkeeping, publicity, business by internet, stress management, successful selling's, direct marketing, income- and VAT-tax).

As shown in the graph the central element is the entrepreneur itself. A key element is that the participant sells him- or herself as an entrepreneur and not a deprived person. Does the experience and personality fit with the business type the candidate aims to create? Does the potential entrepreneur have the necessary drive?

The training is then an integrated process targeted at the individual. The idea is to find an individual path for each of the programme participants, thus creating a virtuous circle.

2.3. Mama Cash - an independent women's fund

Tendayi Matimba, Manager to the Guarantee Fund of Mama Cash

About Mama Cash

Mama Cash was founded in 1983 by a group of 5 women, who found that women had insufficient access to the various subsidy channels to finance their gender projects & activities. One of the founding board members had obtained an heritage, of which she invested Euro 1,2 mln as the initial fund capital. Presently it has expanded into an organisation of more than 26 paid employees and another 6-7 volunteers. In a way we function as a channel. We raise money in different ways: through our private donors, other Dutch (larger) funds, international funds, other non-profit and profit organisations and institutions, and various government departments. We than channel this money, principally in the form of grants and subsidies to women's groups and their initiatives, activities and projects world wide.

About the Mama Cash Guarantee Fund

A separate department within Mama Cash was set up to deal specifically with the financial requests from female entrepreneurs in the Netherlands. More and more they submitted requests for grants or credit, and it was from the beginning clear that this required a more business-like approach, as opposed to providing grants for non-profit initiatives. In the early years the Guarantee Fund co-operated with another non-profit organisation, which extended credits to female entrepreneurs while the Guarantee Fund provided the collateral for these loans. Gradually requests came in to provide guarantee for the regular and established banks. Especially during the 80s through to mid 90s female entrepreneurs experienced great difficulties in accessing bank loans. The underlining reasons were that banks were hesitate about the entrepreneurs skills of women, and they had insufficient own capital sources, including solid guarantees. Thus, the Guarantee Fund developed to its present form. In the beginning the Guarantee provided a 100% guarantee to a bank loan of any established bank, but over time this was reduced gradually to its present level of 50%. There are practical reasons behind this decrease. Invested assets (inventory, stocks, machinery, rental deposit etc.) bought with the bank loan are also taken into account in the guarantee coverage scheme, as taken up as a condition in the bank agreement. Together they may account for 30-40%, and banks bear the remaining part, which in general is no more than 15%. This shared risk is very important, as experience has shown Mama Cash that this reduces the chance of banks relaxing their appraisal of the business plans, because they do not bear any risk. For Mama Cash it is also an important principal issue, that banks must be prepared to take a certain level of risk. Over time banks more and more accepted this requirement. We now work with all major & some smaller banks in the Netherlands, including Rabobank, ABN/AMRO, ING, Triodos.

1. Our entrepreneurial vision

The motivation why many non-profit organisations are active in the field of credit provision can be divided in three groups:

- credit provision as an instrument to poverty alleviation. Typically this can be found in developing countries, but also as part of community based initiatives in low-income neighbourhoods. In practice this is on the level of self-employment and income generating activities for peer groups, and usually embedded in a range of community activities, such as housing,

vocational training, child care, social cohesion etc. and as such usually heavily subsidised.
- credit provision as an instrument for employment. This is usually the most important rationale in the developed world. It is seen as an important solution to high unemployment rates, integration of minority groups, and increasing female labour participation. Typically, this will take the form of a defined target group approach on a regional or national level. Also in this case, it basically focuses on the promotion of self-employment.
- credit provision as an instrument for economic development. Usually this is left to the commercial banking sector, but in most EU-countries governments have various policy measures for semi-state credit schemes available. In practice, this is on the level of entrepreneurs with growth ambitions, and the potential of becoming sizeable employers.

Mama Cash classifies itself in between the last 2 approaches: credit provision as an instrument for employment/emancipation/integration and economic development. We believe if one really wants to tap the fast potential of entrepreneurship, regardless of gender, ethnicity etc. to contribute towards a balanced, diverse, and strong economic environment – and society for that matter -, the first step is to view and approach the client groups as entrepreneurs, and not as survivors or self-employed workers. Worldwide, women are all to often trapped in a micro business focus. A self-for-filling prophesy. To a large degree this is socially, and historically determined. Women are mothers and caretakers of the household. Women are often not seen as potential successful business women, capable of running a sizeable company with, for example, 50 employees. Undoubtly, this will prove to be the challenge for future generations of women.

Our mission has been defined as follows:

Our future image is that the phrase 'female entrepreneurship' no longer exists. Female entrepreneurs unfold their entrepreneurial ideals according to their own wishes and well-being. Locally and globally they are united.

Correspondingly our vision has been defined as:

We facilitate entrepreneurial women with ambition and guts
We embrace business experiments and share innovation
We stimulate, challenge and are opinionated
We attract the attention of our advocates on behalf of our target group.
All this we do in an ethical and responsible manner and
we and these women achieve goals through: money

2. Application requirements:
- Maximum of Euro 25,000 and no more than 50% of the bank loan.
- Maximum period of 5 years, which means that the guarantee decreases according to the loan redemption scheme.
- Thorough, well-justified and viable business plan.
- Start-up or existing businesses, run by one or more women. A partnership with men, for example the husband is also possible, but the female entrepreneur most have the leading role; she is the one who is irreplaceable
- The entrepreneur must have been to one or more banks prior to submitting a request to Mama Cash and the refusal for a bank loan must principally involve a lack of collateral.

- Where applicable, the entrepreneur must first apply for any government facilities; Mama Cash does not replace government policy, but complements it where we believe that policy or its implementation falls short.
- We specially focus on new areas of female entrepreneurship, but do not exclude more traditional female sectors. We also focus on groups with greater distance to financial means.

In addition, we demand from our applicants that they present themselves as entrepreneurs in the first place. This presentation does not have to be perfect on all scores, but must give a clear impression why the plan and person are a good or ideal match. We do not view other personal characteristics, such as the mere fact of being a woman, a migrant, disabled, age or combination thereof or situational circumstances such as, female bread-winners, unemployment as obstacles and problems. On the contrary, quite often they function as assets. Life experiences, including hardships suffered can be turned into important entrepreneurial qualities. For example, problems faced and overcome means that the person knows how to handle problems; it gives an inner strength. And all business owners know handling problems is a daily and major business issue. Being used to having little money to spend, makes people creative and most starting entrepreneurs find that the first 2-3 years are financially tight and requires a lot of creativity to make ends meet. Migrants use their knowledge of other cultures and habits to find profitable businesses niches. Many women are active in business services, of which many very successful, because of their comparative strengths in communication, organisation, training etc.

3. Organisational requirements

- Basically there are 3 phases: pre screening, appraisal and follow-up.
- In the pre-screening phase, staff screens the business plan on the application requirements. Ideally, there must be 2 paid staff members involved in this phase, who both must be positive about the application. In case one of the two is not positive or both have areas of doubt, a personal interview is advised, after which the decision for rejection or follow-up can be taken. In case, staff requires further information, this is requested from the applicant.
- In the appraisal phase, staff writes an appraisal document, which is basically a condensed version of the business plan according to a pre-defined format, in which questions for the application interview are listed and also including a recommendation. This appraisal document together with the original business plan and other relevant documents is the basis for appraisal. Ideally the appraisal is conducted by an independent commission or (advisory) board, which at Mama Cash is on a voluntary basis. Normally this commission consists of 5-6 experts, covering the fields of banking, business advise, gender/ethnicity, and target group representation. For normal applications, 2 of these commission or board members receive the application for review. If they are also positive the applicant is invited for an application interview, at which occasion the purpose is to get a general overview as well as insight into the listed questions. Following this interview, a decision is made: yes/no; and if yes, for how much (based on the plan) and for how long, and any additional conditions.
- In the follow-up or handling phase, the decision is communicated to the applicant the next day by phone, but also in writing (letter of intent). With this letter of intent, the applicant can request the bank to accept the guarantee for credit provision. The bank sends an official guarantee document, with which Mama Cash agrees to act as guarantor for a specific amount and periodic curtailment.

As a non-profit organisation we work in a commercial environment. Hence this requires from us a professional and business-like approach to our stakeholders. There must be a good balance between our social goal, stimulating female entrepreneurship, and our business goal, contributing to viable and successful businesses. Therefore, our work style must be service-orientated towards our clients, including short reviewing periods, flexibility, creative solutions. Assets normally associated with the profit sector.

Central to our appraisal is the person behind the plan. She is the one who has to pull it off. This means that non-financial aspects and considerations are very important. In cases where the plan is insufficiently worked out, we refer the entrepreneur to one of the starter centres for training / support. We concentrate on our financial function, because we do not need to duplicate the services provided by advisory / starter centres. Also we believe in strictly dividing the financial from the advisory function, this enhances our objectiveness and the quality of our work to the benefit of our clients. Hence our advisory role is limited mostly to referrals to organisations and centres, or as part of the pre-screening or appraisal interview.

4. Requirements in the external environment

- The existence of banks is, of course, the first requirement.
- It is important to know whether banks are accustomed to working with non-profit/private guarantors e.g. collateral providers.
- Each bank is different in their orientation to financing start-ups and specific target groups. It is important to have a certain insight into how bank policies work in practice. It is advised to invest in building up relationships with contact persons at bank head quarters or main regional centres.

Another issue is the risk factor. Banks avoid risk, Mama Cash takes risks. Banks thoroughly check every financial detail, and as a consequence many entrepreneurs experience contacts with the bank as interrogation interviews. We do not need to duplicate their work, and can therefore focus our capacity on the non-financial details, usually very much on the creative aspects of the entrepreneur. Annually 5-12% of the guarantees are claimed by banks. We would not be happy if this was zero, because that would have been we are too risk-avoiding. On the other hand if it were more than 15%, we would not be happy either, because this would have been the quality of our work is insufficient.

Advantages of the Guarantee Fund

A Guarantee Fund has some distinctive and powerful advantages:

- Mainstreaming credit provision: instead of a separate credit facility for women, it contributed to closing the gap between banks and female entrepreneurs. It directly increased the access to credits on the individual level. At the same time, banks had the opportunity to venture in a new important growth market at a reduced risk: female entrepreneurs.
- Access to banking practices and expertise: Being in frequent contact with bank accountant-managers, Mama Cash became to understand more and more how banks work, and it gradually paved the road for Mama Cash to use its guarantee instrument to influence banking practices towards female entrepreneurs on the short run, and banking policies on the intermediate term. At the same time, Mama Cash passes on this knowledge to its clientele in how to approach, present and deal with banks.

- A strong PR-strategy to enhance impact level: Mama Cash paid ample attention to its PR-strategy and became widely known and appreciated as an organisation that believed in the entrepreneurial qualities of women. As a result our influence stretches far beyond the realms of our individual clientele, but also contributes to influencing public, government and bank opinions on female entrepreneurship and its creditworthiness. Often we are asked as a guest speaker to or participate in seminars, conferences, congresses and interviews for newspaper and magazine articles.
- Making use of financial expertise of banks: while Mama Cash always applies its own appraisal methods for each and every business plan, we can also take advantage of the financial appraisal methods of banks. In that way, it functions as a good second opinion, providing of course, that the bank accountant managers in charge have an objective, unbiased image of female entrepreneurs. However, it also happens occasionally that the bank is positive, but that Mama Cash rejects the request.
- Increased financial capacity: we can support more women, as no money is actually transferred when a guarantee is completed. Rather a contract with the bank is signed, in which we bind ourselves that in the case the entrepreneur defaults because of bankruptcy or for other reasons is unable to comply with credit redemption; Mama Cash will pay the balance of the guarantee. Hence, we only have to have about 50% of the capital of all outstanding guarantees at hand.
- Reduced personnel capacity: Because the bank is responsible for day to day loan affairs, and specifically the repayments, this saves Mama Cash a lot of work, and as a result extra staff.
- Mama Cash does not offer extensive advisory services, as in the Netherlands there is an extensive network of different types of advisory organisations. In countries where such a network is not able, a Guarantee Fund can be combined with such a service to for example assist in the preparation of a business plans and to provide entrepreneurial training facilities. The advantage is that there is still a separation of advisory and loan services, which enhances objectivity.
- A Guarantee Fund has a strong potential catalytic function to stimulate government attention and policy change.
- A Guarantee Fund intervenes in a universal obstacle to business promotion and growth: financial access.

2.4. Micro-lending experience in the Czech Republic

Richard Neugebauer, National Association for the Development of Business

Institution providing support for start-ups
The most important institutions for start-ups and small businesses, providing training and/or financial support are the:

- Ministry of Industry and Trade of the Czech Republic
- Czech –Moravian Guarantee and Development Bank
- Regional Counselling and Information Centres
- Labour offices (Unemployment Offices)

In the early nineties private business development centres developed. They agreed to co-operate under the umbrella of the National Association for Development of Business, a special-interest association of regional counselling and information centres. 35 agencies are providing counselling services in the Czech Republic, covering 97.4% of the country. These Centres are the principal providers of small business and start-up training in the Czech Republic and are also a principal gateway for loans.

Service spectrum for small business and start-ups in 2002
The most important support activities comprise counselling and training activities, and the credit programmes are START, SMALL LOANS, CREDIT and MARKET. In my presentation I will focus on the project geared to start-ups including START and the linked educational project GROUND OF THE ENTERPRISE. Before, I will however briefly present a number of alternative funding and credit schemes for different target groups.

The scheme MARKET is to support the competitiveness of SMEs in trade. To this end it finances up to 50% of the costs for ISO certification for SMEs with a maximum of about 6.400 Euro. Under this scheme SMEs can also obtain a contribution to the interest of a banks loan for an ISO implementation.

The scheme CREDIT provided by the Czech – Moravian Guarantee and Development Bank[2] is an advantageous bank credit for small companies of a maximum of about 12.800 Euro (in selected regions about 25.600 Euro). To obtain the loan the owner of the company has to contribute at least 20% to the project with its own sources and at least 60% of the loan must be spent for investments. Loans must be repaid within6 year at an interest rate of currently 7%.

The SMALL LOANS scheme is run by the Business Development Agency – Regional Counselling and Information Centres and aims at small companies. The programme exists since six years and loan are provided on bank-like criteria (turnover, investment, etc). The maximum amount is about 32.000 Euro at 0% interest. At least 60% of the loan must be invested. The loan must be repaid in 4 years. Experience has shown that about 10% of the borrowers cannot or do not

[2] When created the Czech-Moravian Guarantee and development bank was owned 20% by the state and 20% by each of the four private Czech banks. The private banks all switched owners and are now held by Western banks.

want to repay. In this case, the Agency for business development lodges a complaint to the court.

There are micro-loans up to 1.600 Euros for unemployed which can be accessed through a simple procedure from the ministry of labour. The loan can be provided very fast, in some cases the loan is granted on a Friday and the borrower has the money on his account on Monday. In theory there are no limits for the usage, in practice every labour office has its own practices. Normally the purchase of a car, a PC is forbidden and certain sectors excluded from this scheme. In some regions certain minorities are targeted and there are also schemes for disabled. However, an unemployed will rarely go through this procedure as only few of them start their own business.

Finally there is GUARANTEE scheme which provides advantageous bank guarantees for bank credits, leasing, risk and developing capital and the participation in business tenders. The aim of the scheme is to facilitate business projects of SMEs in trade.

Also, as the Czech Krone has been stable over the last years a venture capital market is developing including seed and risk capital. Its impact remains to be seen.

Programmes for start-ups
For start-up companies in the Czech Republic there are principally four educational and loan schemes which are closely interlinked with one another, involving al key actors presented above.

The **CONSULTANCY** scheme targets founders. The programme considers those persons as founders, who have not been in business more than 12 months. The founders receive and initial consultation up to 3 lessons which are 100% reimbursed by the programme. In addition, the founders can use professional advisory services with a ceiling price of 500 CZK per lesson of which the programme reimburses 60 %.

The CONSULTANCY scheme can also be used by small companies. They can also make use of the professional consultancy services (max. 16 Euro per lesson), of which 40% are reimbursed by the programme. They can also apply for a training grant, where the programme pays 60% of the price of the training. The upper limit per company and year is 960 Euro.

A new Educational project GROUNDS OF ENTERPRISE was set up to train founders to increase the chances of survival of the created companies. The total costs of the educational project amount to around 226.000 Euro, of which 42% is paid by the labour offices, 35% by the CONSULTANCY scheme financed by the ministry of Industry and Trade. The participants pay in average 23% of the fee. It depends on the status of the participant. An unemployed pays 0%, a registered undertaker 40%.

The comprehensive training programme (see box below) is conducted by the Regional Counselling and Information Centres. From January to August 2002 566 persons participated in 72 courses. Each Regional Counselling and Information Centre ran three to four courses. 237 participants were financed by the Labour office and 329 by the CONSULTANCY programme. 378 business plans were recommended for implementation by the Regional Counselling and Information

centres. From the business plans recommended for implementation the majority (46%) belonged to the services sector, including business services, cafés, accommodation, cosmetic services, sports activities, etc. Also manufacturing and construction were well represented among the start-ups.

Training Programme (108 lessons):

Legal forms of business	2 lessons
Trade law, Commercial code, Working code	6 lessons
System of taxation	8 lessons
Accountancy	10 lessons
Social and health insurance	4 lessons
Financial sources and supports of small and medium establishments	2 lessons
Enterprise risk insurance	2 lessons
Marketing	4 lessons
Psychology in business practice	5 lessons
Structure of business aim	58 lessons
Use of PC	7 lessons

As a result of the training in the period from January to August 2002, 280 applications were passed to the Czech-Moravian Guarantee and Development Bank. Out of these 258 business plans were approved and a loan was granted. All 258 founders together received a total sum of 4,26 Mio. Euro.

Another potential source of loans for start-up companies is the new START programme, which has be running for about a year. It is a credit programme financed by the Czech Republic and the European Union targeting first time entrepreneurs. In principle the programme applies to the whole of the Czech territory however, not every business is supported. Every business has in Czech Republic a registration number in the Branch Classification of Economical Activities (BCEA). According this numbers selects the state the supported and not supported branch.

Basic admission criteria are that the founder is running his business for a maximum six month when applying to the scheme, the company meets the SME criteria and belongs to one of the sectors defined by the BCEA. The applicant also needs to have successfully completed the above described educational programme – GROUNDS OF ENTERPRISE and their business plan needs to be recommended for implementation by a Regional Counselling and Information Centre.

The successful candidate receives a loan of up to 16.000 Euro (commercial corporation 32.000 Euro) and 0% interest. At least 60% of the loan must be invested, which is difficult in some sectors where a large part on the credit is needed for the set-up, storage, etc. Repayment is made over a period of 6 years with an initial deferment of instalment by 9 – 12 months. There is no experience yet with repayment rates of participants. However, borrowers are personally liable for the credit.

Assessment and recommendation
In principle the director of each of the Regional Counselling and Information Centre (RCIC) bears the responsibility for the training programme performed by the organisation. In addition there is an assessment committee for every RCIC consisting of the representatives of the national association for development, the Labour office, the Trade office, and the Chamber of Trade and Commerce.

From past experience we suggest to closely monitor the recipient of credit with respect to:

a) The usage of the received credit with respect to the defined business plan
b) Physical control of existing assets. It means, the monitoring-bureau RCIC checks up, if the assets really exist and are owned by the credit-taker.

2.5. Proposed Micro-Credit/Peer Lending Scheme for business women in Wales

Tricia Wargent, Chwarae Teg

Chwarae Teg was set up in 1992 by a consortium of public sector agencies to support, develop and expand the role of women in the Welsh economy. 10 years have passed and Chwarae Teg is now recognised as a lead organisation in the field of women's economic development in Wales, the UK and in other parts of Europe. We work in partnership with a wide range of organisations in the public, private and voluntary sectors and our aims and objectives are delivered by means of a National Business Plan. This strategic plan has 4 key areas:

Strategic Plan
Employment (e.g. promotion of best employment practices including child and other dependent care, assisting with the implementation of equal opportunities in small and medium sized enterprises)

Education and Training (e.g. challenging stereotyping and the promotion of opportunities in non-traditional occupational sectors)

Public Policy (e.g. influence national public policy in relation to women's economic development and women's representation in decision-making processes, maintaining a strategic role in relation to European commission policy and directives)

And last, but not least!

Enterprise

Enterprise is an intrinsic element of our Strategic Plan and this is obviously the area on which I need to focus for the purpose of this particular workshop. Chwarae Teg has been involved with female entrepreneurs and with the expansion of self -employment opportunities for women in Wales since its inception in 1992. Many women find the option of self-employment an attractive one – as a way to gain financial independence and control over their lives whilst at the same time finding a job that will fit around family responsibilities. But they are still an under-represented group within the small business community. Whilst women constitute nearly half the workforce, they still only represent one quarter of all business owners in Wales. This proportion has not changed much since 1990. It is true that women are playing an increasingly important role in the small business sector, but their full potential as entrepreneurs in still not being realised, resulting in a waste of valuable human resources. Women have different, but complementary skills to bring to the development of small businesses. The motivations for starting a business are broadly the same for both men and women. However, many women do face additional barriers to those faced by men. I am sure that you are all familiar with these barriers. They include: -

Barriers
Domestic commitments (the need to juggle the demands of home and business)

Less business and management experience (women's employment tends to be in lower skilled, lower status occupations than men – thus in general they have less experience of working in a management and business situation)

Loss of confidence (women who have been out of the workforce for a long time often suffer from a loss of confidence or low self esteem)

Different types of business (women's businesses tend to be more service oriented, smaller in turnover, smaller number of employees, often part-time businesses and are not given the validity they deserve)

Feelings of isolation (more women than men run their business from home, so can feel isolated and out of touch. Can also feel isolated within the business world, which is still dominated by men)

Lack of credibility (customers and suppliers often don't expect a woman to be in charge of a business)

Lack of role models (compared to men there are fewer women in key positions within business, women need role models to inspire and motivate them to greater heights)

Transport / mobility problems (transport problems, particularly in rural areas, may not have access to a car or access to a public transport system)

Lack of awareness of self-employment as a career option

Mainstream business support services (do not always allow for difference and this can lead to unequal treatment)

And again, last but not least!

Finance

Access to finance remains a key barrier in business start-up and growth for women. Because of broken working lives, women's asset ownership and income levels are lower than men, and this works against them in computer based loan assessment, which most Banks use, based on those asset and income levels.

Women set up different types of businesses – service sector predominately – which are often quite difficult for bankers and commercial lenders to understand. Additionally, a large number of women's businesses are part-time and again commercial lenders sometimes do not take part-time businesses seriously.

Many studies have identified evidence of patronising attitudes from commercial lenders to some women e.g. a woman called Lesley Quirk who founded Quirk and Company, a business management consultancy, in 1985 believes that attitudes towards female entrepreneurs have not changed much since she started in business, though she feels this is not a conscious prejudice. She still remembers the day she visited the Bank to arrange finance for her business. She was invited to sit down while the middle-aged manager remained standing, looking

questioningly at the open door. After a few moments he asked her 'Is your husband still in the car dear?' Needless to say she took her business elsewhere. I have heard many similar stories to this; 17 years on from that incident, women are still reporting that they are encountering such difficulties. I am sure you can all tell your own tales too!

Eleanor Shaw, a co-author of the report, Unequal Entrepreneurs: Why Female Enterprise is an Uphill Struggle, says that when women look for finance to start up or expand a business, a subtle form of sexual stereotyping comes into play. She says 'Women are seen by financial institutions as running a business as a lifestyle choice – a hobby more than a serious proposition'.

Women themselves tend to be cautious and request smaller loans than men and do not use financial institutions readily. They have a natural cautiousness – women tend to exercise greater restraint in the amount of finance they need to get a venture off the ground and will often start comparable businesses on a lower budget than their male counterparts. Research shows that personal savings account for 80% - 90% of the initial capital when women establish a business, compared with 30% - 59% of capital stumped up by men. This is also the case when women want to expand a business. Women will often ask family or friends for a loan rather than approach a Bank. They seem to have a dislike of and a reluctance to use Banks.

Micro-credit or Peer lending schemes are one way forward. They are of benefit to both women and to Banks alike.

Women have access to appropriate finance, together with personal and financial training as well as support from their peers.

Banks receive financially literate women, receive women with a credit history as well as new business, as the women have to open a Bank Account for the lending scheme if they haven't already got one.

Other models

There are many successful peer lending or micro credit schemes already in existence. One notable scheme is the Grameen Bank, in Bangladesh, which since the 1970's has given small loans totalling billions of dollars to women to help them start farming or hand craft businesses. England and Scotland boast their own successful schemes and it is through personal contact with a scheme in Norwich called 'Full Circle' set up by Women's Employment Enterprise and Training Unit (WEETU) and a scheme in Glasgow set up by Wellpark , together with their enthusiasm and their encouragement, that we have decided to set up a pilot scheme in Wales.

Chwarae Teg has won monies from the European Regional Development Fund and from the Welsh Development Agency to manage a project called 'Women's Enterprise Wales' and also act as the lead body for lone parents in another similarly funded project called 'Potentia'. Both projects have been designed to provide pre-start up training and support for under-represented groups in enterprise. The pilot peer lending scheme will complement these 2 new projects.

So what is peer lending and how will it work in Wales?

For our purposes, it is a group lending programme set up to provide small, flexible loans for women. In Wales, the scheme will be closely linked to the scheme in Norwich. Erika Watson was the driving force behind the very successful scheme in Norwich. In the early days she struggled to get it up and running and she recalls that 'the idea of giving loans to people who have no security, no income, no assets, and often poor or no credit histories, without asking for security or doing credit checks seemed a foolish, almost laughable venture to all potential funders'. However, Erika did succeed in her attempts and we are now using her scheme as a template for our own. We have managed to secure some financial backing for the pilot scheme from Finance Wales and from the Welsh Development Agency. Chwarae Teg will input some of its own money and I need to secure other funding before the project can begin. The pilot will last for 2 years (April 2003 until April 2005) and 2 schemes will be set up initially, one in a rural area and one in an urban area. We are suggesting that access to the scheme be limited to women, who either want to set up in business or who have been in business for less than 18 months - a fledgling business. At the18 month point women would be encouraged to use mainstream financial institutions.

Any woman participating in the scheme will be required to attend training once a week for 6 months. The meetings will be facilitated by a micro-credit adviser, who can help with the identification of individual and group training needs. The training will encompass personal development training e.g. assertiveness training, time management, anti-stress techniques as well as financial training. Visiting speakers, including accountants and lawyers, will give thorough briefings in business skills. At the 6 month point, women will then be encouraged to form small mutually supportive groups with approximately 4 - 6 members, who meet regularly to discuss their business development. The role of the group is mutual development and support. Groups will have autonomy to make decisions on policies, procedures, lending guidelines repayment schedules – with support from staff - and are responsible for loan assessment and monitoring repayments. The women in the group will now be eligible to take out a loan.

Process

Step 1 A woman completes a business plan, a loan application and presents her case to the lending circle – to her peers.

Step 2 The members of the peer lending circle discuss the application and approve or refuse the loan. If the loan is refused, a full explanation of the reasons is given and the women then work collaboratively to improve the business plan, in order that it can be re-presented and hopefully approved.

Step 3 If approved, all the information is sent to a loan committee, which will meet monthly. Another presentation may be required. The loan committee then rubber stamp the approval or send it back and ask for amendments. They cannot refuse a loan that has been approved by the peer lending circle, but can ask for amendments.

Step 4 Payment should then be received within a few days of the final approval.

We envisage that the first loan will be anything from £250 to £2000 and when that is repaid, they can request loans of £2000 - £5000 at an interest rate of 2% above the bank base rate. The Norwich scheme, on which ours will be modelled,

reports a 99% repayment rate. It does bear out the sentiment that women are the least likely to get credit, but the most likely to repay! We shall be delighted if we can achieve a similarly high repayment rate and there is no reason to suspect that we won't.

Advisers will be actively encouraging women to move onto mainstream financial institutions as soon as they are ready, in order to release places for other businesswomen requiring assistance.

We are hopeful that a successful pilot scheme will enable us to extend the scheme to the whole of Wales.

2.6. Enigma Siebte Säule Microlending

Dr. Thomas Panzer and Stefan Spieker, Enigma

Enigma is an organisation that supports unemployed people that want to become self-employed. During the last three years, Enigma has helped about 250 people to set up their own business. One experience the organisation has made was that their clients had major difficulties to obtain credits from banks. In consequence, Enigma set up two years ago a micro-lending organisation called Siebte Säule.

Enigma Microlending Products

Enigma Siebte Säule offers two products: Kredit One is a pure individual loan and Kredit Peer is an individual loan with some peer lending components. Both products are step loans with annuity repayment method. Loan duration is four to twelve month. After full repayment there is an opportunity for a new and larger loan. Steps are defined with the following maximum amounts: 1.Step: 3.500, 2.step:6.000, 3.Step: 9.000 and 4. and following steps 9.000 Euros.

Condition for access is a free cash flow – the size of the loan is limited to a monthly repayment rate of 75% of the monthly free cash flow.

While Kredit One is with 10% interest rate more expensive than Kredit Peer (7%) it also asks for a different type of collateral: you need two guarantors each guaranteeing for 50% of the loan. In Kredit Peer the Peer group guarantees for repayment through a group internal instrument funds in which each of the group members pay 10% of the credit amount he/she received. The internal fund works like a contingency reserve. To reach the next step for a new loan the internal fund must be refilled.

Criteria for credit worthiness evaluation are the entrepreneur himself, the cash flow situation, the company and the market strength. The cash-flow evaluation demonstrates that no business plan starters but starters beyond the planning phase are targeted. A three-month practical experience period is judged to be sufficient, which corresponds to the Enigma incubator start-ups.

By now Enigma has two years experience with micro-lending scheme. Over 240 credit applications have been evaluated and about 100 micro-credits have been allocated.

Obstacles faced and solutions found

One critical factor for the micro-lending project was that each source of funding passed on its own regulations to the project. The funding from the office of employment means that credit can only be given to unemployed people. The funding from Deutsche Bank foundation limits the target group to people of under 30 years of age. Without funding from other sources, the target group would be restricted to unemployed people under 30 years. This is too limited and does not include the typical micro lending client, existing micro businesses.

Another obstacle was caused by the German banking regulation, which would have required Enigma to set up its own bank or to find another bank that would do all the credit handling. It was decided to try to find a bank partner. Much time was used to convince local actors with a social reputation. However, this led to nothing. Biggest problem was the innovative loan product and co-operation in

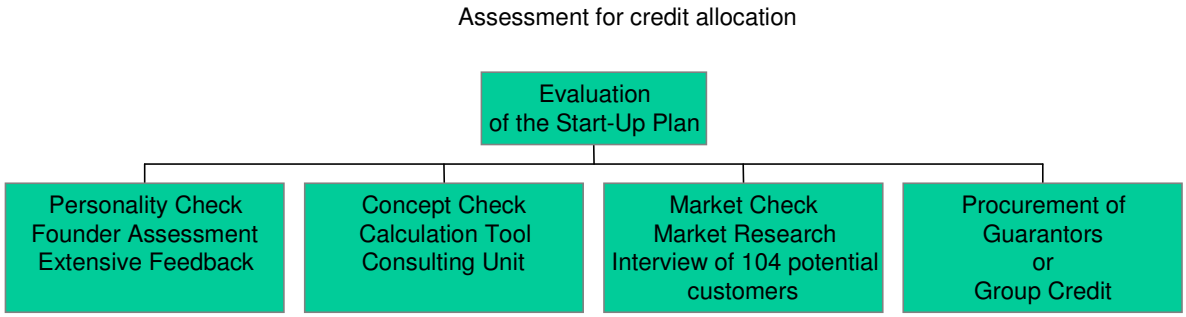
credit procedure. A very different strategy now seems to work: one of the largest private finance houses specialised on instalment credit for shopping is interested. For them a step loan methodology is not new – it looked logic to them and they were happy to support a methodology with lending on cash-flow and a tough but fair repayment policy implemented by the micro-lender himself on the basis of data analysis of the bank. Currently intensive negotiations with the bank are finished. The bank will do all the credit handling after a credit decision has been taken by Enigma Siebte Säule. It remains to be seen how the co-operation between the commercial bank and the non-profit micro-lending organisation will work in practice.

In addition there is now competitive pressure from new credit programs with very good conditions sponsored by business authorities.

Consequences
Micro credit offers should be adjusted to fit the existing competitive conditions offered by official subsidized funds - without losing the significant "educational" methodology, i.e.

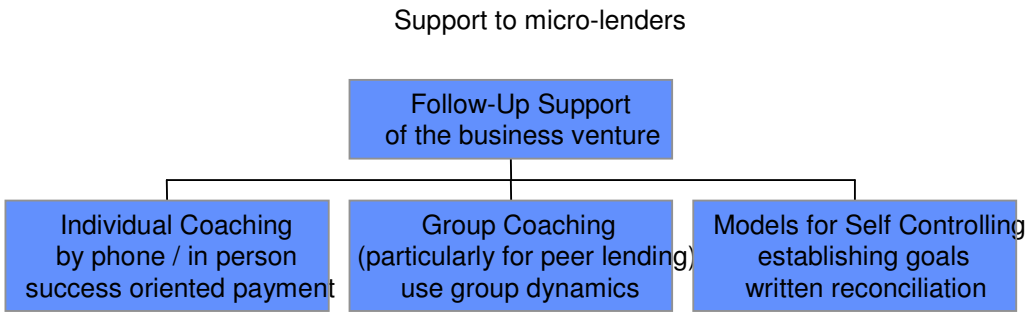
- Easy availability of the credits, without large formal hurdles, simple allocation of group credits for groups of between 3 and 5 separate start-ups
- Increase of a mutual collateral portion in relation to an advantageous interest rate in order to keep the offer attractive, but to also shelter reciprocate support beginnings
- Close coupling with consulting approaches (market research, personality, concept) in order to be able to offer additional consulting assets and, at the same time, increase the security of credit allocation.

When allocation a credit the personally, the business plan, the marketing plan are checked in an assessment centre (three days). Also the procurement of guarantors is verified. In addition use of group dynamic processes should be made when credits are allocated.



Essential is the combination of credit and follow-up programs (see diagram below). Extensive contact with founders from the centres which participate in the credit programs need to be extended and developed. When participating in the credit programme "compulsory coaching" with real contact to the coach is a

precondition, which, in addition, is paid by 7. Säule according to the success level reached. At the end of the process the participating entrepreneur should be bankable.



Conclusions

Micro-lending is an outstanding instrument for connecting different consulting goals, e.g. approaches for self-controlling of smallest start-ups, network approaches as well as the possibility of rewarding the advisor based upon his/her success. Furthermore, micro-lending represents a good marketing approach (on the basis of a shortage of credits for business founders).

Micro-lending makes it possible to pay coaches according to their success, which means a different basis for their commitment.

2.7. Financing for Business Start-Ups. The EXZEPT approach

Brigitte Maas / Falk Zientz, GLS Gemeinschaftsbank eG

This presentation is to explain what the German Equal development partnership EXZEPT plans to do with respect to financing start-up companies in the coming three years. Before I go into details I will briefly present you the GLS Gemeinschaftsbank eG, the partner responsible for this activity within the EXZEPT project.

The GLS Gemeinschaftsbank eG was founded in 1974. Its head quarter is in Bochum with branch offices in Stuttgart, Freiburg, Frankfurt and Hamburg. As the oldest and largest ethical/ ecological financing institute in the German speaking area, it is financing social and ecological projects. Approx. 11,000 members make their cooperative capital available at no interest. Since two and a half years the GLS bank has been active in the development of small credit funds.

Financing for Business Start-Ups - Initial Conditions:
In the German speaking area access to small start and growth loans is, as ever, very difficult. High fixed costs of banks for credit inspections, administration, support services would necessitate enormous interest rates for small credits of short duration in order to cover costs. Also, German banks have only little experience in advising and evaluating disadvantaged founders' business plans.

The Equal project EXZEPT aims to overcome these structural barriers. To this end if has developed a "one stop shop" concept which is to insure access to all resources for disadvantaged founders via individual founder initiatives, including start-up capital. In this context, micro-lending is to be seen as an instrument between bank business and social/labour market policies, for which new paths for collaboration between banks and business start-up initiatives are to be sought.

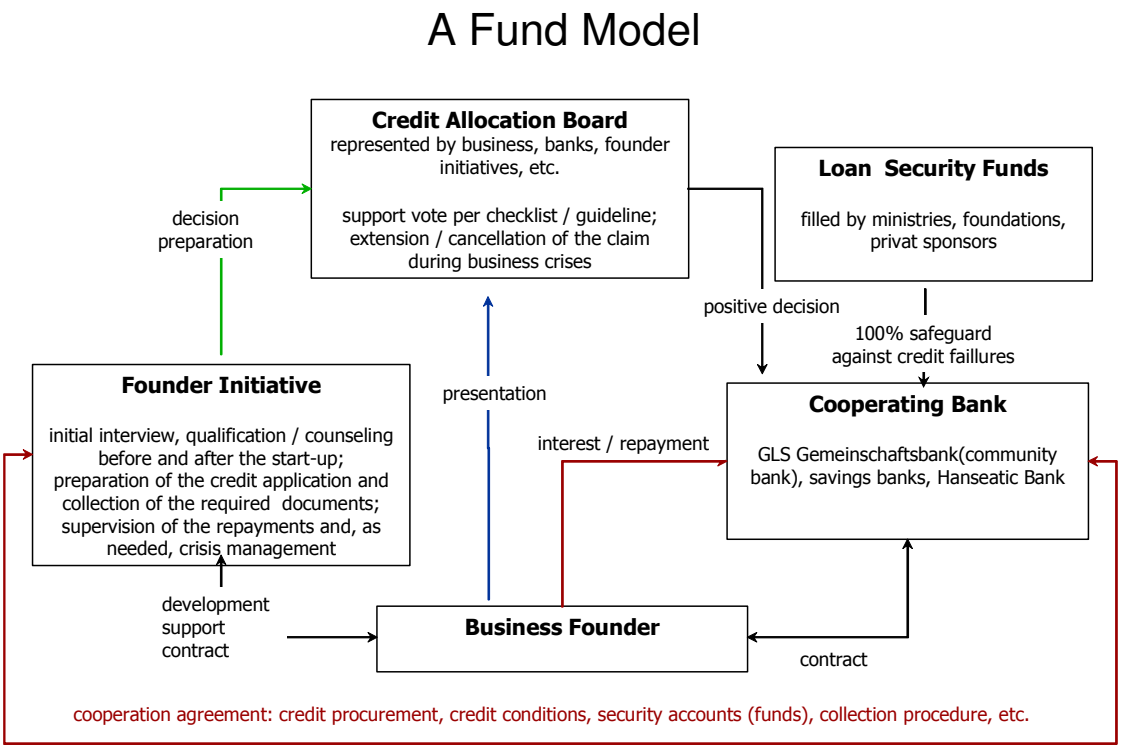
Financing for Business Start-Ups - Intentions:
From the bank's viewpoint there are a number of preconditions to be fulfilled for low cost credit allocation models:

- Founder initiatives need to supply significant contributions to the processing of the credit transactions
- Banks provide the legal framework and ensure the – to a large extent - automated administration.

The aim of EXZEPT activities with respect financing of business start-ups is to develop, implement and distribute models, with which founders can be provided with small yet cost covering credits via close cooperation between start-up initiatives and banks.

Integral elements of credit allocation models are standardized evaluation methods for small and smallest business start-ups, a uniform, bank-approved preparation of the credit documents and a shielding of credit risks. In addition, follow-up support and target group specific control mechanisms are required.

The picture below depicts a model for a process of accreditation and administration of loans for start-ups from disadvantaged groups. This model is based on the co-operation between the founder initiative and a bank. The founder is supported by the founder initiative to develop a business plan which he/she then presents to a credit allocation board, composed of representative from banks, business, founder initiatives, etc. In the credit allocation board complementary competences will be represented trying to achieve a consensus based decision. If the credit allocation board takes a positive decision, the bank provides the loan. A loan security fund secures the loan 100% against credit failures.



Financing for Business Start-Ups - Tasks:
In order to achieve the defined task, EXZEPT is to evaluate existing best practice models. These models are then demonstrated at banks (statement: via cooperation with founder initiatives, small credits which cover their costs can be provided). Regional work groups with banks, public offices and founder initiatives including present and future EQUAL partners will be established. Existing founder initiatives will be advised and accompanied. The process is evaluated and optimized, which leads to the definition of new models. These new models are then mainstreamed by dissemination to founder initiatives, banks, political actors, etc.). The results will provide input for EXZEPT activities aiming to change the legal and institutional environment for founders of disadvantages groups.

3.Annex I: Agenda of the workshop

Micro-lending Workshop

11 October 2002

Offenbach, Rathaus, Saal 1, Berliner Str. 100

10:00-10:10 Welcome (Dr. Bernd Curtius, EXZEPT)

10:10-10:45 Status Micro-lending in the EU and in Germany
(Dr. Alexander Kritikos, University Viadria Frankfurt/Oder)

10:45-11:15 Micro-lending experience with a specific target group in the Netherlands (Tendayi Matimba, Mama Cash; Marilou Keller, Stew)

11:15-11:30 Coffee break

11:30-12:00 Micro-lending schemes in the Czech Republic (Richard Neugebauer)

12:00-12:30 Proposed Micro-Credit/Peer Lending Scheme for business women in Wales
(Tricia Wargent, Chwarae Teg)

12:30-13:45 Lunch buffet

13:45-14:15 Plans and milestones of the EXZEPT project with respect to micro-lending (Brigitte Maas, GLS-Bank / Stefan Spieker, Enigma)

14:15-14:45 Questions and discussion (Moderation: Sylvie Feindt)

14:45-15:00 Conclusion and further activities (Dr. Alexander Kritikos)

End of the Workshop

Termination with coffee and cake

4.Annex II: List of participants

1	Akhtar	Rubina		WDA	Cyfenter
2	Angove	Marilia		University of Glamorgan	Cyfenter
3	Blazickova	Jolana		Trexima Zlin	TWaEn
4	Bloss	Jochen		KIZ ZFE AG	EXZEPT
5	Cherrat	E.G.		Counsellor	Flevoland
6	Crisp	Wendy		Menter a Busnes	Cyfenter
7	Curtius	Bernd	Dr.	EXZEPT GmbH	EXZEPT
8	Feindt	Jochen		KIZ ZfE AG	EXZEPT
9	Feindt	Sylvie		SFC	EXZEPT
10	Gasper	Nancy		KIZ ZfE AG	EXZEPT
11	Kavan	Lubos		Trexima Zlin	TWaEn
12	Keller	Marilou		STEW	Flevoland
13	Kidwai	Saleem		EBSP	Cyfenter
14	Kritikos	Alexander	Dr.	Europa-Universität Viadrina	EXZEPT
15	Lang	Ulrich		E.U.L.E	EXZEPT
16	Maas	Brigitte		GLS Gemeinschaftsbank eG	EXZEPT
17	Manley	Paula		WDA	Cyfenter
18	Matimba	Tendayi		Mama Cash	Flevoland
19	Neugebauer	Richard		National Association for Development of Business	TWaEn
20	Panzer	Thomas	Dr.	Enigma Gründerwerft	EXZEPT
21	Pels	Bob		Province of Flevoland	Flevoland
22	Planz	Katrin		Dolmetscher	EXZEPT
23	Rapstok	Koen		StartersServiceCentrum Almere	Flevoland
24	Reiß	Michael		E.U.L.E. Mainz	EXZEPT
25	Rissler	Dagmar		Enigma Gründerwerft	EXZEPT
26	Schulze-Böing	Matthias	Dr.	Stadt Offenbach	EXZEPT
27	Thomas	Alison		Prince's Trust	Cyfenter
28	Tomos	Heledd		Menter a Busnes	Cyfenter
29	Van der Velde	Wiebe		Gemeente Almere, Dienst Stedelijke Ontwikkeling Afdeling Economische Zaken	Flevoland
30	Van Oostrum	Cees		Afd. Sociale Zaken Gemeente Noordoostpolder	Flevoland
31	Waldron	Anna		WDA	Cyfenter
32	Wargent	Tricia		Chwarae Teg	Cyfenter
33	Weidner	Markus		KIZ ZfE AG	EXZEPT
34	Williemsen	Bart		Regionaal Arbeidsmarkt Platform Flevoland	Flevoland
35	Willox	Ian		WDA	Cyfenter
36	Yasmin	Rehana		Prince's Trust	Cyfenter
37	Zwart	Jeroen		Advisor Economic Affairs	Flevoland