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Female Entrepreneurs in Microfinance

- A field Study to Serbia and Montenegro



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Abstract

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With a special emphasize on female entrepreneurs, this Master Thesis evaluates the access to credit for poor female entrepreneurs in Serbia and Montenegro. Secondly, it evaluates if targeting women in microfinance will enhance the empowerment of women as well as economic development. Further, it examines if the today present microfinance organisations in the region can fulfil the possible gaps in the access to credit for female entrepreneurs.

The access to credit is a lot more problematic for the female entrepreneurs in Serbia and in Montenegro. It has been found that there are several advantages related to involving women in microfinance, economic as well as social. The need for microfinance is probably larger among female entrepreneurs than among male ones. Thus there is a need to target female entrepreneurs. The present microfinance institutions in the area are too few to be able to cover the total need. Thus there is a need of an expansion of the microfinance market, as well as an increased focus on female clients. However, there are indications that microfinance alone would not be sufficient in addressing the various obstacles facing female entrepreneurs. Additional training and consciousness-raising activities are also needed in order to empower women. Improvements of female entrepreneurs' circumstances are of importance, not only from the women's view, but from a societal view. However, the empowerment of women does not have to be justified in terms of economic benefits or anything else because equality in terms of gender is desirable in itself.

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Last but not least, I would like to express my deepest gratitude to the female entrepreneurs I met with, to whom I dedicate this essay. It is my humble hope that this study can be used in some way to improve the state of affairs for them.

Anna Arwidsson, 17th of August, 2006

“It is more difficult, for female entrepreneurs that is for sure, first to start up a business, to reach market, to get financial resources, and all that just because they do not feel secure due to the fact that still most of the properties are signed on the husbands or fathers or other male members of the family and that is still a problem in Serbia,....., they (Serbian women) are real fighters, they don’t have much of conditions, they are trying to cope with the situation, and are ready to fight for their own existence.”

Dragana Kljajic, 2006-06-16, Financial Consulting Manager, Serbian Agency for Small and Medium-sized Enterprises and Entrepreneurship, Belgrade, Serbia.

“Microfinance would of course be a way of empowering women both in the family and in the community.”

Jelena Marjanovic, 2006-06-15, Project coordinator for improving the position of women in the labour market, Gender Equality Council, Government of the Republic of Serbia, Belgrade, Serbia.

“Microfinance is much more than simply an income generation tool. By directly empowering poor people, particularly women, it has become one of the key driving mechanisms towards meeting the Millennium Development Goals, specifically the overarching target of halving extreme poverty and hunger by 2015.”

Mark Malloch Brown Administrator of the United Nations Development Programme (UNDP) (<http://www.unCDF.org/english/microfinance/>, 2006-06-30).

"Sustainable access to microfinance helps alleviate poverty by generating income, creating jobs, allowing children to go to school, enabling families to obtain health care, and empowering people to make the choices that best serve their needs. Together, we can and must build inclusive financial sectors that help people improve their lives."

Kofi Annan, UN Secretary-General (<http://www.unCDF.org/english/microfinance/>, 2006-06-30).

List of Abbreviations

CAFAO	European Union Customs and Fiscal Assistance Office
CIDA	Canadian International Development Agency
CRL	Luxembourg Red Cross
CWS	Church World Service
Danida	Danish International Development Assistance
DRC	Danish Refugee Council
EAR	European Agency for Reconstruction
EBRD	European Bank for Reconstruction and Development
EU	European Union
EP	The European Perspectives
FRY	Federal Republic of Yugoslavia
IDP	Internally displaced persons
GDP	Gross Domestic Product
HD	Human Development
HDI	Human Development Index
HDR	Human Development Report (UNDP)
ICRC	International Rescue Committee of the Red Cross
IRC	International Rescue Committee
IFC	International Finance Corporation (World Bank Group)
JDC	American-Jewish Joint Distribution Committee
KfW	Kreditanstalt für Wiederaufbau
LFP	Labour force participation
MF	Microfinance
MFI	Microfinance institution
OI	Opportunity International
OIS	Opportunity International Savings Bank
NATO	North Atlantic Treaty Organisation
RNE	Royal Netherlands Embassy
SDC	Swiss Agency for Development and Cooperation
SIDA	Swedish International Development Cooperation Agency
SME	Small and Medium Scale Enterprises
UN	United Nation
UNHCR	United Nations High Commissioner for Refugees
UNDP	United Nations Development Program
UNCDF	United Nations Capital Development Fund
WVI	World Vision International

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1. Introduction

Arguments concerning the importance of empowering women are fairly often put forward on the development agenda of today. The importance of, and the impacts derived from, empowering women in the family and in the community is to some extent recognized in the development debate. What is put forward is also how women, generally, have less access to and control over economic resources. There are studies (see for instance Duflos, 2005, Lundberg and Pollak, 1996), indicating that who is the holder of a family income matters when it comes to the consumption patterns. Generally, it has been shown that women are more concerned about the nutrition, health and educational standard of the children. Thus, when women control the economic resources, the investments in human capital will increase. Indications like these, indicate that there is an intergenerational aspect of this, where women holding economic assets may improve the living conditions for future generations. Thus, the study of women's access to financial resources should therefore be of significant importance for many academic disciplines, such as economics, as well as other kinds of research institutions. Yet, the main reason for these kinds of studies should be because the empowerment of women is of great importance for women themselves, in social as well as economical aspects of their lives.

The overall objective of this study is to analyse and discuss *the need of microfinance for poor female entrepreneurs in The Republic of Serbia and in The Republic of Montenegro*¹. Further this thesis analyses *if female entrepreneurs are faced with additional difficulties* relative to male entrepreneurs, and *if microfinance directed to female entrepreneurs could be one way of easing these problems*. The thesis evaluates *if microfinance can enhance the empowerment of women*. Microfinance organisations around the world generally target women² and the thesis also examines the extent to which the today present microfinance organisations in Serbia and Montenegro *do put emphasis on female borrowers*³ and *if they can fulfil the possible gaps in the access to credit for female entrepreneurs*.

¹ From here on, when I refer to The Republic of Serbia and The Republic of Montenegro I will use just Serbia and Montenegro.

² This is done since it is argued that women invest the money in goods and services that improve the well-being of families, goods that are important for development (Duflos, 2005, p. 11).

³ Something which does not to a great extent seem to be happening in Serbia and in Montenegro (Francis, Jonathan, 2006-05-08, Adviser, Private Sector Development Division for South Eastern Europe, Department for Europe, Sida).

The major motive for choosing two countries in transition-Serbia and Montenegro-derives from an interest in how microfinance can be used in countries in transition, the financial markets of which are (assumed to be) more developed than those of developing countries, but still not yet fully developed. The second reason for choosing the countries in question was the forthcoming independence of the two provinces. During the process of this thesis the Republic of Serbia and Montenegro will become two independent states The Republic of Serbia and The Republic of Montenegro.

The necessity to include gender awareness into development investments was identified in the 1980:s when development researchers began to understand that supposing a country to develop with the female half of its population powerless was like *“asking someone to work with one arm and one leg tied behind their back”* (Ostergaard, 1992: xii).

The field study was conducted in June 2006. In order to be able to go into depth with the questions raised in this master thesis, the limitations in time and space have imposed a choice to put emphasize on Serbia, while the results from the study on Montenegro will constitute a short comparative case analysis. The MFIs that was interviewed on the field are AgroInvest, MicroFinS, Opportunity International Savings Bank (Serbia), Opportunity Bank Montenegro, and AgroInvest (Montenegro). Besides these MFIs there are ProCredit Bank, The Micro Development Fund (Serbia) and Alter Modus (Montenegro). The selection did not have a specific purpose, but was rather a consequence of which micro finance institutions that replied. In the analysis, the MFI that were interviewed during the field study will be analysed more in depth than the other ones. The deeper analyses will only be made on those I met with on the field. The other MFIs will be briefly discussed.

The questions drawn out in this introduction, will in the case study on Serbia, be complemented with a short analysis of the effects of the absence of a legal framework for microfinance in Serbia. The results from the study would have been seriously lacking without this discussion. Further, the comparison with Montenegro, which does have a legal framework for microfinance, would otherwise have been misleading.

1.2 Purpose

With a special emphasize on female entrepreneurs, the purpose of this Master Thesis is to evaluate the access to credit for poor female entrepreneurs in Serbia and Montenegro. Secondly, to evaluate if focusing on women in microfinance will enhance empowerment of women as well as economic development. Further, it examines if the today present microfinance organisations in the region can fulfil the possible gaps in the access to credit for female entrepreneurs.

1.3 Delimitations

This thesis concerns microfinance, which generally includes micro credit, micro savings and micro insurance. However, in the Serbian and in the Montenegrin contexts microfinance means micro credit. In Serbia and in Montenegro the legal frameworks limit the possibility for microfinance institutions to deal with savings because only fully licensed banks are allowed to deal with savings. Since the focus of this study is female entrepreneurs' access to capital, micro insurance has also been excluded in this thesis. As indicated earlier, the focus of this study will be on Serbia, while Montenegro will serve as a short comparative case.

1.4 Methodology and data

This study has been conducted through four different stages where the first stage represents a practical part where contact with microfinance institutions in Serbia and Montenegro was established. The second stage was a review of the appropriate literature on theories and empirics regarding microfinance and microfinance organisations in Serbia and Montenegro, which were used in order to formulate the questions for my empirical studies. The following stage consisted of my field study. This stage was followed by the final part which represents the analysis of my empirical data in conjunction with the theoretical framework developed in the second stage.

The material used in the study is a combination of theoretical and empirical material collected both prior to the field study and during the field study. The interviews⁴ conducted in Serbia and Montenegro had mainly the character of structured interviews and will be presented in chapter five. To further capture the different situations in Serbia and Montenegro national reports have been used. The analysis of how well the MFIs meet the needs of female entrepreneurs in the last part of the analytical chapter is based on reports from the MFIs and rating institutions, and interviews with people working in the MFIs and local as well as international organisations.

1.5 Plan of the Study

Chapter one is a introductory chapter, which will be followed by *Chapter two* which is a background chapter concerning the importance of entrepreneurs in transition economies and the importance of including gender in development programs. In order to understand the complexity of financial markets in transition countries, a theoretical framework based on previous work on the subject has been created and will be presented in *chapter three*. Where adequate theories on transition countries have been lacking, relevant theories on developing countries have been used. This chapter will comprise literature in economics regarding the need of microfinance. *Chapter four* concerns the role microfinance can play in improving female entrepreneurs' access to credit and how microfinance can enhance the empowerment of women. In order to grasp the various aspects of this, a theoretical framework will be developed. In the analytical *chapter five*, the theoretical and empirical parts of this thesis will be put together through the analysis. This chapter will, in conjunction with the theoretical and empirical material, present the interviews which have been conducted during the field study. This chapter also comprises the comparative case of Montenegro. *Chapter six* is the concluding chapter, which comprises summary and concluding remarks.

In appendix one a presentation of *Serbia and Montenegro in numbers* will be found. A *Summary of the historical, political and economic context* of Serbia and Montenegro is found in appendix two. *Definitions* of microfinance and related terms will be found in

⁴ Interview guides and interviews are available from the author on request.

appendix three. *Information regarding the different MFIs* in Serbia and in Montenegro will be found in appendix four and five respectively.

2. Background

2.1 The central role of entrepreneurs in transition economies

In one important respect all the transition economies, from the former Soviet Union and Central and Eastern Europe to China and Vietnam, were similar. Large firms, which produced few goods, had dominated their economies and small and medium scale companies were rare. When new reforms created flexibilities in prices, wages and production decisions, the imbalance created in the plan economy era opened up great opportunities for small and medium scale enterprises to make profits (McMillan et al., 2003, p. 106).

In transition economies entrepreneurs play an important role. In order to transform a former communist country and to get a private sector there is, according to McMillan (2003), two main ways to go. The first one is to transform the country's existing state owned companies into privatized ones and the second is to create new firms. The first way is the one which has been most often emphasized in transition countries. For those who have spent their whole lives under state planning it is for many reasons obvious that many did not foresee the importance of creating new firms (McMillan et al., 2003, p. 105). Entrepreneurs do play an important role in transition economies, not least since they can act as reformers too. Much of the task of developing new ways of doing businesses in the transition economies have been done by entrepreneurs. And their importance can be seen as a reminder that in order to achieve economic transition not only political actions, such as policies or rules, have to be set (McMillan et al., 2003, p. 119).

Small and medium size enterprises (SMEs) play an important role in developing and transition economies in achieving economic growth and poverty reduction. However, SMEs face a number of disadvantages as compared to larger companies. Underdeveloped financial markets and legal systems are of special importance, but also other kinds of market failures hinder the SMEs to develop (Weder, 2003, p. 215).

2.2 The importance of a good investment climate for countries in transition

A good investment climate is important because it attracts investments, which in turn leads to economic development. Microfinance (MF) is one way of creating a better investment climate for small entrepreneurs. Thus, MF may be an important tool in decreasing poverty among the people of a country. A better investment climate enhances economic growth, which is closely related to poverty reduction. Through different channels a better investment climate improves the quality of life. One of those channels is that it increases the chances of getting a job and to earn an income, which is one of the most successful ways out of poverty. Moreover, when the chances of finding employment increases, the incentives for investments in education and health are also enhanced, which increases human development even further (World Development Report 2005: A better investment climate for everyone, p. 13)?

While microfinance programs mainly have been funded by donors and governments, efforts are now shifting towards promoting commercial microfinance institutes. This is commonly being done by removing regulatory obstacles, supporting credit information agencies, and making sure that non-commercial entities do not weaken market development (World Development Report 2005: A Better Investment Climate For Everyone, p. 164).

2.3 Gender in development

In nearly every society, differences in earnings constitute an important part of gender inequality⁵. Although: there are other important fields where gender differences exist such as differences in capabilities⁶. Those could be things like being able to read and write, avoiding malnutrition, being free to follow independent careers or being in a position of leadership. These differences often derive from the intra-family division of freedom of choice, labour, care or education received. In order to examine the intra-family division, one has to go beyond assuming that the total income is split fairly between the family members. The division can be unequal, especially if variations in needs are considered (Sen, 1992, p. 122).

⁵ For a definition of gender equality, see appendix 3.

⁶ For further reading on differences in capabilities according to Sen, see for instance Sen (1992).

Ostergaard (1992) defines the term 'gender' as the qualitative characters of men's and women's positions in a society. Further, the division of gender is not biologically determined, but rather is it a product of the gender relations that are produced and reproduced by the cultural, religious and ideological systems in a society. In short, the concept of gender makes it possible to make a distinction between the biologically founded sexual differences between women and men from the culturally determined differences. Sexes are fixed whereas genders are not and are therefore possible to change by political and opinion shaping policies (Ostergaard, 1992, p. xi).

Women have, in general, less access to credit than men (Phillip et al, 2005, p. 181). It has been shown that formal-sector commercial banks have a tendency to favour male headed businesses. This can be mainly due to the fact that banks favour large firms, which in general are run by men. Further, men in general control the assets which banks usually look for as security for loans (Phillip et al, 2005, p. 181). Thus, women have, generally, less control over the family's economic resources. Further, women have lower status compared to that of their husbands in such a way that a greater share of decision-making and authority goes to men (Ostergaard, 1992, p. xi).

According to Duflos (2005), the fact that women generally have fewer opportunities on the labour market may contribute to their unequal treatment in the household. If women do not work on the labour market, the incentives to invest in the health and education of girls and women may be lower than for boys and men. If the possibilities to find employment on the labour market are of importance in the decision about educational investments, the enhancement of employment opportunities for women outside the home would therefore increase the incentives to invest in women's education and to generally treat them more favourably (Duflos, 2005, p.5).

There is, according to Duflos (2005), a strong two-ways relationship between economic development and women's empowerment. In this relationship development alone may reduce gender inequality and, discrimination against women may, as argued by Sen (see for instance Sen 1992 and 1999), hinder development. Thus, empowerment alone can enhance development (Duflos, 2005, p. 1). There is among policymakers and researchers a tendency to focus on one or the other of these two relationships. Focusing on the first indicates a belief that gender equality increases when poverty decreases. Thus, policies should focus on the

creation of economic growth, without adopting specific strategies to target women. The reason why this view sees no special need to target women is the belief that when poverty is reduced, gender inequality decreases, thus the condition of women improves more than for men (Duflos, 2005, p.2).

However, Duflos (2005) argues that, economic development alone is not enough to create *complete* gender equality. Rather, policies targeting women are necessary in order to achieve gender equality. Although, while the empowerment of women indeed changes a society's ways of making choices, the popular picture of women as always making the best decisions for long-term development is according to Duflos (2005) to some extent exaggerated. The conclusion here should therefore be somewhat more balanced, rather than focusing on one or the other way in the relationship between economic growth and gender equality (Duflos, 2005, p. 2). This thesis considers the evidences on both sides of the empowerment-development relationship.

Policies that explicitly target women call for acknowledgement, not only because they are essential in order to achieve gender equality, but also because equality in terms of gender is desirable in itself and worth its costs (Duflos, 2005, p.10). In order to create gender equity it will be necessary to keep on making policies that favour women at the expense of men, and it may be necessary to do so for a rather long time (Duflos, 2006, p.20).

3. Why microfinance is needed

Most small scale entrepreneurs operate on the informal market and the financial services they demand differ from traditional commercial bank lending. Traditional commercial banks are usually not capable, or willing, to meet the demands for small loans to small borrowers. This is commonly explained by relatively high administrative costs for small loans, combined with poor peoples' lack of traditional collaterals. Another factor restricting the possibilities for poor entrepreneurs in the informal sector to obtain credit is the fact that the majority of commercial banks do not have branches in rural areas or small towns (Todaro et al., 2006, p. 751).

The lack of credit has constantly been found to be an important obstacle for micro enterprises to develop (Todaro et al., 2006, p. 752). Most of the small-scale entrepreneurs have to ask family or friends for loans, or turn to local professional moneylenders, pawnbrokers, or trades people. The latter three sources of credit are usually very costly due to the extremely high interest rates that they usually charge. Additionally, when small farmers, who need seasonal loans, turn to moneylenders or pawnbrokers who usually require “traditional” collateral, the only collateral they have to leave is their land or livestock. If the farmer defaults and the collateral have to be handed in, the farmer may become landless (Todaro et al., 2006, p. 751).

3.1 Capital flows and poor peoples’ access to credit

According to introductory economic theories the need for microfinance is to some extent unexpected. Theories of diminishing return to capital suggests that capital should flow from rich to poor since the theory stipulates that enterprises with little access to credit should have higher returns to capital, and therefore be able to pay higher interest rates than rich entrepreneurs. This assumption requires concavity in production functions (see illustration in figure 1. below). If this is true, global investors should change their focus from the rich west/north to east/south where capital is inadequate. This also indicates that capital should flow from rich to poor within any given country (Armendáriz de Aghion et al. (2005), p. 5).

Figure 1.

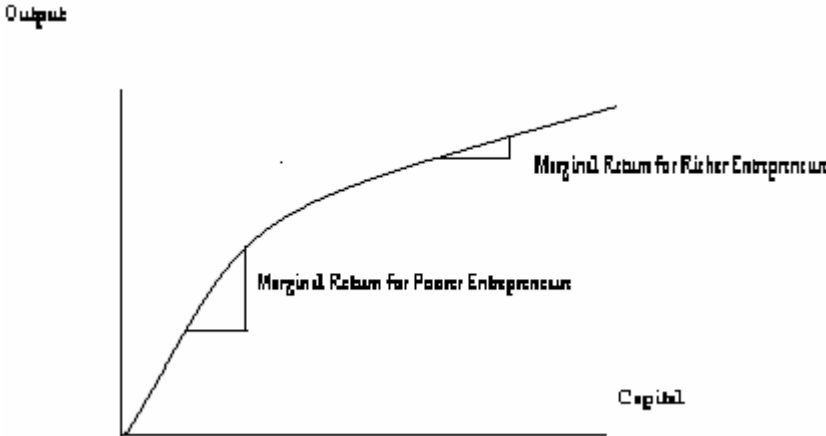


Figure 1. illustrates the marginal return to capital with a concave⁷ production function. Poorer entrepreneurs have higher returns on marginal capital and are also willing to pay higher interest rates than richer entrepreneurs (Armendáriz de Aghion et al. (2005), p. 5).

There are several explanations to why poor entrepreneurs are faced with difficulties to access capital. The first one is that the risk associated with the lending is often higher for poor borrowers. Another reason is that it is costly for global investors to keep up to date with shifting local conditions. It is also more costly per unit of capital to lend small amounts of capital. Large and stable corporations are also associated with lower costs than small and unstable ones. There are also political problems that can derive from local laws and regulations restricting banks from operating in new ways. Problems regarding adverse selection and moral hazard are also restricting the supply of credit to poor people as will be discussed more later (Armendáriz de Aghion et al. (2005), p. 6-7).

3.2 The impacts of asymmetric information in financial markets

In general economic models, markets are characterised by perfect information, which is both correct and free. However, in reality not all markets are characterised by this, and markets can be characterised by imperfect information. This commonly takes the form of one actor having far more information than the other part, therefore called *asymmetric information*. This is common in lending situations, where the borrowers have almost perfect information about themselves, but the lenders have very little information about the borrower. The various theories regarding asymmetric information are commonly well applicable on markets in developing countries, which usually lack developed institutions dealing with imperfect information (De Vylder, 2002, p. 108). *Adverse selection* concerns the situation prior to the loan being granted and *Moral Hazard* concerns the situation after the loan has been granted.

In a lending situation, the lender faces difficulties to observe the characteristics of the borrower, to monitor the efforts made, and to monitor the profits. The lack of information creates inefficiency (Armendáriz de Aghion et al., 2005, p.35). The lack of sufficient

⁷ This figure assumes that both groups have the same access to production inputs (except capital), thus both groups have the same production function.

information about the riskiness of the borrowers' projects makes banks unable to distinguish risky borrowers from worthy ones and therefore the interest rates may be extremely high. The high interest rates are problematic and cause inefficiency due to the fact that they make worthy borrowers unwilling to take loans (Armendáriz de Aghion et al., 2005, p.30).

The problems regarding information can be divided into three different parts. The first one arises prior to the loan when the application is being reviewed (Armendáriz de Aghion et al., 2005, p.35). The second is the *difficulty to monitor* what is being done with a loan, more specifically the difficulty to monitor whether the *money lent is used* in the way that the *loan agreement stipulates*. Loans may be taken for production needs in a small enterprise, but then be used for consumption needs, which do not give a monetary pay-off to be used for re-payment. There is also the risk that the loan will be *invested in a productivity associated with high risks*, which may lead to a re-payment default (involuntary default) (Ray, 1998, p. 529). The third part concerns the difficulty for the lender to know the magnitude of the profit and to be sure to claim the accurate amount of re-payment. If adequate information is absent, the borrower may find it tempting not to give the lender correct information (Armendáriz de Aghion et al., 2005, p.36). Another problem associated with repayment is the problem of strategic (voluntary) default, which occurs when the borrower would be able to re-pay the loan, but does not find it in her/his interest to do so. This is a typical problem in countries where the legal framework regarding loan enforcement is underdeveloped or weak (Ray, 1998, p. 529).

3.3 How inefficient public institutions can affect lending

Market oriented policies are deeply dependent on stable legal, institutional and, cultural frameworks, which commonly are lacking or very weak in many developing countries. These requirements include *legal systems* that enforce contracts and validate *property rights*. Further, important factors in the financial system are business norms that facilitate long-term relationships (Todaro et al. 2006, s. 69-70).

If a piece of land has been registered it makes it easy for lenders to verify the ownership, and titled land is more accepted as collateral. The lack of land rights is a common problem in many countries and is therefore an additional obstacle that small entrepreneurs face in their

demand for finance (World Development Report 2005: A Better Investment Climate For Everyone, p. 80-81). A well-functioning court system is important in any kind of business relation and its impact goes far beyond the number of cases it resolves. If the system is timely and predictable, firms will be more able to predict the outcome of a dispute. If the court system functions well, it will reduce the number of trials because a credible threat of a trial will give incentives for both parties of a contract to respect their obligations (World Development Report 2005: A Better Investment Climate for Everyone, p.86).

3.4 Poor peoples' lack of collateral

As discussed above, there are several reasons why poor entrepreneurs in transition countries lack access to finance, of which some indicate that microfinance could be one important way of overcoming at least some of the obstacles that micro entrepreneurs, and especially female ones, are faced with. According to Todaro et al. (2006), microfinance⁸ refers to the supply of credit, savings and other basic financial services to poor and vulnerable people who might otherwise have no access to them or would only have access associated with very high costs. Microfinance institutions (MFIs) deliver these services in different ways and in accordance with their own institutional rules (Todaro et al., 2006, p. 752).

The original way of dealing with the lack of collateral, in MF, is to do group lending⁹, which operates as social collateral. It has the major advantage of addressing several of the common problems. The collective responsibility for the re-payment will apply a peer-pressure which compensates for the lack of collateral. Having the group members form their own groups will ease the problems of asymmetric information by encouraging individuals to form groups only with good credit risks. This will lower the overall risk of the group lending system (Basu et al., 2004, p.4-8). Although, Armendáriz de Aghion et al (2005), states that it is not instantly recognizable how central group lending is to the continued success of microfinance (Armendáriz de Aghion, 2005, p.142).

⁸ For definitions of microfinance and related terms see appendix 3

⁹ In a group lending scheme a group of potential borrowers form a group to apply for a loan. The funds are then allocated to the members and the group is then collectively responsible of re-paying the loan. Thus the group guarantees re-payment to the lender. By joining together the loan will be large and thereby the individual costs are reduced. The members will have a collective interest in the success of each member and therefore apply a strong moral pressure on the borrowers to re-pay. The re-payment rates have been shown to be successful (see for instance Todaro et al., 2006, p. 752).

There are ways of dealing with the problems of lack of collaterals etc. that go beyond the group lending system. Some microfinance institutions recognise that there exists collateral which if it was to be re-sold would have a low value, but that is very valuable for the client and therefore could be used as collateral (Armendáriz de Aghion, 2005, p.134-135).

Another way of looking at collateral in a flexible way is to give clients the possibility to build up financial assets and then to base the loan on those resources. If microfinance institutions require potential clients to make savings prior to the borrowing, the clients would by saving show their capacity of discipline and money management. In addition to the opportunity to show that they are going to be good borrowers, the saved capital can work as security for the loans¹⁰ (Armendáriz de Aghion et al., 2005, p.136-137).

Re-payments that take place publicly, with a group of borrowers, are another way of dealing with the lack of collateral. For the lender, public re-payments can have several advantages. The first advantage is that the public re-payment can, in the absence of collateral, work as an incentive to re-pay in order to avoid social stigma. The second advantage is that if some clients are meeting with the lender at the same time, the transaction costs of the bank staff might be reduced. The third benefit is that it gives the lender an opportunity to offer training and education to the clients, which is especially important for clients who are illiterate or (and) have little or no experience of running their own businesses (Armendáriz de Aghion et al., 2005, p.138).

¹⁰ For further reading on micro savings see for instance Armendáriz de Aghion et al. 2005.

4. Can microfinance improve female entrepreneurs' access to credit and enhance the empowerment of women

As discussed in the previous chapter, most MF clients are too poor to be able to offer collateral. Therefore most microfinance institutions do not require collateral (although there are quite a few that do). The traditional way of looking at collateral is an obstacle, especially for women (Armendáriz de Aghion et al., 2005, p. 181). Therefore, as will be discussed in this chapter, microfinance could be especially important for female entrepreneurs.

4.1 Why targeting women is of particular importance

Since microfinance institutions serve small enterprises, mainly in the informal sector, and women to a large and growing extent are involved in self-employment projects in the informal sector, women often meet the requirements for being MF clients (Armendáriz de Aghion et al., 2005, p. 181).

There are several advantages related to involving women in microfinance. The first one is strictly economic; since women are more conservative in their investment strategies and more responsive to peer-pressure they have higher re-payment rates (which will be discussed more in depth later in the chapter) (When controlling for age, income, religion, and other covariates, the economic advantage of female clients' decreases, but the correlation is still an important indication). The next two concern social development impacts. It is said that re-allocating resources to women may lead to stronger social development. This is due to women caring more about the health and education of children. Since women are overrepresented among the poorest of the poor, microfinance may be one way to ease this. Women are in low-income countries less privileged than men in several aspects of life and face far greater obstacles regarding their social, legal, and economic lives¹¹. Further, women are often oppressed by their husbands and by social norms, which is another reason why it is important to direct credit to the woman in a household (Armendáriz de Aghion et al., 2005, p. 183-184).

¹¹ Armendáriz de Aghion et al., (2005) refer to The World Development Report, 1990, from the World Bank.

4.1.1 Are women better clients than men?

Women seem to be more reliable in re-paying their loans than men (before conditioning on other variables like social class and educational level). If the various evidence regarding women as more reliable¹² are correct, in order to maximize profits women should be targeted by banks, independent of concerns about gender (Armendáriz de Aghion et al., 2005, p. 139).

Armendáriz de Aghion et al. (2005) identify three major areas in which microfinance directed to women may be especially important to banks from an efficiency perspective. The first concerns *poverty*, the second concerns *labour mobility*, and the third concerns *risk* (Armendáriz de Aghion et al., 2005, p. 188-189).

Armendáriz de Aghion et al. (2005) refer to the Human Development Report 1996 which states that 70 percent of the *poor* people in the world are women. In accordance with the neo-classical theory about return on capital, since women are *poorer* than men they should have higher returns in their capital investments (Armendáriz de Aghion et al., 2005, p. 189). Further, since women in general have fewer alternative resources of capital than men, partly due to women having weaker property rights and because property originally owned by the parents of the wife often is transferred to the husband (Duflos, 2005, p.16), they would have stronger incentives to re-pay. In view of the fact that men in general have better access to credit both from formal and informal lenders they do not need to worry too much about their re-payment history (Armendáriz de Aghion et al., 2005, p. 139).

Women have lower *labour mobility*, which makes them more likely to re-pay. Thus, women's higher re-payment rates can be explained by the fact that women, contrary to men, often do not take market work and therefore stay closer to the home, which gives them very small chances to escape pressure if they default (Armendáriz de Aghion et al., 2005, p. 139).

Further, since women seem to be less mobile than men, they are more responsive to social sanctions and easier for the bank to monitor. This makes them more *risk* averse in their investment decisions. Women are therefore better when it comes to re-payments and the risk

¹² See for instance Hossain (1988), Kandker, Khalily and Kahn (1985), Humle (1991), and Gibbon and Kasim (1991).

of strategic defaults will be decreased (Armendáriz de Aghion et al., 2005, p. 139). These factors generate a reputation of trustworthiness (Armendáriz de Aghion et al., 2005, p. 189).

Armendáriz de Aghion et al. (2005), states that women most often have higher re-payment statistics, although one has to keep in mind that observations from a single MFI or country are not universal and may change over time. Further, there are cases of microfinance banks which do not target only women, but still reach high re-payment rates (Armendáriz de Aghion et al., 2005, p. 139).

4.1.2 Benefits that occur when family income is held by women

Duflos (2005) reaches the conclusion that male and female income is spent on different commodities. Expenditures¹³ for the household reflect gendered divisions of responsibilities. Further, it has been shown that women in general spend disproportionately more of their incomes on the children and general welfare of the household than men (Littlefield et al., 2003, p.7). Policies with the aim of empowering women have been supported not only because they may increase the well-being of women, but also because these policies have been shown to have positive impacts on the well-being of children. Development agencies have now taken on various policies in this direction because of the belief that “kids do better” when their mothers control¹⁴ a larger fraction of the household income (Lundberg et al., 1996, p. 154-155).

Duflos (2005) agrees that the preferences of women and men differ, women in general spend more money on care, and they use their rights to express those preferences in their consumption patterns. However, Duflos (2005) states, one has to keep in mind that this does not in every case mean that the preferences of women are always in favour of “good things” (Duflos, 2005, p, 14).

¹³ In general, when economists have collected data on household expenditures, the aggregated consumption patterns rather than the individual consumption patterns have been explored. This has resulted in a lack of sufficient data on the intra family distribution of expenditures, which has resulted in an additional problem of knowing how changes in relative incomes among family members may affect the household consumption patterns due to changes in relative bargaining power within the household (Kevane, 2004, p. 108).

¹⁴ The conviction that who controls resources matters brings about the concern about how to measure the “control”. Does the individual whose name is on a check get to keep control over its disbursement and are someone’s earnings “owned” by the one earning the income (Lunberg et al., 1996, p. 155).

If incomes and investment capital are not pooled¹⁵ in a household, but rather held and controlled by the man, there are further reasons to direct capital to women. But, concerns have to be taken regarding the risk that capital lent to women may be re-directed within the household with the effect that the men will control investments intended to be controlled by women (Armendáriz de Aghion et al., 2005, p. 189).

4.1.3 Targeting female entrepreneurs as a way of enhancing the empowerment of women

Supporters of microfinance argue that microfinance directed to women can lead to gender empowerment of women in the households. One important aspect of microfinance is that access to financial services can empower women to become more assertive, more confident, more likely to participate in family and community decisions, and therefore more capable to confront systemic gender inequalities. However, since gender-related issues are complex, such empowerment is not going to come automatically. Programs that are appropriately designed can have strong and positive effects on women's empowerment, which can result in women holding more assets, having more active roles in family decisions, and increasing investment in family welfare (Littlefield et al., 2003, p.7).

The point of view that microfinance directed to women will lead to gender empowerment is being questioned from a number of viewpoints. Credit alone may not generate gender empowerment (Armendáriz de Aghion et al., 2005, 193-194). Ranken (2002) argues that microfinance may, since women often are encouraged to make business out of activities they are specialised in within the household, cement prevailing gender roles rather than challenge them (Ranken, 2002, p. 16). This may also be due to the evidence found by Goetz et al. (1996), which indicates that it is the man in the household who controls the resources in the enterprise. Therefore, in order to be successful, development projects have to take gender

¹⁵ Several different models of the intra household distribution of decisions are to be found. The unitary model developed by Becker (1974, 1991) assumes a common utility function in marriages, which has been widely criticized by feminists, arguing that there is no such thing (Rothstein, 1999, p.9). The bargaining model is the main alternative to the unitary model (Kevane, 2004, p. 110). The Bargaining model does not include the pooling assumption and identifies two or more individuals with distinct preferences regarding household consumption (Lundberg et al. 1996, p. 146). For further reading see for instance Becker (1974, 1981) and Lundberg et al. (1996).

relations into account (Goetz et al. 1996, p. 56). If loans are taken by women, but controlled and used by the husband, it may be problematic for the women. This is because in those cases the women are responsible for the re-payment, but they cannot control the use of the loan. Thus, if the husbands fail to re-pay, the wives may have to take on several kinds of employment in order to be able to re-pay the loan. This may lead to tensions within the household. Further, MC most often leads to increased empowerment of women when it comes to small expenditures, but not for big investments (Rahman, 1999, p. 14). Further Ranken (1999) argues that women, if they get control over the loan, are often encouraged to get involved in things such as sweater knitting which does not stop their isolation within the household (Ranken, 2002, p. 16-17). An important question to ask in this context would be if specialisation within the household will support or delay gender equality (Armendáriz de Aghion et al., 2002, p. 193-194).

The response to those concerns raised in the previous paragraph is that many poor and unskilled women have very few employment opportunities outside the home, and this is a way of, in the short run, making the most out of their skills. The hope is that they meanwhile will accumulate knowledge and be able to improve the economic situation of their family. Further, advocates of microfinance argue that microfinance, in order to be a way of enhancing gender empowerment, has to include training and consciousness-raising (Armendáriz de Aghion et al., 2005, p. 194).

5. The case studies

The theoretical chapters of this thesis emphasize that poor people generally have difficulties to access credit because traditional commercial banks are often incapable or unwilling to meet the demands for small loans. What is also of importance in the access to credit is that market oriented policies are dependent on stable legal, institutional and, cultural frameworks. Further, the theoretical chapters emphasize that women are in general faced with more severe obstacles in accessing credit and running businesses than male entrepreneurs. This is, in the theoretical chapters, mainly explained by women's lower activity on the labour market, lack of traditional collateral and because formal-sector commercial banks have a tendency to favour male entrepreneurs. The theoretical chapter four suggests that there are several advantages related to involving women in microfinance. The first one is strictly economic and concerns women's higher re-payment statistics, which indicates that MFIs should target women in order to increase their profitability. The second concerns social development impacts since re-allocating resources to women may for several reasons, as discussed in the theoretical chapter, lead to stronger social development. Further, there are suggestions in chapter four that microfinance, combined with different kinds of training and consciousness-raising, directed to women may enhance the empowerment of women. These suggestions from the theoretical chapters are especially interesting since there are, as emphasized in chapter two, indications that there is a two-way relationship between general economic and social development and increased gender equality. Stating that general economic and social development enhances empowerment of women, at the same time as empowerment of women enhances general economic and social development.

The theoretical framework has given rise to several questions which in this chapter will be analysed. Firstly *the current MFIs in Serbia and in Montenegro will be presented* in part 5.1. Secondly, with a stand in the theoretical chapters, part 5.2 comprises an analysis of the present *financial market* in Serbia and *poor peoples' access to credit*. Thirdly, in part 5.3, the questions *if female entrepreneurs in Serbia are faced with additional difficulties relative to male entrepreneurs* and *if microfinance directed to female entrepreneurs could be one way of easing these problems* are analysed. Further, from the theoretical chapters another question will here be discussed, which is *if microfinance can enhance the empowerment of women in the Serbian context*. The fourth part, 5.4, comprises the comparative *case study* of the above

questions in the *Montenegrin context*. The last part, part 5.5, analyses the extent to which the today present microfinance organisations in Serbia and Montenegro do *put emphasis on female borrowers* and *if they can meet the needs of female entrepreneurs*. The last two questions are raised because it is stated in the theoretical part that there are several benefits associated with microfinance directed to women.

5.1 Microfinance institutions in Serbia and Montenegro

In Serbia and Montenegro there are a few different microfinance institutions. According to Rosic (2005), in order to meet the plurality of needs of microfinance clients in the region, a variety of institutions and tools are required. A recent regional study examining the state of microfinance in South Eastern Europe (SEE) indicates that it is not possible to find one single institutional form of MFI that would suit the diversity of needs (Rosic, 2005, p. 5-6).

The legal environments for MFIs are very different in Serbia and Montenegro. In Serbia the MFIs have to operate through partner banks, while the legal framework is more favourable in Montenegro. In both countries, several commercial banks providing consumer loans are found. These loans serve to some extent as substitute for MF, but in terms of collateral they are demanding more than the MFIs generally do (Levard, 2006, p. 2), which makes them inaccessible for many poor entrepreneurs.

In Serbia, there are five MFIs¹⁶ to cover the population of 8 million people¹⁷. The existing MFIs, without bank micro credits, cover around 10, 000¹⁸ clients and thus the market for microcredit is still far from covering all potential clients (Rosic, 2005, p. 5). The MFIs active in Serbia are MicroFinS, AgroInvest, Opportunity International Savings Bank, ProCredit Bank and the Micro Development Fund. The biggest of these MFIs are AgroInvest, Opportunity International and ProCredit Bank (Bascarevic¹⁹ 2006-05-23).

¹⁶ For information about the different MFIs in Serbia see appendix 4.

¹⁷ Varying estimations of the number of people are available. Estimations of the population reported by CIA are 7.5 million (http://news.bbc.co.uk/1/hi/world/europe/country_profiles/5050584.stm#facts, 2006-07-22).

¹⁸ As of March 2005 (Rosic, 2005, p. 5).

¹⁹ **Bascarevic, Svetlana, 2006-05-23**, Development Programme Section, SIDA, Belgrade, Serbia

ProCredit Bank specifically targets the market for SMEs and with several branches in the main cities; the bank has increased the competition, which has put the interest rates down. The NGOs Micro Development Fund and MicrofinS provide funds to refugees, while AgroInvest lends money only to rural areas. The Micro Development Fund and MicroFinS are smaller in scale than AgroInvest. In the main cities of Serbia the market for commercial banks seems to be saturated, although in rural areas it remains untapped (Levard, 2006, p. 2).

In Montenegro, a country of 650 000 people, which is a lot fewer than in Serbia there are three MFIs²⁰ currently active: AgroInvest²¹, Alter Modus and Opportunity Bank (Bascarevic, 2006-05-08). Since Montenegro is such a small country, the market is structurally limited. AgroInvest targets rural clients, while Alter Modus so far only targets urban clients. The former NGO Opportunity Bank has loans especially for agriculture with interest rates significant lower than AgroInvest, which creates competition on the market for rural credit (Levard, 2006, p. 2).

5.2 The general need for microfinance in Serbia

As suggested in the theoretical chapter four most small scale entrepreneurs in transition economies operate on the informal market and the kinds of financial services they demand usually differ from traditional commercial bank lending. Traditional commercial banks are generally not capable, or willing, to meet the demands of small borrowers. The private sector in Serbia is characterized by small companies, 98.7 percent of the companies are SMEs, of which at least 90% are micro enterprises (Bascarevic, 2006-06-15).

²⁰ For information about the different MFIs in Montenegro see appendix 5.

²¹ The Swedish (Sida) support to MicroFinS and AgroInvest had an institutional investment approach with the aim to strengthen the sustainability of the organisations, and thus providing a more stable and favourable future access to finance for the poor (Bascarevic, 2006-05-08).

5.2.1 The access to financial services

Since it has been found in the theoretical chapters that most small scale entrepreneurs find difficulties in accessing credit this part analyses this issue in the Serbian context. Miller²² (2006-06-14) finds that the major obstacles for businesses to develop in Serbia are ***“first of all finance, second taxes and those kinds of things”*** (Miller, 2006-06-14). Miller continues explaining that access to finance is a real problem for a number of reasons in Serbia. One is the general economic situation, which is still not good and hence does not encourage people to make investments which are essential for economic development. The second reason concerns the institutions. ***“Institutions you would expect to exist in a fairly developed country don’t exist. And they are not encouraged to exist by the Ministry of Finance or the National Bank, so there is a big gap when it comes to the provision of finance at all sorts of levels”*** (Miller, 2006-06-14). Other institutions that support business development are being re-established, but still there is no establishment of business support organisations which may be there to assist individuals who would like to start their own business. This is very important because businesses generate other businesses because of chain effects, but in Serbia very few businesses are generated. ***“That’s the general picture. Which is not very nice looking. That is really holding back development”*** (Miller, 2006-06-14).

Along with Miller (2006-06-14), Bascarevic (2006-06-15) states that, even though there are plenty of commercial banks on the market, access to finance is still really problematic for poor entrepreneurs. Further Bascarevic (2006-06-15) states ***“The access to finance is one of the biggest problems even though we have 41 commercial banks. For the poor entrepreneurs, that is what we are talking about”*** (Bascarevic, 2006-06-15). This is in accordance with the implications from the theoretical chapter three by Todaro et al. (2006), which states that most commercial banks are not willing or able to meet the financial needs of small entrepreneurs. One of the reasons for that is that the commercial banks do not have the living conditions of their clients in mind when deciding on which clients to target. ***“They are commercial banks and they are only providing loans for clients who are much stronger and***

²² Miller, David, 2006-06-14, 3.30 pm, Team leader, ECORYS Research and consultants, Ministry of Economy, Support to Enterprise and Development and Entrepreneurship Programme, European Agency for Reconstruction, Belgrade, Serbia.

developed than the poor” (Bascarevic, 2006-06-15). Thus, access to finance is really the major obstacle to achieve development among SMEs (Bascarevic, 2006-06-15).

An additional problem in the access to credit for poor entrepreneurs is that credit is quite expensive (Bascarevic, 2006-06-15). This, Rosic²³ (2006-06-16) explains, is because many foreign banks came recently to Serbia with big portfolios, which lead to an over-debited population. Therefore the national bank is now trying to prevent over-debt ness by making interest rates in commercial banks very high²⁴. When the National Bank is trying to reduce the risks of having too many people not being able to re-pay their loans, this may affect the access to credit for poor people, who already before the interventions from the national bank had very little access to finance due to lack of collateral and for other reasons as emphasized by Armendáriz de Aghion et al. (2005) in chapter three and four. Along with Armendáriz de Aghion et al. (2005), Bascarevic (2006-06-15) emphasizes how the annual average interest rate, which is 14.7 %, will be too high for poor clients. Further, as stated by Armendáriz de Aghion et al. (2005) in chapter three, having very high interest rates may lead to inefficiency derived from the risk that they may make trustworthy borrowers unwilling to take loans, and only attract the not so trustworthy borrowers.

5.2.2 The need for non-financial services besides microfinance

As discussed above, the theoretical framework (for instance Todaro et al. (2006)) suggests that the lack of finance is the most important obstacle for small entrepreneurs in transition economies. Therefore this part of the chapter analyses the need for non-financial services besides microfinance. There are in this study empirical evidence suggesting that the lack of finance is in Serbia one of the major obstacles for small entrepreneurs and for general business development. However, according to Daily²⁵ (2006-06-15), the development of businesses in Serbia is not primarily restricted by access to finance. *“Here everyone wants to*

²³ Rosic, Arminio, 2006-06-16, 9am, National Program Office, Swiss Development Agency (SDC), Belgrade, Serbia.

²⁴ The National Bank of Serbia requires that all financial institutions leave around 30 percent of their portfolio in the National Bank. A requirement which also lowers access to finance is that all the loans provided by MFIs have to be given in dinars, but they will be indexed in euros. Thus, if the Euro jumps, more dinars have to be re-paid (Rosic, 2006-06-16).

²⁵ Daly, Jane, 2006-06-15, 1 pm, Country Manager, Worldwide Strategies, Ministry of Employment, Labour and Social Policy, World Bank, Belgrade, Serbia.

start their own business,..., some are a bit unrealistic about what it takes to open a business and there is a lack of experience. So they get a little money and they start a business and the number of failure is huge because they don't have practical knowledge. They think the whole problem is that they do not have enough money, its not only in Serbia its in all eastern Europe or transition countries, they don't have practical education, they don't have ways to learn the new technologies (Daily, 2006-06-15).” Further, Daily (2006-06-15) states *“What I would rank above access to credit is lack of capacities, lack of skills, lack of ways to get skills. To me the biggest problems are the lack of knowledge about business plans, about markets, about competitions. How the world of supply and demand really works. Just because you have assets to start a business does not mean you will be successful”* (Daily, 2006-06-15). This leads to the conclusion that in the Serbian context, in order to generate successful entrepreneurs, training, not only better access to credit is needed. As Armendáriz de Aghion et al. (2005) states in chapter four, the most successful MF programs are those including training.

5.2.3 The insufficient implementation of property rights

In the theoretical chapters three and four there are theoretical evidences showing that property rights and legal institutions are essential in order for people to be able to offer property as collateral. However, since many poor people lack collateral in the form of property, the theoretical chapter four suggests that other kinds of collateral need to be recognized. In commercial banks in Serbia, collateral is often in the form of mortgages which for several reasons is a problem. Firstly it is a problem because not all people have those kinds of collateral, and secondly because of the insufficient implementation of the present legal framework for property rights. The new legal framework is still not being implemented in the right way according to Bascarevic (2006-06-15). As suggested by Basu (2004) and Armendáriz de Aghion et al. (2005), lack of efficient law enforcement and property rights give rise to a need of new ways of lending with new approaches to collateral.

5.2.4 The lack of legal framework for MFIs in Serbia

As suggested by Armendáriz de Aghion et al. (2005) in the theoretical chapter four poor entrepreneurs' access to finance may be limited by laws and regulations which restrict banks from operating in new ways. Therefore this part of chapter five analyses the legal framework for MFIs in Serbia and finds that Serbia does not have a legal framework regulating micro credit. The distribution of micro credit is therefore directed by existing banking regulations (as outlined in the Foreign Exchange Law). Hence, micro credit can be issued by no other than banks (Bascarevic, 2006-05-08). The National Bank of Serbia has actively resisted the development of a legal framework for MFI. In addition to the lack of microfinance laws, Serbia does not have laws regulating NGOs, which has led the Serbian MFIs to register as "Associations of Citizens" under the valid legislation (Rosic, 2005, p.7). This arrangement leaves NGOs and other non-financial legal entities in a difficult situation. As up till today, the only method to make their organisations legal has been to go into strategic partnerships with commercial banks in the form of commission contracts. These contracts permit the MFIs to on-lend money through loan agreements with the clients for a fee to the commercial banks. This means that the money is lent through commercial banks, but the MFIs choose the clients (Bascarevic, 2006-05-08).

5.2.5 How the lack of legal framework affects client outreach

The demand for microfinance in Serbia seems to outnumber the supply of microfinance by great numbers. This is, according to Miller (2006-06-14), explained by three main factors. One is the absence of regulation, the second is that donors lack in focus on MFIs in Serbia and, the third is that MF has only been in Serbia for a relatively short period of time. This chapter mainly analyses how the lack of legal framework affects client outreach in Serbia. Miller (2006-06-14) estimates that at least 25 percent of the total number of private entrepreneurs is potential clients which give 50,000 people to start with (Miller, 2006-06-14). The existing MFIs, without commercial bank micro credits, cover around 10,000²⁶ clients. Thus the market for micro credit is still far from covering all potential clients (Rosic, 2005, p. 5).

²⁶ As of March 2005 (Rosic, 2005, p. 5).

According to Bascarevic (2006-06-15), the absence of a legal system is a large obstacle for poor entrepreneurs to access credit, something which Miller (2006-06-14) agrees on. If the institutions where poor people possibly would be accepted as clients are not allowed to exist, there are obvious problems. Since commercial banks often are inaccessible for poor people, family and friends seem (as outlined in the theoretical chapter) to be very important in providing funds. ***“That is (family and friends) where people who do not have collateral will get money from”*** (Miller, 2006-06-14).

Bascarevic (2006-06-15) explains that the lack of legal regulation on MFIs makes the credit more expensive and less accessible to the poorest part of the population. When the MFIs have to go through commercial banks, the credit gets more expensive for the clients. Thus, the present system takes the edge off some of the desired impacts by narrowing the target audience. Entrepreneurs with micro companies now prefer to take loans from their suppliers, rather than from the banks, and that is not a sustainable way of running businesses. This is why the legal framework is very essential (Bascarevic, 2006-06-15).

5.2.6 Why laws on MFIs are not being passed

One explanation to why there are no laws passed on MFI is given by Miller (2006-06-14) ***“It’s due to the attitude of the national bank, which is very consistent over time. The present governor of the national bank, used to be the deputy head of the government, and has been running in that position for four or five year., The previous governor of the national bank is now the minister of finance, so there is a big consistency over time. They are basically frightened, due to previous, about financial institutions that they can not control. They do not want to lose control. They see any attempt to financial investments, which is developing funds to investments, as suspect. Because of the conservative attitude due to finance schemes in the past, so they got a fundamental objection. So that is why no new laws have been introduced so far. It will take a long time until change will happen in terms of the law”*** (Miller, 2006-06-14). In accordance with Miller (2006-06-14), Bascarevic (2006-06-15) states that it is a consequence of the economic history of Serbia, which still makes the government watchful concerning the financial sector (Bascarevic, 2006-06-15).

5.3 Why it is especially important to target female entrepreneurs in Serbia

As discussed in the theoretical chapters as well as above, poor entrepreneurs in transition countries are faced with several obstacles when starting up or running their own businesses. Many of these obstacles are similar for females and males, although, there are theoretical suggestions that female entrepreneurs are faced with additional problems relative to male entrepreneurs. Therefore this part of the thesis aims to empirically analyse if and why female entrepreneurs in Serbia are faced with more difficulties in accessing credit than male ones. Further it analyses the more general social conditions of female entrepreneurs in the Serbian business climate. Finally it analyses how MF could make credit more accessible for female entrepreneurs and if it can enhance women's empowerment.

5.3.1 Female entrepreneurs in Serbia

It has, in the previous chapters, been theoretically as well as empirically shown that the access to finance is important when people decide to go into business. This is according to Markov (2005) true for the Serbian female entrepreneurs as well. Markov (2005) divides female entrepreneurs in Serbia onto two different groups based on their motives for starting their own businesses. The first group starts businesses in order to be able to support their families. This group tries to solve their problems with their own means instead of waiting for the state to do it for them, which is the old matrix of the Serbian society. The other group is defined by starting businesses in order to prove their own abilities, independence etc. The second group most often consists of women with university degrees. One of the important factors when women choose which area of business to go into is their access to capital. Most often, women go into businesses that do not require a lot of capital, something which certainly narrows down their alternatives. As a rule, the capital input is rarely borrowed from relatives or banks (Markov, 2005, p.148-149).

5.3.2 Are female entrepreneurs faced with additional obstacles?

As the theoretical framework in this thesis suggests, women are in general faced with more obstacles when starting and running businesses than men are. This part analyses if this is also so for the Serbian female entrepreneurs and finds indications that this is the case in Serbia as well. This chapter will emphasize some of the difficulties female entrepreneurs in Serbia are faced with, of which some can be explained by social norms.

The difficulties female entrepreneurs face in Serbia can, according to Markov (2005), be divided into three main groups. The first group of problems stems from the attitudes of male colleagues in the business world. These problems range from women being marginalized to their being sexually harassed. The second group stems from women having several responsibilities; their time has to be divided between the business and the family, since the main responsibility for the family falls on the women, something which is not the case for male entrepreneurs. The third group stems from the unfavourable attitude of the social environment towards women in businesses. This can be defined as scepticism towards female entrepreneurs, which may also be held by their husbands. The latter of these three groups of problems more often arises in smaller communities. These problems make female entrepreneurs lack in self-confidence, which is essential in being successful in businesses. Women may therefore carry the preconception that they can not be owners of private businesses, but rather to act from the shadow and stand behind their husband. Markov (2005) concludes that all the obstacles facing female entrepreneurs push them to the margins of entrepreneurship (Markov, 2005, p. 152- 155).

Marjanovic²⁷ (2006-06-15) confirms the above and states that all data available indicates that women in Serbia in general have a worse position than men, and unemployment statistics show that women are in a worse position than men on the labour market (Marjanovic, 2006-06-15). The situation for female entrepreneurs on the financial market in Serbia is, according to Kljajic²⁸, 2006-06-16, more difficult than for male ones. *“It is more difficult that is for sure, first to start up a business, to reach market, further financial resources to get them,*

²⁷ Marjanovic, Jelena, 2006-06-15, 11:30 am, Project coordinator, Improving the position of women in the labour market, Gender Equality Council, Government of the Republic of Serbia, Belgrade, Serbia.

²⁸ Kljajic, Dragana, 2006-06-16, 11:30 am, Financial Consulting, Serbian Agency for Small and Medium-sized Enterprises and Entrepreneurship, Belgrade, Serbia.

because they do not have security because, still most of the properties are signed on the husbands or fathers or something like that and that is still a problem in Serbia” (Kljajic, 2006-06-16). When women approach banks for credit it is not possible because of the requirements of collateral in the form of mortgage, which women can not offer. Therefore the situation for women is more difficult (Marjaovic, 2006-06-15). This is in accordance with what is put forward by Armendáriz de Aghion et al. (2005) in the theoretical chapter, in which it is stated that commercial banks seem to favour men because they generally hold the assets that banks look for as collateral. If these assets are in Serbia in general held by the husbands, it will have some obvious consequences for the access to credit for female entrepreneurs.

Bascarevic (2006-06-15) also states that if companies are registered on the husband it may affect female entrepreneurs’ access to finance. *“But you also have households where women are alone as widows or something and they are in charge of their household so there is no rule”* (Bascarevic, 2006-06-15). Micro companies are usually registered to the man’s name, which is of course not good in terms of access to funds to women, but Bascarevic (2006-06-15) states, it is not easy to cut clear lines between the husband’s and the wife’s access in a household (Bascarevic (2006-06-15).

5.3.3 Social norms regarding family responsibilities

In the theoretical chapter two Ostergaard (1992) suggests that the division of gender is decided by the cultural, religious and ideological systems that exists in a society. This part of chapter five analyses how the social norms regarding family responsibilities affect female entrepreneurs’ access to credit in Serbia. In Serbia, more men than women are running businesses. The reason for that is, according to Zoric Krzic²⁹ (2006-06-14), that in a household once there are children, the man will be the one earning money for the family. However, there are situations where the woman is the one who takes the financial responsibility for the family. Women are often the ones making sure everything works at home, and also have some kind of a job, but it is rare that the woman is the one who is the

²⁹ **Zoric Krzic, Aleksandra, 2006-06-14**, 11.30 am, Senior Enterprise Development Advisor, Local Economic Growth Office, USAID Mission in Serbia, Belgrade, Serbia.

career person within the family (Zoric Krzic, 2006-06-14). As highlighted in the theoretical chapter by Littlefield et al. (2003), women are more interested in the well-being of the family.

As stated above, the Serbian society is rather traditional in terms of gender and on the labour market women are being paid less (Rosic, 2006-06-16). The Serbian state does provide day care and other institutions of importance for women's participation on the labour market, but those services are far from enough to cover all (for instance all children and elderly) (Ninic³⁰, 2006-06-14). Naess³¹ (2006-06-14) agrees and says *“So it's easy to guess where this duty will fall”* (Naess, 2006-06-14). Further, according to Daily (2006-06-15), the Serbian government does not pay attention to gender related issues and it is not on the agenda. *“Behind the scenes, I hear comments about groups being required to have gender awareness, but it's left out. It's not seen as a need. It's done because donors require it”* (Daily, 2006-06-15).

5.3.4 Discrimination in commercial banks

As presented above, Ostergaard (1992) suggests in the theoretical chapter two that women and men are treated differently according to social norms regarding gender that exists in a society. This part analyses how the social norms regarding how women are looked at when if running businesses affects their access to credit in Serbia. There are indications of several instances where women who go to the banks to get loans to start their own businesses would have to bring their husbands so that he can approve the loans of the wife. *“I don't know if he (the husband) would have to sit there nodding his head or what he would have to do, I don't know”* (Ninic, 2006-06-14). According to these indications this goes for any bank, international ones as well as domestic ones (Ninic, 2006-06-14). *“This³² is what I meant by cultural....the question would be, if the bank or an institution would look for collateral,*

³⁰ **Ninic, Slavica, 2006-06-14**, 1 pm, Project Assistant, Labour market Institutional Capacity Building in the Republic Of Serbia, Belgrade, Serbia.

³¹ **Naess, Maud, 2006-06-14**, 1 pm, International expert, International Secretariat, Swedish National Labour Market Board (AMS), Belgrade, Serbia.

³² Miller (2006-06-14) discusses the cases where women have to bring their husbands in order to get loans from banks.

who owns the house, who owns the car, who owns the land, And I think in the Serbian³³ context it would be viewed as if the husband owns it. Irrespectively where it came from originally. That's the issue. Basically a cultural thing" (Miller, 2006-06-14). In Serbia the discrimination is most often not obvious, rather it is hidden. According to the law, men and women have the same rights, something which according to Ninic (2006-06-14) makes the discrimination less obvious (Ninic, 2006-06-14).

According to Miller (2006-06-14) women are discriminated on the financial market. *"I dont like to describe women as a needy group, but I think... because of the Serbian culture..."* (Miller, 2006-06-14). Miller continues *"Given the attitude of the Serbian men, there is a disadvantage in the formal system, men and women are viewed in different ways. Men are viewed as more likely to start a business. It's that sort of discrimination. That is culture rather than anything else. There are lots of successful female entrepreneurs around, as it always tends to be, there should really not be any discrimination around"* (Miller, 2006-06-14).

5.3.5 How women's lower labour force participation affects their access to credit

As indicated in the theoretical chapters, female entrepreneurs having difficulties to get loans, can reflect women's relatively low activity on the labour market in Serbia³⁴ (Stankovic³⁵ et al., 2005, p. 94), which in turn may be explained by the social norms discussed above. If Serbian women have a weaker position than men on the labour market in Serbia, this may affect female entrepreneurs' possibility to find capital. Therefore this part analyses women's position on the labour market in relation to their access to capital. Women in Serbia are not as active as men are in the labour force, which can be explained by cultural reasons which affect the nature of the structure of the economy. In cases of lack of employment women tend to be the ones who have to go first. *"If you look around at those stand where people sell things in the street, the proportion of women is lot higher than men. And there are two reasons for that. The first one is that women are more likely to loose their job, and the second one is I*

³³ According to Miller (2006-06-14) it is common across all the Balkan countries. *"I would not be surprised if that happened in Bulgaria to. Anywhere in the Eastern Europe, but especially in the Balkans. Certainly in Albania."*

³⁴ In Serbia, there are 73 women per 100 men actively employed, 2002 (Vukmirovic, 2005, p. 94).

³⁵ Publication from the Statistical Office of the Republic of Serbia in cooperation with UNDP.

find it that women, when they loose their job, are better in finding new incomes through self-employment” (Miller, 2006-06-14). And according to Zegarac³⁶ (2006-06-16) women have a stronger entrepreneurial spirit and in the time of transition when husbands stay out of jobs, women usually take the possibility to start something. Further, according to Zegarac (2006-06-16), women care more about their families. Kljajic (2006-06-16) states that women *“are real fighters and even though they don’t have much of conditions, they are trying to cope with the situation, and are ready to fight for their own existence”* (Kljajic, 2006-06-16).

5.3.6 Are women more reliable as MFI clients?

In the theoretical chapter four indications on women as more reliable in re-paying their loans are found. Armendáriz de Aghion et al. et al. (2005) draws, in chapter four, out that from an efficiency point of view MFIs should target women due to their better re-payment statistics. Since there are theoretical implications on women being better in re-paying loans this part analyses if this is for Serbian women as well. As will be further discussed below, several empirical indications on women being more reliable are found in this study. However Zegarac (2006-06-16) states that both men and women in Serbia are credible. The general re-payment on loans in Serbia is 98 percent. Nevertheless, just as it has been stated, Zegarac continues *“Of course, they care more (than men) about operation, about taxation, about bills and other things”* (Zegarac, 2006-06-16).

The theoretical implications on women being more reliable have been empirically shown over and over again throughout this study. According to Kralj³⁷ (2006-06-14) the Serbian women are more responsible and better than the Serbian men in re-paying the loans (Kralj, 2006-06-14). According to Zoric Krzic (2006-06-14) women are less risk oriented then men, and men are more likely to go into businesses which are more risky. The question of differences in the attitude towards risk between men and women is raised in the theoretical chapter, and the answer seems to be that women are more conservative in their investments and since they are

³⁶ Zegarac, Ana, 2006-06-16, 11.30 am, Executive Director, Development and International Cooperation Department, Serbian Agency for Small and Medium-sized Enterprises and Entrepreneurship, Belgrade, Serbia.

³⁷ Kralj, Ranko, 2006-06-14, 9 am, Financial Manager Serbia, AgroInvest, Belgrade, Serbia.

less mobile they are more sensitive to how others perceive them, which makes them more reliable in re-payment.

According to Rosic (2006-06-16), any bank in Serbia will stress that they emphasize gender equality. Although, Rosic states, since they are commercial banks they will mainly be interested in making profit and therefore look for clients who re-pay their loans (Rosic, 2006-06-16). From an efficiency point of view, since it has been shown, theoretically and empirically, that women have higher re-payment statistics, it would thus be good for the banks not to discriminate women and to offer loans suitable for female entrepreneurs. From this point of view, with a stand in the argumentation in Armendáriz de Aghion et al. (2005) it would be very inefficient not to lend to women.

5.3.7 Empowerment of women through microfinance

In the theoretical chapter two Ostergaard (1992) suggests that since gender relations are not biologically fixed they can be changed by policies with the aim to re-shape opinions. Around the world, there are microfinance programs designed to empower women. This is often done, not only because when women control the income of the household children get more education and health care as Lundberg et al. (1996) suggest, but also because empowerment of women is important for the sake of the women themselves. This part examines if microfinance could be a way of empowering women in Serbia. Marjanovic (2006-06-15) states that in Serbia “*Microfinance would of course be a way of empowering women both in the family and in the community*”. Kralj (2006-06-14) agrees and states that women get empowered by being the one in the household who is responsible for the borrowing. Further, when female entrepreneurs in villages in Serbia have been offered loans for some time, Kralj (2006-06-14) notices, the mentality of the community usually changes somewhat to being more positive to female entrepreneurs. In accordance with Littelfield et al. (2003) in the theoretical chapter, Bukilica³⁸ (2006-06-12) states that women get more of a say when they get to be the ones in the households taking the loans (Bukilica, 2006-06-12).

³⁸ Bukilica, Marko, 2006-06-12, 11 am, Branch Manager, AgroInvest, Podgorica, Montenegro.

For MFIs to focus on female entrepreneurs is for several reasons important according to Miller (2006-06-14). The better way is if the credit is combined with some additional services in the form of some training. Those kinds of trainings are often more appreciated by women than by men. The women get together and therefore get more out of the training (Miller, 2006-06-14). As emphasized in the theoretical part, attaching training to MF may be a way of empowering women by improving their skills.

5.4 Montenegro

The short case study of Montenegro is here in order to make a comparison between the situations in Serbia and in Montenegro. Focus will be on differences and similarities between the financial markets generally and females entrepreneurs' access to credit in specific.

5.4.1 The financial market in Montenegro

Montenegro, like Serbia, has a past of a ruined banking sector, which led to a situation of lack of finance. The banks were there, but they were not offering loans or savings any more. The only services they supplied were transactions, salaries and those kinds of things and *“People did not trust in banks”* (Ljesnjak³⁹, 2006-06-06).

Montenegro, with its 650, 000 inhabitants, has carried out a fundamental change in the laws regarding the supply of finance, and thus made microfinance operations legal (Rosic, 2005, p. 11). The law, which was passed in 2003, made the Central Bank of Montenegro authorised to register and supervise MFIs (Bascarevic, 2006-05-08). This fundamental change did not weaken the financial sector in Montenegro, which is a lot smaller than the Serbian one (Rosic, 2005, p. 11). Montenegro, unlike Serbia, has passed a law regulating NGOs (Rosic, 2005, p.7).

Generally, the access to finance for poor entrepreneurs is still quite inadequate in Montenegro. Two state-owned funds that provide loans to businesses at favourable rates are to be found,

³⁹ Ljesnjak, Tatjana, 2006-06-06, 9 am, Human Resources Director, Opportunity Bank, Podgorica, Montenegro.

the Development Fund of Montenegro and the Employment Office. However, these two institutions are not exactly targeting the poorest entrepreneurs and this gap is to some extent filled by the existing microfinance institutions (MFI) (Bascarevic, 2006-05-08).

Nemanja⁴⁰ (2006-06-08) states that commercial banks are having problems with the repayments of loans. It is characteristic for the people in businesses in Montenegro not to ask how high the interest rates are. That is problematic because many loans are very expensive in Montenegro. This problem gets worse since the legal system is very slow in processing those cases. However, improvements in the area have been undertaken. Still, Montenegro has a very special problem concerning the claim of collateral. Since it is a very small country it is very difficult to find someone who will buy someone's property. According to Eklind⁴¹ (2006-06-16) that is because they are all family or friends.

5.4.2 Female entrepreneurs' access to credit in Montenegro

According to Bascarevic (2006-06-15), the popular beliefs are that there are differences in the status of women between Serbia and Montenegro, but it certainly needs attention from donors, regardless if it is in Serbia or Montenegro. *“There is probably a misbalance between men and women and we have a long way to go, but I can't really establish any differences between Serbia and Montenegro. More or less it is the same, particularly in rural areas. The inequality is really pronounced”* (Bascarevic, 2006-06-15).

The various obstacles for women to run their own businesses seem to be very similar in Serbia and Montenegro. The quotations below indicate that female entrepreneurs in Montenegro are faced with problems similar to the ones facing female entrepreneurs in Serbia. But, since the legal framework for microfinance is different in Montenegro, it is likely that this may be beneficial for the female entrepreneurs in Montenegro. *“Its men's world. It's a closed society, it's really closed. They use to say we do not have money and that, but it's not just that. If you are a woman you are not so welcome to be in business, because its*

⁴⁰ Nemanja, Nikolic, 2006-06-08, 2 pm, Investment adviser, Development Fund of the Republic of Montenegro, Podgorica, Montenegro.

⁴¹ Eklind, Lena, 2006-06-16, Project Manager, CAFAO, Podgorica, Montenegro.

tradition, this is a very traditional country” (Cikic⁴², 2006-06-06). Indications showing that women are still discriminated against are several. *“In other banks (commercial), you got to be employed (among many things). Yes so perhaps it is more difficult for women in other financial institutions”* (Bukilica, 2006-06-12).

In Montenegro, like in Serbia, there are empirical indications that women do better in repaying their loans. And MFIs view women as better in re-paying their loans. *“Yea, I was hoping you would ask that, so yes, women are more responsible. We had cases where women did not pay, we can’t say that does not happen, but it’s rare. We see that women are more responsible. If they are late: before we call them to ask what happened, they would call us to say please forgive me I won’t be able to pay today, let’s say in three days. I must say that men don’t do that. That’s a type of attitude they have”* (Bukilica, 2006-06-12). Further Jestrovie⁴³ (2006-06-12) states *“We don’t have any problems with female clients they are much better than men. They pay on time, always”* (Jestrovie, 2006-06-12).

There are indications that the discrimination of women in the financial sector in Montenegro is slowly changing. Jestrovie (2006-06-12) states that *“the situation is not like that any more in this country. In the bank if you have good salary it does not matter if you are a man or a woman. If it’s in a town it’s not a problem. Villages it’s a bit more difficult due to the fact that women in villages do not work. So they do not have access”* (Jestrovie, 2006-06-12).

The access to credit is in general similar in Serbia and Montenegro, but the fact that MFIs are regulated legally in Montenegro, but not in Serbia, indicates that the climate for MF is more favourable in Montenegro. The fact that there are fewer MFIs per capita in Serbia than in Montenegro indicates that the lack of legal framework for MFIs in Serbia affects the incentives to involve in MF activities. In Montenegro, it is likely, that a bigger portion of potential clients of MF are being reached, whereas that is not the case in Serbia where the need of MF is far from being reached. To conclude, especially on the Serbian financial market, there are sufficient numbers of potential clients in order for new MFIs to be established. What is needed for this to happen is mainly new laws to be passed. In addition to

⁴² Cikic, Gordana, 2006-06-06, Representative General, Tupperware, Podgorica, Montenegro

⁴³ Jestrovie, Smiljana, 2006-06-12, 9 am, Finance Manager Montenegro, AgroInvest, Podgorica, Montenegro.

this it could also be of importance that the international donor society would advocate for new laws in Serbia.

As discussed previously, the absence of a legal framework in Serbia makes it very difficult for new MFI to be established. Thus the lack of MF can not be filled. It is not possible for the now present MFIs to cover all potential clients. Thus in order for that need to be filled new MFIs need to be established. This is probably not going to happen though until a legal framework, explicitly regulating MFIs, has been enacted.

As discussed earlier, the implementation of laws regulating MFIs in Montenegro did not weaken the financial sector in Montenegro. It is therefore questionable if laws on MFIs would weaken the financial sector in Serbia, the economy of which is far larger than the Montenegrin one.

5.5 Do the MFIs meet the needs of female entrepreneurs in Serbia and in Montenegro?

As discussed earlier in this thesis there are theoretical indications that female entrepreneurs around the world generally face more difficulties than male entrepreneurs in accessing finance. This has been found to be the case for female entrepreneurs in Serbia and in Montenegro as well. As discussed, theoretical and empirical, one way of easing those problems could be to target women in various programs, initiated to improve the development of businesses in the area. For several reasons, as has been discussed above, microfinance could be one of those. Therefore this part of the analytical chapter analyses if the present MFIs focus on female clients and if they meet the special needs of female entrepreneurs. As stated earlier by Rosic (2005) one will not find one single way of running MF programs that would meet the needs of all kinds of clients. Empirical as well as theoretical indications throughout this study suggest that female MF clients are not homogenous. Rather they are faced with a wide range of problems, some of which are in common. This study does not ignore poor male entrepreneurs' need of MF, although the findings throughout this study show that the need might be more critical for female entrepreneurs. Thus, the purpose of this

part of the study is to evaluate if the present MFIs⁴⁴ meet the various needs of female entrepreneurs⁴⁵ in Serbia and in Montenegro.

One of the most obvious indicators to examine whether a given MFI is responsive to the demand from female entrepreneurs is to look at their proportion of female clients. In Serbia AgroInvest⁴⁶ is the MFI with the largest share of female clients. It lends money only to people in rural areas and has an overall objective to focus on women. The percentage of female clients is now 66.5⁴⁷. MicroFinS recognize the importance of focusing on women even though it specifically targets refugees. MicroFinS have a trading loan that exclusively targets women and 37.1 percent of its clients are women. Opportunity International Savings Bank does not in particular target women, but since it for instance targets those who do not have a credit history or do not meet the traditional collateral requirements women will certainly be indirectly targeted. The percentage of female clients in its portfolio is now 36.5. It is not quite clear⁴⁸ whether The Micro Development Fund especially targets women, but their percentage of female clients is 42.

Looking at the MFIs in Montenegro, AgroInvest is here, as well as in Serbia, the one with the largest proportion of female clients. Opportunity Bank does not specifically target women, but earlier, when the bank was still dependent on donors it had a gender focus. The share of female clients is today 37.0 percent. Alter Modus has a strong focus on female clients because it recognizes that women spend a larger proportion of their income on their families. 50 percent or above of its clients are women. Their other target group is refugees from neighbouring countries.

AgroInvest is trying to empower women through MF, and Bukilica (2006-06-12) states ***“We are trying to establish that women have more of a say. We support women in establishing themselves. I would say its important all over Balkan. You know this macho society. It’s all***

⁴⁴ Facts and general information about the present MFIs are presented in Appendix 4 and 5.

⁴⁵ For studies on general outreach and sustainability of MFIs in Serbia (and Montenegro) several assessments are (already) available. See for instance assessments made by The Planet Rating (www.planetrating.com), The Microfinance gateway (www.microfinancegateway.org), Fitch Ratings (www.fitchratings.com), The Mixmarket (www.mixmarket.org).

⁴⁶ The statistics and general information about the MFIs in this section is, if nothing else indicated, to be found in Appendix four and five.

⁴⁷ Statistics on Serbia and Montenegro separately is not available.

⁴⁸ Since I was not able to interview any of their representatives I was not able to ask them if they target women specifically.

over Balkan; it's the Balkans” (Bukilica, 2006-06-12). This focus on women's empowerment is certainly important. Although, from the theoretical chapter four it is implied that microfinance, in order to be a way of enhancing gender empowerment, should include training and consciousness-raising.

Since women in Serbia often lack the traditional collateral, flexible approaches to collateral are needed in order to overcome female entrepreneurs' lack of access to credit. One “flexible” way of looking at collateral is to give clients the possibility to build up financial assets by making savings and then to base the loan on those resources. In the Serbian context this is not possible due to the legal issue. Only fully licensed banks are allowed to have savings accounts. Therefore, only Opportunity International and ProCredit Bank in Serbia are allowed to offer savings accounts. Further, from the theoretical chapter four there are indications that there is collateral which has a low value if the bank was to be re-sale it, but that is very valuable for the clients and therefore could be used as collateral. This kind of flexible way of looking at collateral has not been implemented by any of the MFIs in question. This approach might be of importance in countries which have a lot of poor people lacking traditional collateral. However, the lack of sufficient implementation of property rights and inefficient legal systems may have reduced the benefits from this flexible way of looking at collateral since the threat of losing the collateral is reduced. Thus the efficiency of this kind of collateral is perhaps questionable in Serbia.

Public re-payment, as discussed by Armendáriz de Aghion et al. (2005) in the theoretical chapter four, is another way of dealing with the lack of collateral. This has, as discussed theoretically, several benefits. AgroInvest (both in Serbia and in Montenegro) has developed a re-payment method which is similar to this model. The representatives from AgroInvest visit villages and the re-payments are then publicly collected. None of the other MFIs in the area are involved in re-payment structures similar to this. This way of arranging the re-payment reduces the transaction costs for the clients, and has several other benefits emphasized in the theoretical chapter four by Armendáriz de Aghion et al. (2005). In addition to raising the re-payment rates by inducing social pressure, it gives the MFI the possibility to offer its clients related services and training. This has been shown to be especially important and useful for women. As stated by Armendáriz de Aghion et al. (2005) these services are important for clients lacking experience of running businesses, something which might more often apply to

women than to men. Secondly, as stated earlier in this chapter by Miller (2006-06-14), women are more interested and get more out of the training.

Hovde (2005) states that even though there are organisations supplying credit to needy groups in Serbia, she is surprised to find such a lack of practical business advice given to the beneficiaries of those programs (Hovde, 2005, p.7). AgroInvest does not offer any training related to the re-payment. This is explained with lack of capacity, the staff is already too busy with providing the loans. Although, the need for training is recognized ***“Maybe a combination of these two is the best, but we had to choose”*** (Kralj, 2006-06-14). MicroFinS on the other hand, offers its clients vocational training. As emphasized in the theoretical part, attaching training to MF may be a way of empowering women by improving their skills. And as emphasized by Armendáriz de Aghion et al. (2005) training and group meetings are important in order to enhance women’s empowerment.

Returning to the discussion about flexible approaches to collateral, one way of attaining the same kind of social pressure that emerges in group lending could be to have guarantors as collateral. This is recognized by all the MFIs in Serbia and Montenegro who now offer guarantors as collateral for their micro clients. Most of the MFIs accept only guarantors, and some accept more traditional kinds of collateral. The system of guarantors means that in order to obtain a loan, the client needs to have two to three (depending on the size of the loan) persons who are obliged to re-pay the loan in case of default. Ljesnjak (2006-06-06) at Opportunity Bank states that ***“It has been proven that the best collateral is guarantors because even though they are not very rich people they are very proud so they don’t want to get their friend into problem. Because of that it’s psychologically the best collateral. Then from another point of view it’s the fastest that you can get because if the loan is not re-paid you go to the company where the co-guarantors work and go to the accounting department and tell them they need to put this kind of money. With the mortgages you have to go to the court and then you have to wait for a decision and kicking people out on the street is not something we want to do so”*** (Ljesnjak, 2006-06-06).

6. Summary and concluding remarks

The first part of this chapter comprises a summary of the major conclusions from the analysis of the questions raised in the beginning of the analytical chapter five, and the second part of this chapter comprises concluding remarks.

Even though there are numerous of commercial banks in Serbia and Montenegro poor people generally have a very low access to credit in Serbia as well as in Montenegro. However, the access to credit is a lot more problematic for the female entrepreneurs. This can mainly be explained by women's lower activity on the labour market, women's lack of traditional collateral and because traditional commercial banks have a tendency to favour male entrepreneurs. These explanations can all at least to some extent be explained by social norms which generate discrimination of women. It has been found that there are several advantages related to involving women in microfinance. The advantages can be divided into two main areas where the first one is strictly economic and the second one has to do with social and economic development. The first indicates that since women are more likely than men to repay the loans, targeting women has an advantage in efficiency. The second indicates that since women are more likely than men to allocate resources to the welfare of the family, it is important from a social and economic development perspective to target women. However, there are several indications that microfinance alone would not be sufficient in addressing the various obstacles facing female entrepreneurs.

The analysis of this study indicate that in order to create business climates where women are encouraged to run their own business, a combination of actions should be taken. One of these actions would be to change these underlying reasons to why women are being discriminated because they are viewed as less suitable than men to do business. Since female entrepreneurs lack of sufficient credit is not only due to insufficient supply of financial services to poor, but also because women are to some extent being discriminated on the financial market, microfinance without a special aim of targeting women would probably not overcome the obstacles to female entrepreneurs' access to credit. Further, since there are theoretical as well as empirical indications that microfinance without additional services and consciousness-raising activities would not be enough to empower women, it is even more obvious that a wide range of actions need to be taken. However, there is also empirical support of that

microfinance alone directed to women empowers women since it gives them the opportunity to show the community that they are just as capable as men in running businesses. If this opportunity for women to show their capabilities to run businesses is not being spoiled too much by gender structures etc, microfinance directed to women in Serbian and Montenegro may provide female entrepreneurs with the tools to demonstrate that they have the abilities to be entrepreneurs. It is something which may lead to some changes of social norms regarding how women are viewed.

Since microfinance, at least to some extent, gives women the tools to do business, it is a way for them to improve their own living conditions as well as a way of increasing their status in the family and in the community. As indicated in previous chapters there is a two way relationship between increased gender equality and decreased poverty. This leads to the conclusion that microfinance directed to women could be a way of targeting both the directions of that two-way relationship since it improves gender equality by empowering women at the same time as it decreases poverty by improving the living conditions. In addition to what has been theoretically as well as empirically proven women most often spend more of their income on health and education of the children, which will have inter-generational impacts on families and in communities.

Given that women are faced with additional obstacles on the financial markets, the need for microfinance is probably larger among female entrepreneurs than among male ones. Thus, there would be larger number of potential microfinance clients among female entrepreneurs than male ones in the area. This conclusion does ignore that many of the problems discussed are concerns for poor male entrepreneurs as well. For instance, in the Serbian and Montenegrin context, the capital is there, but for several reasons as discussed in the analytical chapter, it is often unreachable for (all) the poor entrepreneurs. Programs run in order to improve business development should therefore not neglect men. However, since there are strong indications that the problems are more severe for female entrepreneurs, there are strong reasons for targeting women to a greater extend than male. Therefore, at least at an aggregated (country) level, the percentage of women clients in MFIs should probably be more than 50 percent.

The need of finance and related services for female entrepreneurs is not yet fulfilled by the present MFIs in the area. This is partly due to not all of them targeting women, and partly it is

due to the fact that the overall need of MF in the area is far from being fulfilled due to too few MFIs. Thus changed focuses of the present MFIs as well as an establishment of new MFIs are needed in order to be able to meet the demands of women (and other groups). The establishment of new MFIs is in Serbia, unfortunately restrained by the lack of legal framework. And therefore such a legal framework needs to be established. Since that was done some time ago in Montenegro, a country with a smaller economy than Serbia, and it did not cause instability on the financial market, there are few reasons for Serbia to resist the establishment of such a legal framework.

The system of guarantors, which is the most common way of dealing with the lack of collateral in the form of mortgages in Serbia and Montenegro, may be hindering women more than men. This may be due to the prevailing attitudes towards female entrepreneurs which may make it more difficult for women to find someone willing to be a guarantor for them. If women would try to overcome this problem by serving as guarantors for each other, this may be restrained by women's lower LFP. Thus it might be difficult to find women who qualify as guarantors. For women, still, perhaps group lending would also in the Serbian and Montenegrin context be a better way because then women could form groups of women they trust and also they could encourage each other in a net-working spirit.

Further, it is not clear whether the better way of doing MF is for MFIs to segment the market so that different MFIs target different client groups, or if the better way is for all MFIs to target all the different client groups. Since gender-related issues are very complex, programs intended to empower women needs to take many concerns into account. Programs that are properly designed can have strong and positive effects on women's empowerment, which can result in women holding more assets, being more active in family decisions, and in increased investments in the welfare of the families. For those reasons among other, it is important that gender issues are being highlighted by the governments and put on the political agendas in Serbia and Montenegro.

As stated earlier in this chapter, since improvements in gender equality could be a tool to achieve economic and social development, discriminating women in the financial sector, or in any other sector, would be very inefficient from an economic point of view. Thus empowerment of women would be very important, regardless of other gender concerns. Improvements of female entrepreneurs' circumstances would therefore be of importance, not

only from the women's view, but from a societal view. Not to forget though, the empowerment of women does not have to be justified in terms of economic benefits or anything else because to be treated equally regardless of sex (or anything else) is a basic human right. Thus policies that explicitly target women should be acknowledged, not only since they are necessary in order to reach gender equality, but also because equality in terms of gender is desirable in itself and worth its costs.

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Appendix 1

Serbia and Montenegro in numbers

Serbia⁴⁹

<i>Capital</i>	Belgrade (Beograd)
<i>Population (2002)</i>	7.5 million (excluding Kosovo and Montenegro) ⁵⁰
<i>Population below poverty line (1999)</i>	30 % ⁵¹
<i>Life expectancy</i>	76 years (women), 71 years (men) ⁵²
<i>Literacy (2002.)</i>	96, 4 % (female: 94.1%, male: 98.9%) ⁵³
<i>Labour force(2002)</i>	2.961 million for Serbia (excluding Montenegro, including Kosovo) ⁵⁴ .
<i>Labour force by occupation (2002)</i>	agriculture: 30%, industry: 46%, services: 24% (excluding Kosovo and Montenegro) ⁵⁵
<i>Unemployment (2005)</i>	Approx. 31.6 % (excluding Kosovo and Montenegro) ⁵⁶
<i>GDP per capita (2005)</i>	US\$ 4,400 ⁵⁷
<i>GDP increase (2005)</i>	5.9% for (excluding Kosovo and Montenegro) ⁵⁸
<i>Rate of inflation (2005)</i>	15.5 % ⁵⁹
<i>Ethnic Groups</i>	Serb 66%, Albanian 17%, Hungarian 3.5%, other 13.5% (1991) ⁶⁰
<i>Natural resources</i>	Oil, gas, coal, iron ore, copper, lead, zinc, antimony, chromate, nickel, gold, silver, magnesium, pyrite, limestone, marble, salt, arable land ⁶¹ .
<i>Main exports</i>	Manufactured goods, food and live animals, machinery and transport equipment ⁶² .

⁴⁹ Economic data for Serbia currently reflects information for the former Serbia and Montenegro (Kosovo included), unless otherwise noted. Adequate economic data for Serbia is not yet available.

⁵⁰ http://news.bbc.co.uk/1/hi/world/europe/country_profiles/5050584.stm#facts, 2006-07-22.

⁵¹ <https://www.cia.gov/cia/publications/factbook/geos/mj.html>, 2006-07-22.

⁵² http://news.bbc.co.uk/1/hi/world/europe/country_profiles/5050584.stm#facts, 2006-07-22.

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⁵⁶ <https://www.cia.gov/cia/publications/factbook/geos/rb.html>, 2006-07-22.

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⁶⁰ <https://www.cia.gov/cia/publications/factbook/geos/rb.html>, 2006-08-04).

⁶¹ <https://www.cia.gov/cia/publications/factbook/geos/rb.html>, 2006-08-04.

⁶² <https://www.cia.gov/cia/publications/factbook/geos/rb.html>, 2006-08-04.



(<https://www.cia.gov/cia/publications/factbook/geos/rb.html>, 2006-08-04).

⁶² http://news.bbc.co.uk/1/hi/world/europe/country_profiles/5050584.stm#facts, 2006-08-04.

Montenegro

<i>Capital</i>	Podgorica
<i>Population (2003)</i>	630,548 ⁶³
<i>Population below poverty line (2003)</i>	12 % ⁶⁴
<i>Life expectancy</i>	76 years (women), 71 years (men) ⁶⁵
<i>Literacy</i>	-
<i>Labour force (2004)</i>	259,100 ⁶⁶
<i>Labour force by occupation (2004)</i>	agriculture: 2%, industry: 30%, services: 68% ⁶⁷
<i>Unemployment (2005)</i>	27.7 % ⁶⁸
<i>GDP per capita (2005)</i>	US\$ 3,800 ⁶⁹
<i>GDP increase</i>	-
<i>Rate of inflation (2004)</i>	3.4% (consumer prices) ⁷⁰
<i>Ethnic Groups</i>	Montenegrin 43%, Serbian 32%, Bosniacks 8%, Albanian 5%, other (Muslims, Croats, Roma) 12% ⁷¹
<i>Natural resources</i>	bauxite, hydroelectricity ⁷²
<i>Main export</i>	Aluminium ⁷³

⁶³ <https://www.cia.gov/cia/publications/factbook/geos/mj.html>, 2006-08-04.

⁶⁴ <https://www.cia.gov/cia/publications/factbook/geos/mj.html>, 2006-07-22.

⁶⁵ http://news.bbc.co.uk/1/hi/world/europe/country_profiles/5033274.stm#facts, 2006-07-22.

⁶⁶ <https://www.cia.gov/cia/publications/factbook/geos/mj.html>, 2006-08-04.

⁶⁷ <https://www.cia.gov/cia/publications/factbook/geos/mj.html>, 2006-08-04.

⁶⁸ <https://www.cia.gov/cia/publications/factbook/geos/mj.html>, 2006-07-22.

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Appendix 2

Summary of the historical, political and economic context of Serbia and Montenegro

In 1929 the Kingdom of Serbs, Croats, and Slovenes changed its name to Yugoslavia. Tito, a communist and his group, took control of Yugoslavia in 1945. Tito died in 1980 and in the early 1990s conflicts between different ethnic groups arose. In 1992, Slovenia, Croatia, Macedonia, and Bosnia and Herzegovina were recognized as independent states. The republics left, Serbia and Montenegro, declared a new Federal Republic of Yugoslavia (FRY) in April 1992. The president Milosevic led Serbia to different military interventions in neighbouring countries, aiming to create a “Greater Serbia”, until the Dayton Peace Accords in 1995. During 1998 and 1999 considerable expulsions of ethnic Albanians living in the province of Kosovo lead to Nato interventions (<http://www.cia.gov/cia/publications/factbook/geos/yi.html>, 2006-05-24).

In September 2000 the presidential elections led to Milosevic being defeated. The new president, Kostunica, cleared the way for an international recognition of the remains of Yugoslavia (<http://www.deza.ch/index.php?langID=1&navID=21124>, 2006-05-24). In 2002, Serbia and Montenegro began to negotiate for freer bonds between them (<http://www.cia.gov/cia/publications/factbook/geos/yi.html>, 2006-05-24). And an agreement which founded a loose federation of two republics called Serbia and Montenegro was signed in February 2003 (<http://www.deza.ch/index.php?langID=1&navID=21124>, 2006-05-24, <http://www.cia.gov/cia/publications/factbook/geos/yi.html>, 2006-05-24).

Montenegro held an independence referendum on the 21st of May 2006. The outcome of the election was pro independence (Mia Holmgren, 2006-05-22, <http://www.dn.se/DNet/jsp/polopoly.jsp?d=148&a=547061>, 2006-05-22). The votes pro independence exceeded the 55% threshold, allowing Montenegro to formally declare its independence on June, 3 2006 (<https://www.cia.gov/cia/publications/factbook/geos/mj.html#People>, 2006).

The mismanagement of the economy during the Milosevic era, in conjunction with the international sanctions and the damage to the infrastructure and industry caused by the NATO bombings, left the economy only half the size it was in 1990. After the fall of Milosevic,

market oriented reforms were taken on. In 2000, Serbia renewed it's memberships in the IMF, joined the WB and the EBRD. Serbia was at that time given great economic donations and different forms of debt relieves (<https://www.cia.gov/cia/publications/factbook/geos/rb.html>, 2006-07-22).

Minor progress has been achieved in restructuring and privatisations of the economy. Serbia has taken few steps forward eventual EU membership. One of the major economic and social problems of Serbia is unemployment. So far, the independence of Montenegro has had little impact on the Serbian economy since the economy of Montenegro was controlled by the Republic of Montenegro also before the independence (<https://www.cia.gov/cia/publications/factbook/geos/rb.html>,2006-07-22).

Appendix 3

Definitions

Microfinance (MF) is the provision of credit, savings, and other financial products. Microfinance is provided in small amounts primarily to poor customers usually assumed not to have the ability to save as well as being incapable to pay the high interest rates necessary to cover credit transaction costs⁷⁴.

Microfinance comprises different types of financial projects. Some of them are provided exclusively to women; furthermore microfinance projects directed to other groups have women as their majority customers as well, since the majority of the poor are women⁷⁵.

Microfinance Institution (MFI) is financial institution which can be non-profit organizations, regulated financial institutions or commercial banks providing microfinance to poor clients⁷⁶.

Micro credit is a part of microfinance. Micro credit is the supply of credit to poor entrepreneurs, which is sometimes referred to as micro loan. Micro credit can be offered, often without collateral, to individuals or groups. Group lending is a method of micro credit that permits a number of individuals to get loans through group repayment pledges. The incentive to repay is based on peer pressure; if one individual in the group fails to repay, the other group members are responsible to make that payment. Individual micro lending, on the other hand, focuses on one individual and does not demand other individuals to offer bonds⁷⁷.

Micro saving is part of microfinance. Micro saving is deposits made with MFIs in the microfinance sector (Basu et al., 2004, p.4). It is sometimes argued that poor people are too poor to save, but the poor already save in ways that we may not consider as "normal" savings. This is done by investing in assets that can be exchanged to cash in the future (e.g. gold jewellery, domestic animals, building materials). Poor people face the same series of sudden

⁷⁴ <http://www.gdrc.org/icm/wind/binns-2.html>, 2006-04-04.

⁷⁵ <http://www.gdrc.org/icm/wind/binns-2.html>, 2006-04-04.

⁷⁶ http://www.accion.org/micro_glossary.asp#m, 2006-04-04.

⁷⁷ http://www.accion.org/micro_glossary.asp#Microcredit, 2006-04-04.

demands for cash as all people do (eg. illness, school fees, need to expand the dwelling, and burial)⁷⁸.

Active Loan Portfolio is the total amount loaned out less the total amount of repaid loans⁷⁹.

Collateral Asset pledged by a borrower to secure a loan, which can be claimed in case of default. In a microfinance context, collateral can vary from fixed assets (a car, a sewing machine) to guarantors⁸⁰.

Disbursement is the actual transfer of the financial resources. The disbursement of micro credit is the transfer of the loan amount from the lending institution to the borrower⁸¹.

Financial Self-Sufficiency (FSS) is the total operating revenues divided by total administrative and financial expenses, which in the microfinance context means that an institution is financially self-sufficient when it has revenue enough to pay for all administrative expenses, loan losses, potential losses and funds⁸².

Informal Sector is a part of the economy comprising self-owned enterprises and the enterprises of informal employment, in both rural and urban areas. The businesses within the informal sector are not tax registered, nor registered at regulatory bodies. The key characteristics of the informal sector are ease of entry, self-employment, small-scale production, labour-intensive work, deficient access to organized markets, and poor access to traditional forms of credit institutions⁸³.

Gender equality “we need equal rights for men and women⁸⁴”. Hence, one could say that gender equality is not only about legal rights, but also about equal rights and opportunities in the day-to-day life. In a society which is equal in terms of gender no women or men are oppressed because of their sex.

⁷⁸ <http://www.mixmarket.org/en/overview.asp>, 2006-07-22.

⁷⁹ http://www.accion.org/micro_glossary.asp#c, 2006-08-04.

⁸⁰ http://www.accion.org/micro_glossary.asp#c, 2006-08-04.

⁸¹ http://www.accion.org/micro_glossary.asp#c, 2006-08-04.

⁸² http://www.accion.org/micro_glossary.asp#c, 2006-08-04.

⁸³ http://www.accion.org/micro_glossary.asp#i, 2006-04-04.

⁸⁴ Jämställdhet: Samma rättigheter för män och kvinnor (Malmström, Györki, Sjögren, 1991).

Micro enterprises are small- to medium-scale companies generally in the informal sector. Micro enterprises are often family businesses and usually have their base in the home. For instance micro enterprises can be small retail kiosks, sewing workshops, carpentry shops and market stalls⁸⁵.

Small & Medium Scale Enterprise (SME) is enterprise employing between 5 and 10 employees (small-scale) or 10 to 50 employees (medium-scale)⁸⁶.

Sustainability is achieved once an organization is able to cover its costs. Different degrees of sustainability are to be found among MFIs, ranging from not sustainable to financially sustainable⁸⁷.

⁸⁵ http://www.accion.org/micro_glossary.asp#Microenterprise, <http://www.un.org/News/Press/docs/2005/sgsm10151.doc.htm>, 2006-04-04.

⁸⁶ http://www.accion.org/micro_glossary.asp#i, 2006-04-04.

⁸⁷ http://www.accion.org/micro_glossary.asp#c, 2006-08-04.

Appendix 4

MFIs in the Republic of Serbia

AgroInvest (Serbia and Montenegro)

General information: AgroInvest comprises two different legal entities operating under two very different legal frameworks⁸⁸. In practice, AgroInvest is managed as one organisation. In Serbia it has the model of partnering with a local commercial bank, using their permission to disburse the financial funds⁸⁹.

Mission: “Life for rural families in all its fullness” and “Serving and empowering rural families with high-quality financial services”. Serves rural families in order to bring improvement of life with emphasize on children and community development⁹⁰.

Established: *Serbia:* 2001, in 2003 registration, 2005 registered as Limited Liability Company. *Montenegro:* 1999 as a project for world vision. 2001 registered as local NGO, 2003 licence from the central bank of Montenegro, 2005 registered limited liability company⁹¹.

Funded: SIDA, CIDA, KfW, WVI Germany, RNE, Blue Orchard, VFI⁹².

Gross loan Portfolio: USD 18.371.099 (As of 31-12-05)⁹³.

Dependent on donations: “*Self-sufficient in Montenegro since three years. In Serbia they depend because they do not have that financial self-sufficiency*” (Jestrovie, 2006-06-12).

Size of micro credit: Euros 250 to (recently increased to) 7000⁹⁴.

Collateral requirements: Guarantee, two guarantors sign the bill for exchange, meaning they have to be employed permanently somewhere. That’s the only collateral accepted⁹⁵.

Savings Accounts, why: “*No, we are not allowed. Like most mg org we are not allowed. I am not shore we will be able and capable of doing it even if it would be allowed. We will consider doing it in the future and prepare ourselves*” (Kralj, 2006-06-14).

Number of clients: More than 16 000 clients, about 11 500 in Montenegro and about 5000 in Serbia⁹⁶.

⁸⁸ AgroInvest Planet Rating, 290704, p.9.

⁸⁹ Kralj, 2006-06-14.

⁹⁰ AgroInvest Annual Report 2005, p. 3.

⁹¹ Kralj, 2006-06-14.

⁹² <http://www.mixmarket.org/en/demand/demand.show.profile.asp?token=&ett=702>, 2006-07-23.

⁹³ <http://www.mixmarket.org/en/demand/demand.show.profile.asp?token=&ett=702>, 2006-07-23.

⁹⁴ Kralj, 2006-06-14.

⁹⁵ Kralj, 2006-06-14.

Female clients (%): 66, 3 (As of 31-12-05)⁹⁷.

Target clients: Only to rural population. It is low economically active population. About 90% of AgroInvest's loans are going to agriculture activity, and 10% are going to economic activities which happen in rural areas, including trading, handwork and some services⁹⁸.

If women, why: *“We are actually forcing women to take loans, because its proven that women are better, that they are more responsible than men and its also has to do with emancipation of women in rural areas”* (Kralj, 2006-06-14). *“Because this is men's society and to change that and to encourage women to start businesses we are providing loans to women more then to men”* (Jestrovie, 2006-06-12). *“We are trying to establish that women have more of a say. We support women in establishing themselves. I would say its important all over Balkan. (I would say on a personal level: You know this macho society. Its all over Balkan, it's the Balkans”* (Bukilica, 2006-06-12).

Additional services: No. Because the belief of AgroInvest is that clients know best what is best to invest in. That's first thing. Second thing is that it could dangerous to advice clients how to invest. And they state that they do not have enough capacity to provide some training, because they are already very busy with providing the loans. *“What people basically need is finance, money. Maybe a combination of these two is the best, but we had to choose”* (Kralj, 2006-06-14). AgroInvest allocates its net surplus to village projects. They try to selects projects with the biggest impact on the community and especially on the children (mainly schools)⁹⁹.

MicroFinS

General information: MicroFinS was excluded from the conditions of the Foreign Exchange Law which is preventing other organisations from supplying MF¹⁰⁰. The MFI is registered as an association of citizens and the purpose of their work is social humanitarian work. It is a non-profit NGO. The disburse credit through a commission contract with a commercial bank. Through this cooperation they fulfil all legal requirements. MicroFinS finds the clients, takes necessary documentation, goes to the field of their clients to check if everything is ok. After

⁹⁶ Kralj, 2006-06-14.

⁹⁷ <http://www.mixmarket.org/en/demand/demand.show.profile.asp?token=&ett=702>, 2006-07-23.

⁹⁸ Kralj, 2006-06-14.

⁹⁹ Kralj, 2006-06-14.

¹⁰⁰ Bascarevic, 2006-05-08.

that, all disbursements of amounts go through the commercial bank and all payments are made through the post offices or commercial banks¹⁰¹. The commercial bank has a wide network of Branch Offices that allows MicroFinS to cover all regions of Serbia¹⁰².

Mission: “To provide assistance to disadvantaged and largely marginalized groups such as refugees, IDPs and local citizens in Serbia, by helping them to improve family earning capacity and thus gain greater self-sufficiency and self-esteem¹⁰³.”

Established: 2000¹⁰⁴.

Funded: The main donor UNHCR phased out their economic contribution to with MicroFinS in Serbia in January 2005, which was done through a portfolio handover¹⁰⁵. Credit lines got from Sida, CWS, ICRC, CRL, EP, JDC, RNE¹⁰⁶.

Gross Outstanding Portfolio: Euros 3.978.126, 55 (As of 31-12-05)¹⁰⁷.

Dependent on donations: No, self-sustainable since 2005¹⁰⁸.

Size of microcredit: Euro 250 to 4 500¹⁰⁹.

Collateral requirements: The different types of collateral which are required are two grantors with salaries or collateral on movable assets, collateral on immovable assets, or administrative ban on salary¹¹⁰.

Savings Accounts, why: No, and it is not only due to the legal aspect¹¹¹. “*We focus on microcredit and vocational training*” (Momcilovic, 2006-06-13).

Number of clients: 3 923 (male 2 467, female 1 456) (As of 31-12-05)¹¹².

Female clients (%): 37, 11 (As of 31-12-05)¹¹³.

Target clients: Those are people who are not likely to get bank loans since they do not fulfil the strict bank requirements. National minorities are also priority. “*So all vulnerable categories, like single mothers, national minorities, long term unemployed local population, refugees, IDP, All those people ask for help in mf orgs*” (Momcilovic, 2006-06-13). MicroFinS offer trading loans which are exclusively for women because they are trying to encourage them and according to MicroFinS, the easiest way for women to go into business is

¹⁰¹ Momcilovic, 2006-06-13, 10 am, HR/Adm. officer, MicroFinS, Belgrade, Serbia.

¹⁰² Sida Final Report 2001-2005, MicroFinS, p. 8-9.

¹⁰³ <http://www.microfins.org.yu/AboutUs.htm>, 2006-07-23.

¹⁰⁴ <http://www.microfins.org.yu/AboutUs.htm>, 2006-07-23.

¹⁰⁵ Momcilovic, 2006-06-13.

¹⁰⁶ www.microfins.org.yu, 2006-07-19.

¹⁰⁷ MicroFinS Annual Report 2005, p. 14.

¹⁰⁸ Momcilovic, 2006-06-13.

¹⁰⁹ <http://www.microfins.org.yu/Loans.htm>, 2006-07-23.

¹¹⁰ Momcilovic, 2006-06-13.

¹¹¹ <http://www.microfins.org.yu/Loans.htm>, 2006-07-23.

¹¹² MicroFinS Annual Report 2005, p. 15.

¹¹³ MicroFinS Annual Report 2005, p. 15.

with a trade business. *“And we are especially taking care of gender equality, we are trying to encourage women to take not only trading loans but also to take business loans”* (Momcilovic, 2006-06-13).

If women, why: To encourage women to start businesses, which is one of their priorities but not the only one¹¹⁴.

Additional services: MicroFinS offers pre-vocational trainings which include bakery course, hair dressing course, and graphic design and screen printing course¹¹⁵.

Opportunity International Savings Bank

General information: Opportunity international is supposed to provide and meet all the requirements for full banking licence, and hope to become a fully licensed bank in the beginning of 2007. Which means besides microfinance they will provide other services like commercial banks. They intend to keep their focus on micro businesses and entrepreneurs, those who has difficulties in obtaining credits from regular financial institutions. Opportunity International Savings Bank and Opportunity Bank in Montenegro are two different banks but are related. Opportunity International Savings Bank signed a contract with Opportunity International in Chicago to start a financial institution in Serbia. Due to the new law they are going to convert into a bank. Opportunity Bank in Montenegro has Opportunity International as their biggest share holder. *“We are the only, and ProCredit, fully licensed banks that basically provides microfinance* (Zoric Krzic, 2006-06-14).”

Mission: create employment opportunities and improve the standard-of-living amongst its clients and their families, regardless of ethnicity, religious, or political affiliations. OIS strives to provide stability for its clients; allowing them to help themselves in dignity, with self-confidence, and rebuild confidence in financial institutions¹¹⁶.

Established: 2002¹¹⁷. Savings licence in 2002¹¹⁸.

Funded: Share holding capital. The largest funder is OTI CHICAGO¹¹⁹.

Gross loan Portfolio: USD 7,916,777 (As of 31-12-05)¹²⁰.

¹¹⁴ Momcilovic, 2006-06-13.

¹¹⁵ Momcilovic, 2006-06-13.

¹¹⁶ <http://www.mixmarket.org/en/demand/demand.show.profile.asp?ett=1347,2006-07-21>.

¹¹⁷ <http://www.mixmarket.org/en/demand/demand.show.profile.asp?token=&ett=1347,2006-07-23>.

¹¹⁸ Zoric Krzic, 2006-06-14.

¹¹⁹ <http://www.mixmarket.org/en/demand/demand.show.profile.asp?ett=1347,2006-07-21>.

¹²⁰ <http://www.mixmarket.org/en/demand/demand.show.profile.asp?ett=1347,2006-07-21>.

Dependent on donations: No. Funded by share holders¹²¹.

Microcredit: EUR 500 to 5000¹²².

Collateral requirements: -

Savings Accounts, why: “*We are now the only savings and loans in Serbia* (Zoric Krzic, 2006-06-14).”

Number of clients: 2 758 (As of 31-12-05)¹²³.

Female clients (%): 36, 5 (As of 31-12-05)¹²⁴.

Target clients: Target clients are entrepreneurs and small enterprises, and businesses in a development face. They also target refugees, start ups, those who do not have a credit history, or do not meet the collateral requirements. “*We will expand it (when becomes fully licensed bank), so we will not go away from our target clients, but we will expand it to be business oriented. It will be focusing on business development, trade, and finance*” (Zoric Krzic, 2006-06-14).”

If women, why:-,

Additional services: No¹²⁵.

Micro Development Fund (MDF)

General information/Mission: To reduce poverty through enhancement of the economic situation and general living conditions of socially and economically disadvantaged people¹²⁶.

Established: 2001¹²⁷.

Funded: UNHCR, EAR, Danida, ICRC, Tavolo Trentino¹²⁸.

Gross loan Portfolio: 2,405,595 (As of 31-12-05)¹²⁹.

Dependent on donations: no, since 2003¹³⁰.

Definition of micro credit: Euro 200 to 10.000¹³¹.

¹²¹ <http://www.mixmarket.org/en/demand/demand.show.profile.asp?token=&ett=1347>, 2006-07-23.

¹²² Hand out USAID Opportunity International Savings Bank.

¹²³ <http://www.mixmarket.org/en/demand/demand.show.profile.asp?ett=1347>, 2006-07-21.

¹²⁴ <http://www.mixmarket.org/en/demand/demand.show.profile.asp?ett=1347>, 2006-07-21.

¹²⁵ <http://www.mixmarket.org/en/demand/demand.show.profile.asp?ett=1347>, 2006-07-21.

¹²⁶ <http://www.mixmarket.org/en/demand/demand.show.profile.asp?ett=1567&>, 2006-07-22.

¹²⁷ <http://www.mixmarket.org/en/demand/demand.show.profile.asp?ett=1567&>, 2006-07-22.

¹²⁸ <http://www.mdf.org.yu/donors.php>, 2006-07-21.

¹²⁹ <http://www.mixmarket.org/en/demand/demand.show.profile.asp?ett=1567&>, 2006-07-22.

¹³⁰ <http://www.mdf.org.yu/programs.php>, 2006-07-21.

¹³¹ <http://www.mdf.org.yu/programs.php>, 2006-07-21.

Collateral requirements: The most commonly used collaterals are promissory note signed by endorsers or firms, administrative bans on salary or pledges and mortgages (type of collateral required depends on lone type and size)¹³².

Savings Accounts, why:-

Number of clients: 2,378 (As of 31-12-05)¹³³.

Female clients (%): 42, 00 (As of 31-12-05)¹³⁴.

Target clients: start-up entrepreneurs, farmers, un-registered as well as registered entrepreneurs, employed who parallel do an additional activity¹³⁵.

If women, why:-

Additional services: Vocational Trainings. For refugees and IDPs whose education does not fit into the local labour market¹³⁶.

ProCredit Bank¹³⁷

General information/ Mission: Lends small and very small businesses, which is it's core business¹³⁸. Supplies general business loans as well as loans specifically directed to agricultural activities¹³⁹. Offers loans to farmers who join together to form groups and who collectively serve as guarantors for each other¹⁴⁰.

Established: 2001¹⁴¹.

Funded: Through it's share holders ProCredit Holding, KfW, EBRD, Commerzbank AG¹⁴².

Gross loan Portfolio: Gross Loan Portfolio 185,910¹⁴³ (As of 31-12-05)¹⁴⁴.

Dependent on donations: No¹⁴⁵.

¹³² <http://www.mdf.org.yu/programs.php>, 2006-07-21.

¹³³ <http://www.mixmarket.org/en/demand/demand.show.profile.asp?ett=1567&>, 2006-07-21.

¹³⁴ <http://www.mixmarket.org/en/demand/demand.show.profile.asp?ett=1567&>, 2006-07-23.

¹³⁵ <http://www.mdf.org.yu/programs.php>, 2006-07-21)

¹³⁶ http://www.mdf.org.yu/vocational_training.php, 2006-07-21.

¹³⁷ ProCredit Bank is one of the MFIs I was not able to meet with. The operating results for the year 2004 were confirmed by the credit rating awarded by the Fitch rating agency. ProCredit Bank was the first Serbian bank to obtain an individual rating, a "B", the best score possible given that individual ratings cannot be higher than the country rating, which is also "B" in Serbia's case (http://www.procreditbank.co.yu/about_annual.html, 2006-07-23).

¹³⁸ http://www.procreditbank.co.yu/companies_loans.html, 2006-07-21.

¹³⁹ http://www.procreditbank.co.yu/companies_bank_accounts.html, 2006-07-21.

¹⁴⁰ http://www.procreditbank.co.yu/companies_loans_agro.html, 2006-07-21.

¹⁴¹ http://www.procreditbank.co.yu/about_annual.html, 2006-07-21.

¹⁴² http://www.procreditbank.co.yu/about_shareholders.html, 2006-07-23.

¹⁴³ Separate statistics for microfinance are not available in the report.

¹⁴⁴ ProCredit Bank Annual Report 2005, p. 2.

¹⁴⁵ http://www.procreditbank.co.yu/about_shareholders.html, 2006-07-23.

Size of microcredit: Loan size Euro 250- 50.000¹⁴⁶.

Collateral requirements: -

Savings Accounts, why: Yes¹⁴⁷.

Number of clients: 85,000 customers¹⁴⁸(As of 31-12-04)¹⁴⁹.

Female clients¹⁵⁰ (%): -

Target clients: Micro, small and medium-sized enterprises¹⁵¹.

If women, why:-

Additional services:-

¹⁴⁶ http://www.procreditbank.co.yu/companies_loans_probiznis.html, 2006-07-23.

¹⁴⁷ http://www.procreditbank.co.yu/companies_bank_accounts.html, 2006-07-23.

¹⁴⁸ Both entrepreneurs and private individuals included. Separate statistics are not presented on the web page.

¹⁴⁹ http://www.procreditbank.co.yu/about_annual.html, 2006-07-23.

¹⁵⁰ *“Their general manager is a lady, their executive finance officer is a woman, their legal adviser is a woman. Its like a ladies bank “* (Rosic, 2006-06-16).

¹⁵¹ http://www.procreditbank.co.yu/about_mission.html, 2006-07-21.

Appendix 5

MFIs in the Republic of Montenegro

Opportunity Bank (Montenegro)

General information: Opportunity Bank is a part of Opportunity International and is a licensed bank specialised in micro credit and other banking products for micro, small and medium entrepreneurs¹⁵². The percentage of operations comprised by microfinance is 51-60%¹⁵³. Opportunity Bank is Opportunity International Network's first fully licensed bank in the region¹⁵⁴.

Mission: To support the development of micro and small businesses by providing micro loans in order to meet the financial needs of micro and small business (<http://www.opportunitybank.cg.yu/english/mikro-kredit.htm>, 2006-07-21).

Established: 1999, fully licenced bank in 2002¹⁵⁵.

Funded: Loans: OI, KFW, EBRD, Oikocredit (<http://www.mixmarket.org/en/demand/demand.show.profile.asp?ett=1336&>, 2006-07-21).

Gross loan Portfolio: *“25 million euros probably half of it is micro clients”* (Ljesnjak, 2006-06-06).

Dependent on donations: No¹⁵⁶.

Size of microcredit: Up to 7500 euros. (The beneficiary of the loan must be a physical person, not a company)¹⁵⁷.

Collateral requirements: Co-guarantors, which mean the borrowers, have persons that are earning salaries guaranteeing the loans¹⁵⁸.

Savings Accounts, why: Yes¹⁵⁹.

Number of clients: 11.695 (As of 31-12-05)¹⁶⁰.

Female clients (%): 37, 0 (As of 31-12-05)¹⁶¹.

¹⁵² Bascarevic, 2006-05-08.

¹⁵³ <http://www.mixmarket.org/en/demand/demand.show.profile.asp?ett=1336&>, 2006-07-21.

¹⁵⁴ <http://www.mixmarket.org/en/demand/demand.show.profile.asp?ett=1336&>, 2006-07-21.

¹⁵⁵ Ljesnjak, 2006-06-06.

¹⁵⁶ Ljesnjak, 2006-06-06.

¹⁵⁷ Ljesnjak, 2006-06-06.

¹⁵⁸ Ljesnjak, 2006-06-06.

¹⁵⁹ <http://www.mixmarket.org/en/demand/demand.show.profile.asp?ett=1336&>, 2006-07-21.

¹⁶⁰ <http://www.mixmarket.org/en/demand/demand.show.profile.asp?ett=1336&>, 2006-07-21.

¹⁶¹ <http://www.mixmarket.org/en/demand/demand.show.profile.asp?ett=1336&>, 2006-07-21.

Target clients: *“We are a commercial bank, but still our strong focus is on micro lending”*
(Ljesnjak, 2006-06-06).

If not women, why: *“We do not target on women, we lend to both men and women. That is what we encouraged when we started, but now times are changing. I know many MFI targeting women because donor money is saying this money needs to go to women. It’s also connected because many MFIs are dependent on donors. This is not the case for us so we can lend to anybody we want to we do not have restrictions like that or pressure from the donors”* (Ljesnjak, 2006-06-06).

Women better in re-paying loans: -

Additional services: No¹⁶².

Alter Modus

General information: Is a NGO which was started by a group who worked for DRC.

Mission: The provision of long-term, viable credit services to marginalised people¹⁶³.

Established: 1999¹⁶⁴.

Funded: EBRD and other donors¹⁶⁵.

Credit Portfolio: Euros 5.500.000 (As of 18-05-05)¹⁶⁶.

Dependent on donations: -

Definition of microcredit: -

Collateral requirements: -

Savings Accounts, why: No.

Number of clients: 5 400 (As of 20-12-05)¹⁶⁷.

Female clients (%): 50 or above¹⁶⁸.

Target clients: *“People with potential, who have demonstrated they can do a lot with a little, who have good business proposals and are well regarded in their communities. “Over half of our clients are women. Around 35 per cent of clients receiving loans are refugees from Bosnia*

¹⁶² <http://www.mixmarket.org/en/demand/demand.show.profile.asp?ett=1336&>, 2006-07-21.

¹⁶³ <http://www.ebrd.com/new/stories/2005/050518.htm>, 2006-07-21.

¹⁶⁴ <http://www.ebrd.com/new/pressrel/2005/185dec21.htm>, 2006-07-21.

¹⁶⁵ Bascarevic, 2006-05-08.

¹⁶⁶ <http://www.ebrd.com/new/stories/2005/050518.htm>, 2006-07-21.

¹⁶⁷ <http://www.ebrd.com/new/pressrel/2005/185dec21.htm>, 2006-07-21.

¹⁶⁸ <http://www.ebrd.com/new/pressrel/2005/185dec21.htm>, 2006-07-21.

& Herzegovina and Croatia, as well as displaced persons from Kosovo residing in Montenegro” (As of 18-03-04)¹⁶⁹.

If women, why: Because Đurović, one of the founders of Alter Modus, states that they focus on women because it has been proven that women will bring more of the money they earn home to their families¹⁷⁰.

Additional services: -

For details about *AgroInvest Montenegro*, see the section on AgroInvest in Appendix 4.

¹⁶⁹ <http://www.ebrd.com/new/pressrel/2004/37mar18.htm>, 2006-07-21.

¹⁷⁰ <http://www.ebrd.com/new/stories/2005/050518.htm>, 2006-07-21.