

# **MICRO-CREDIT, MICRO-FRANCHISING, AND WOMEN ENTREPRENEURS**

/  
**Naoko Felder-Kuzu**

/  
/  
/

Micro-credit is the provision of working capital for the world's poor in the form of small loans. These loans range from as low as US\$ 20 to US\$ 1,000 and are mostly used for income-generating activities. The borrowers pay back through instalments which include interest on these loans. Micro-credit is the main pillar within micro-finance which can be defined as financial systems for the world's poor.

Many micro-credit/micro-finance providers have targeted women/mothers as their clientele for various reasons. The main reason is that a disproportionately high population of the poor are women as they are in a disadvantageous position regarding access to education, employment, and productive resources such as land and credit. Other compelling reasons are that women spend more of their income on their families' welfare and also they have proven to be credit-worthy and good savers.

There are numerous institutions that have successfully expanded the delivery of micro-credit. Grameen Bank of Bangladesh, and FINCA, an American non-

profit institution, are two of the representative cases. Grameen Bank founded by Professor Yunus Muhammad in 1976 has provided small loans to over 5 million poor people, 96% of them being women. The total amount of loans disbursed by Grameen since its inception is 242 bn Taka (US\$ 5 bn). The repayment rate has been 98% and the borrowers own 94% of the Bank (Grameen 2005). FINCA, which stands for Foundation for International Community Assistance, was set up in 1984 by John Hatch. FINCA pioneered the village banking method for delivering micro-finance services to the poor. A village banking group consists of 10–50 members, mostly women/mothers. FINCA gives loans to the group and the group is given the autonomy to manage and run the bank. The women provide themselves with small loans, saving facilities, and mutual support (FINCA 2005). Both Grameen and village banking have been replicated in many countries.

In addition to Grameen and FINCA, micro-finance institutions ("MFI") such as SEWA Bank in India, Adopem Bank in

the Dominican Republic, Compartamos in Mexico and Prodem in Bolivia, as well as networks such as ACCION International and Women's World Banking, have been extensively and efficiently delivering financial services to the poor.

Micro-credit provides the opportunity for the poor, especially women, to help lift themselves out of poverty. It allows them to increase their income and to build viable businesses. Furthermore, its impact is not only limited to the improvement of their financial/economic condition but it also affects the well-being of their families' health and education. Micro-credit also empowers the individual by raising her self-esteem and self-confidence. It is one of the most effective tools for the eradication of poverty. In addition, as micro-finance promotes self-sufficiency on a sustainable basis, it is a powerful tool for wealth-creation for the poor, the world's majority.

The United Nations declared the year 2005 as the UN International Year of Micro-credit to promote and develop inclusive financial sectors as well as to achieve the Millennium Development Goals ("MDGs"). The MDGs are globally-adopted targets for reducing poverty, hunger, child and maternal mortality, lack of education, gender exclusion, and disease. Access to financial services or micro-finance has been recognized not only by international development organizations but also by many governments and the G8 as a critical means to achieve these goals.<sup>1</sup>

There are millions of women in the world, whether in Africa, Asia, Middle East, Latin America or the Common-

wealth of Independent States, that are benefiting from micro-credits. Unfortunately, there are even more millions who still have no access to financial services nor employment.

The three cases illustrated in this section are examples of hard-working and creative women micro-entrepreneurs, who through access to small loans have improved and are improving their lives and that of their families. The majority of the poor women in the world work in the informal sector. "In developing, countries over 60% of women workers are in informal employment outside of agriculture – far more if agriculture is included" (UNIFEM 2005). They survive by making and selling food, curtains, or starting a small trade or a small business (micro-enterprise) often with the help of family members. As their revenues increase, they can afford to buy a small property or build a house (case 1). Although it depends on the country's legal system surrounding property rights and titles, these women are gradually being integrated in the formal sector through ownership of property/housing. Many micro-enterprises start as a family business and as these expand, they can create jobs (case 2). The last case (case 3) is an attempt to introduce a relatively new model that could boost enormously the impact of micro-finance/micro-credit. This new model, micro-franchising<sup>2</sup> is still at a nascent stage but quickly gaining acceptance. This model refers in the broader sense to the replication of micro-businesses which could lead not only to the creation of micro-entrepreneurs but to more employment opportunities.

**Case 1: Margoth Ramirez,  
San José Villanueva, El Salvador**

Margoth builds her dream house by making and selling chocolates

Margoth Ramirez has been selling homemade chocolates for the past 12 years. She sells her chocolates at the Dueñas Market, a popular food market in Nuevo San Salvador, located on the outskirts of the capital of El Salvador. The chocolates are biscuit-shaped and are used for cooking and making chocolate drinks. This type of cooking-use chocolate is known in this country as “artisan chocolates.”

Margoth is 43 years old. She has a 20-year-old son, Javier, and two daughters of 17 and 13, Silker and Amelia. She is a client of Apoyo Integral, an MFI with a nationwide network in El Salvador. Margoth will be moving into her dream house in a few months. The house has 3 bedrooms, a large kitchen and a living room. She is proud and happy that she was able to buy the plot of land and build her house, one room at a time. This process has taken her 4 years but it will soon be finished. It is a dream come true and something that she could not have imagined 12 years ago when her husband lost his job and left her with the children.

Margoth recalls this period as the most difficult time in her life.

“That was the hardest thing I have ever experienced. My husband lost his job and then left me. I had no money, I had to feed the children and I did not know what to do. I prayed every night to God. I asked Him to please give me a hint of what I should do.

01



/

01 Margoth at the Dueñas Market with her artisan chocolates

After a week I was left with 20 dollars.<sup>3</sup> I went to the food market and wandered around desperately thinking what I could buy to make some money out of it. I saw a pile of cacao beans in one of the food stands and suddenly remembered that a friend had once explained to me how to make artisan chocolate using cacao beans. I counted my money and used a part of it to buy 2 pounds of cacao beans, cinnamon, and some sugar. I went back home to make the chocolate. I knew I had to roast the beans, then peel the skin, add sugar and cinnamon, grind it, and then shape it. I returned the next day to the market and managed to sell the few chocolates I had made. I also made a little profit so I bought again the same amount of cacao beans, sugar, and some food and hurried home.”<sup>4</sup>

Margoth continued this routine for the next few weeks. One day, a lady who had bought her chocolate approached her and said she would like to put a large order for the next day. This lady, by the name of Carmen, had a big stand in the market and wanted to buy 25 dollars worth of chocolate. Margoth was very excited but realized that she did not have the money to buy the ingredients necessary for such a large order. Margoth explained her situation with embarrassment. Carmen smiled and gave her the whole amount in advance. This was a breakthrough as it gave her the means to buy much more ingredients from that day onwards. Carmen continued to be a good client buying the chocolates to resell these to some small mom-and-pop stores owned by her relatives. Margoth will never forget Carmen’s

generosity and from then on, she would always bring one chocolate as a gift to Carmen.

Half a year later, Margoth heard from several ladies in the market that one could get loans by joining a solidarity group. She joined such a group and soon she got a loan of US\$ 100 for working capital. She was able to buy cacao and sugar in bulk and ordered a big pan to roast the cacao beans. She made more money, so she started to save, every day she saved even if it was a small amount. She was living in a very small place, it was basically one room with a small corner for the kitchen. The floor was soil, proper flooring was too expensive. She was determined to work hard and one day to be able to live in a nicer place with a proper kitchen.

In 2002, Margoth became a client of Apoyo Integral through a solidarity group. Her first loan was US\$ 200 with a duration of 10 weeks. For the past three years, she has been taking loans for working capital with durations of 10–17 weeks. The last couple of loans have been between US\$ 600–750. In 2003, she qualified for the housing loan (one year term) of US\$ 1,145 and, after having repaid it, she qualified for a 3 year housing loan of US\$ 1,500.

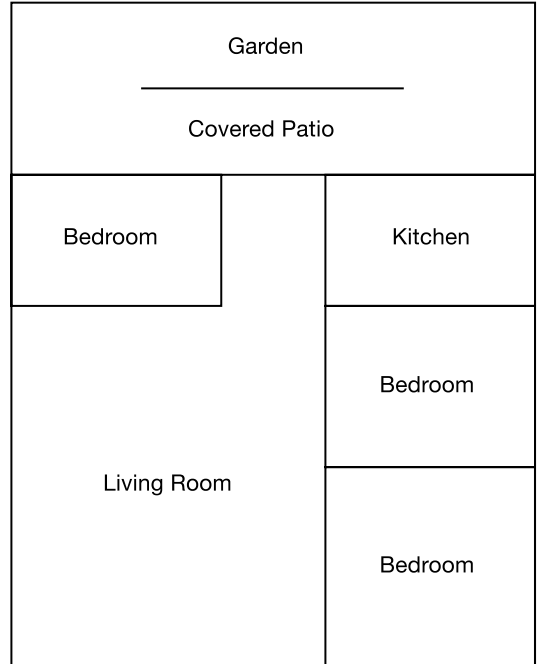
Her new house is located in San José Villanueva in the district of La Libertad, 27 km from the capital. This is further away to commute to the marketplace compared to her current house but land prices were much more affordable. She bought the plot of land 9 years ago for US\$ 2,400 and in the past 4 years she has invested US\$ 5,000 to build her house. She has

paid a part of it from savings and part of it through the housing loan she got from Apoyo Integral. She is thankful for the loan as otherwise it would have taken her many more years to accomplish her dream.

The layout is simple but very spacious. The entrance leads to a big open area, the living room, where she has hanged two hammocks. There are 3 sizable bedrooms. She is very proud of the stone flooring and most of all of her large kitchen. In two weeks, electricity will be connected to her house.

Margoth plans to make and sell pupusas with her daughters on the weekends. Pupusas are the most popular Salvadorian street food or snack. The thick corn tortillas are filled with cheese, vegetables, meat, beans, or a mixture of these. People eat them throughout the day. They are also consumed for breakfast as they are nutritious, inexpensive, and filling. On the many trips Margoth made to this town to build her house, she noticed that there were very few pupusa stands and eateries. She tried the pupusas and thought they were mediocre. She knows that if she makes good pupusas, she will get many clients in this neighborhood. Her daughters love pupusas and they have learned how to make them. Margoth plans to start this new venture only on the weekends. She thinks that it would be prudent to have an additional source of income and she could earn money while she is at home during the weekends. There is a covered area and a garden with a well

02



/

02 Margoth and Amelia in the living-room of their new house

on the side of the kitchen. Margoth will be planting corn and vegetables. It would be handy to have these as ingredients for her pupusas.

### Case 1: Observations

Margoth's case is not a rare example in developing countries. There are millions of poor people who through their hard work try to improve their economic and social standing. The services provided by MFIs such as Apoyo Integral are helping the people at the Bottom of the Pyramid ("BOP")<sup>5</sup> to help lift themselves out of the vicious cycle of poverty. Margoth first needed working capital or funds to buy enough ingredients to make her chocolates. As she never failed to pay her instalments, she qualified for periodical loans to sustain her business. Then, she started to save. When she began to build her house, she needed a housing loan. Her track record on the working capital loans made her qualify for a housing loan. An important point is that people like Margoth start gradually getting integrated in the formal sector. El Salvador does have an official registry for land titles and thus, Margoth's ownership of property will gradually incorporate her to the formal sector.

#### The MFI: Apoyo Integral

Apoyo Integral is one of the partner MFIs of ACCION, one of the most successful global micro-finance networks. This institution was established 3 years ago as a private commercial entity taking over the micro-lending program that was managed since 1992 by FUSAI, a non-profit organization. As of December 2004, Apoyo Inte-

gral had a loan portfolio of US\$ 14.15 mn with 20,000 loans outstanding. The 3 types of loans they provide are micro-credit for working capital, housing loans, and consumer loans. The distribution of these loans by value in 2004 was 69%, 28% and 3%, respectively. Apoyo Integral also provides services for remittances through "Mi Pueblo" in collaboration with the Washington DC based company, Micro-finance International Corporation. Apoyo Integral has a clear objective to become a regulated Savings and Loans entity under the Non-Bank Financial Intermediaries Law during 2006–2007 (Apoyo Integral 2005).

---

**Country Profile:** El Salvador

**Location:** Central America, bordering the North Pacific Ocean

**Capital:** San Salvador

**Population:** 6.7 million

**GDP per capita:** purchasing power parity US\$ 4900

**Population below poverty line:** 36.1%

**Labor force by occupation:** agriculture 17.1%, industry 17.1%, services 65.8%  
 Infant mortality rate: 25.1 deaths/1000 live births

Source: CIA, The World Factbook

---

### Case 2: Luisa Ajzalan Cael, Tecpán Guatemala

A growing family business: the successful bakery in Tecpán

Luisa Ajzalan Cael is 34 years old. She and her husband, Luis, run a successful bakery in Tecpán, a town located 88 km from the capital of Guatemala. They have 4 daughters; Angela Lisseth (17), Rosy

Adelma (15), Carmen Estefania (13), Sonia Anabela (5) and a son, Nelson Felipe (9).

There are 7 people working for their business including themselves and their two older daughters. Therefore, it is a family business with 3 employees. The baking is done in 2 shifts, early morning and early afternoon. The bakery, which is a room with a huge pizza oven, is located at the extension of the house they live in, owned by Luisa's parents. The bread is sold in 3 locations in Tecpán.

Luisa started a bakery in her early 20s. In 1996, she was already running a small baking business with assets worth 10,000 Quetzals (US\$ 1,315).<sup>6</sup> She operated the bakery from her kitchen at her previous house, which they were renting. She wanted to expand her business but did not know how to proceed. Unfortunately, that same year, they experienced a major setback. The late 1990s were a period of extreme social and political unrest in Guatemala. She was robbed twice at her home where she had her business and the third time the thieves took most of their belongings: their furniture, clothes, and household goods. Suddenly, they had lost everything that they had so arduously earned. Her parents owned a modest house nearby, so they moved in with them.

A few weeks later, Luisa heard from a neighbor about an institution called Fafidess that provides loans for working capital. She attended one of the meetings to join a group called "community bank" of Fafidess.

Luisa obtained her first loan of Q1,500 (US\$ 197) in 1997. Fafidess also provided

03



/

03 Luisa watching her husband Luis baking bread

her with training on how to develop and grow businesses. They also encouraged her to start to save money. Luis helped her build a pizza oven in order to restart her bakery.

Luis worked as an independent tailor but seeing that his orders were getting smaller and smaller, he decided to work fully for the family bakery.

Over the past 8 years they, have succeeded not only in rebuilding the business but also expanding it. Initially, they sold their bread only over a small counter at the entrance of their house. Three years ago, they rented a small premise in a very good location in the heart of the town of Tecpán. Tecpán is a popular destination for tourists. It is located in the Guatemalan highlands 2200 meters above sea-level. The Tecpán food and handicraft market is a well known tourist attraction. 1200 mostly indigenous vendors from the area come to sell their merchandise on Thursdays and Sundays. As sales of their bread continued to rise, they hired locals to help with the baking. Now they bake 20 different shapes of bread using the same dough. The third sales location started only this year, in 2005, through a small shop owner who was interested in distributing their bread.

Angela and Rosy, the two older daughters, are in charge of the Tecpán store. The two girls continue with their studies by attending a Saturday school. The bakery business has monthly sales of Q16,000 (US\$ 2,105) and they make Q5,000 to Q6,000 (US\$ 657–740) after expenses. The rent

04  
05



/

- 04 Rosy at the store in Tecpán  
05 Luisa with her eldest and youngest daughters, Angela and Sonia

for the store in the center of Tecpán is Q400 (US\$ 52) a month. Every six months, Luisa takes working capital loans from the community bank of Fafidess. The interest rates she pays are between 2.5% to 3% per month. Her current loan amounts to Q7,000 (US\$ 921). Another benefit that she gets from the communal bank is their solidarity services which work as an insurance that covers her for accident, illness, and death. Luisa has also started to save, and although she has always used her funds to expand their business, she is proud that now her savings amount to Q1,600 (US\$ 210). Luisa has gained a lot of respect within her community for building a successful business from scratch. She is now viewed as one of the leading figures in her group of the community bank.

At the beginning of 2005, Luisa had the idea of baking a special kind of biscuit called “champurradas” making use of the idle time of their oven. These large biscuits are not very sweet nor buttery and have proved to be very popular as a snack. They have received some orders from a hotel, a restaurant, and a coffee shop nearby. Luis, who is in charge of sales and marketing, is very enthusiastic about their new product. Margins are considerably higher than for bread and the biscuits last for at least 30 days. He is currently promoting them to supermarkets in the area. Luisa and her husband hope to be able to supply these biscuits to big supermarkets and if they succeed, they are contemplating to export these biscuits to neighboring countries in the future.<sup>7</sup>

### **Micro-Credit, Micro-Franchising, and Women Entrepreneurs**

Naoko Felder-Kuzu

- <sup>1</sup> 2005 World Summit, UN Sept 14–16, Expanding Access to Micro-finance, Paris, June 20.
- <sup>2</sup> The concept of micro-franchising was presented by Stephen W. Gibson, founder of the Academy for Creating Enterprise, at the 2004 MicroEnterprise Conference at Brigham Young University, Provo, Utah.
- <sup>3</sup> Local currency of El Salvador at the time was the Colon. El Salvador adopted the US dollar as their currency in 2001. US dollars are used throughout this text.
- <sup>4</sup> Interview with Margoth Ramirez, July 4, 2005.
- <sup>5</sup> The Bottom of the Pyramid (BOP) refers to 4bn people that earn less than US\$ 1,500 per year and the expression was introduced by C.K. Prahalad and Stuart L. Hart
- <sup>6</sup> Exchange rate as of July 7, 2005: 1 Quetzal = US\$ 0.13189, 1US\$=7.6 Quetzals.
- <sup>7</sup> Interview with Luisa and Luis Ajzalan Cael, July 7, 2005.
- <sup>8</sup> Exchange rate (August 18, 2005) 1000 Philippine Pesos = US\$ 17.9 and 1 US\$ = 55.85

Pesos.

- <sup>9</sup> Interview with Marietta Buella, Tabaco City, Philippines, August 18, 2005.
- <sup>10</sup> The micro-franchising model has been successfully implemented in the area of health care by Sustainable Healthcare Foundation (“SHEF”) through their CFWshops in Kenya. The CFWshops model is a network of micro-pharmacies and clinics providing access to essential medicines to marginalized populations in the developing world.

### **References**

- ACE 2005, Academy for Creating Enterprise [http://www.creatingenterprise.com/about\\_ace.php](http://www.creatingenterprise.com/about_ace.php).
- Apoyo Integral 2005, El Diario de Hoy, special supplement Third Anniversary of Integral, June 30, 2005.
- Fafidess 2005, [http://www.fafidess.org/001\\_eng.htm](http://www.fafidess.org/001_eng.htm).
- FINCA 2005, <http://www.villagebanking.org/history.htm>.
- Grameen Bank 2005 <http://www.grameen-info.org/bank/GBGlance.htm>; GB at a Glance, August 2005.
- UNIFEM (United Nations Development Fund for Women) 2005, Progress of the World’s Women 2005 Report: “Women Work and Poverty,” p16 <http://www.unifem.org/>.
- World Factbook 2005, <http://www.cia.gov/cia/publications/factbook/>.

### **Other References/Bibliography**

- Acción, at: [http://www.accion.org/about\\_where\\_we\\_work\\_program.asp\\_Q\\_T\\_E\\_16](http://www.accion.org/about_where_we_work_program.asp_Q_T_E_16).
- Cheston, Susy and Kuhn Lisa, Empowering Women through Microfinance, Draft 7/8/02, Women’s Opportunity Fund, UNIFEM, at: <http://www.opportunity.org/site/pp.asp?c>

=7oIDLROyGqF&b=212831.

FUSAI, at: <http://www.fusai.org.sv/>.

Gibson, Stephen W., Fairbourne Jason, "Where There Are No Jobs," Vol 4, The MicroFranchise Handbook, The Academy for Creating Enterprise, 2005.

Hillstrom, Scott, "The Story of CFWshops," 2005, [http://www.cfwshops.org/history\\_story.html](http://www.cfwshops.org/history_story.html).

Human Development Report 2005 Statistics <http://hdr.undp.org/statistics/data/indicators.cfm>.

Magleby Kirk, "Microfranchise as a Solution to Global Poverty," July 2005, <http://www.omidyar.net/user/u473936904/>.

Microfinance and the Millenium Development Goals, UNCDF 2005, [http://www.yearofmicrocredit.org/docs/mdgdoc\\_MN.pdf](http://www.yearofmicrocredit.org/docs/mdgdoc_MN.pdf).

Millenium Development Goals, <http://www.un.org/millenniumgoals/>.

Prahalad, C.K., Hart, Stuart L., "The Fortune at the Bottom of the Pyramid," article published in Strategy +Business, January 2002 <http://www.strategy-business.com>.

### **Interviews**

Apoyo Integral, San Salvador, El Salvador (July 4, 2005).

Manuel Torres, General Manager, Liliana Alfaro, Manager, Nuevo San Salvador branch, Ileana Alvarado, Credit officer.

Fafidess, Guatemala City, Guatemala.

Reynold Walter, Executive Director, July 6, 2005, Erwin Chavarria Rey, Director of Operations July 7, 2005.

Tony San Gabriel, Executive Director, Call2Serve Philippines Inc. (August 16).

Herbert Terana, owner Mr. Dreamburger, Cebu, Philippines (August 17).

Telephone interview and email exchange with

Stephen W. Gibson, founder of Academy for Creating Enterprises.

**Naoko Felder-Kuzu** was born in Japan and



raised in El Salvador and Guatemala. After finishing her studies at the International Christian University in Tokyo, she worked 16 years in the financial industry in Tokyo and Zurich in the area

of asset management. Since 2002 she is an independent consultant on micro-finance investments based in Zurich. She is a member of the Advisory Board of BlueOrchard Finance S.A. Her book “Making Sense – Micro-finance and Micro-finance Investments” (Murmans Verlag) has been translated into German and Japanese.