



Emerging SMEs

Secrets to growth from micro to small enterprise

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Cover Photo Credit:

Christy Stickney

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Foreword

Small businesses are national treasures. They contribute to employment and economic growth, and countries with thriving small business sectors also tend to have thriving economies. When small businesses emerge from microenterprise beginnings, there is an important contribution to poverty alleviation, as well.

However, microfinance institutions have long recognized that most of their clients with tiny businesses are not growth-oriented. They prize the relatively small percentage of clients who grow from a micro operation with one or a handful of employees to become small or medium-sized enterprises. Surprisingly, relatively little research has investigated the growth paths of these “positive deviants.”

Christy Stickney’s research fills this void by paying close attention to the stories of individual entrepreneurs who grew their businesses from micro origins into full-fledged small businesses employing an increasing number of people. In the report you’ll hear about these entrepreneurs and get a glimpse into some of the patterns that such businesses have in common. You’ll develop insight into their challenges—and how financial services providers can respond to them.

Most insightful to us in the report are the descriptions of growing pains that businesses face as they progress from micro to small size. In Christy’s sample, 69 percent of interviewees were able to acquire the fixed

assets they needed—either through loans or alternative sources of capital. Only 58 percent of interviewees were able to effectively incorporate non-family members into their business—a huge management leap. Finally, only 15 of interviewees were able to expand their businesses to new locations, suggesting that for many business owners, growth is capped by the constraints of geography.

Interspersed with this analysis are helpful anecdotes and quotes. In the pages that follow you’ll read about entrepreneurs rebuilding their businesses after they lost everything. You may be surprised that there are many more men than women “Growth Entrepreneurs.” And you will hear more about entrepreneurs using rental properties as a pension plan.

After a long period in which SME lending has been a relatively neglected area, it is now a hot topic, thanks in part to technology-based innovations like peer-to-peer lending, alternative credit scoring, and receivables-based lending. The insights from this paper may suggest some additional avenues of exploration for organizations wishing to identify, lend to or otherwise support businesses that are climbing the ladder from micro to small.

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Executive Summary

Enterprise development is an important objective driving the financial services industry. After decades of directing financial services to micro-enterprise owners, many microfinance institutions (MFIs) are now finding themselves serving a growing number of small business owners. An increasing number of financial technology companies are turning to small and medium enterprises (SMEs) as a promising new market segment. Thus, with increasing global attention being directed to SMEs, it seemed fitting to look more deeply at clients of financial service providers and discover what could be learned from entrepreneurs whose businesses can now be classified as emerging SMEs. More specifically: Who are these entrepreneurs? What kinds of businesses do they operate? What have been their growth patterns and hurdles? And how have they utilized financial services to further their growth aspirations?

These are the questions that guided the following study, undertaken as part of a research fellowship for the Center for Financial Inclusion. Qualitative research was utilized to identify and analyze clients of microfinance institutions that have grown their businesses from micro-enterprises into small enterprises. Databases of three leading Latin American microfinance institutions were mined to identify clients whose borrowing had increased significantly over time. From these, interview candidates were selected, resulting in a total of fifty-five in-depth interviews focused on describing entrepreneurs and their enterprises, their business histories and their use of financial services.

Comprising only 25% of the interviewee pool, “Growth Entrepreneurs” emerged as those who operate higher growth businesses, overcame significant growth hurdles, and express a clear

vision for future business growth. By directing financial services and business development support to Growth Entrepreneurs, financial institutions and governments may strategically focus their efforts on a category of emerging SMEs that hold great potential for future growth and job creation.

While a few of the remaining 75% of “Lower Growth” entrepreneurs are constrained by growth hurdles, the majority have lower aspirations of business growth due to lifecycle and contextual factors (such as raising young children or slowing down with aging). All of them continue to borrow significant sums, yet many have directed their investments towards secondary business ventures, home constructions, rental properties, or income-generating opportunities for other family members. Although this study focused primarily on Growth Entrepreneurs and what can be learned from them, Lower Growth

“Growth Entrepreneurs” are...

- **Visionaries** — They have a clear vision of growth for their business.
- **Employers** — They effectively involve non-family employees in their business.
- **Focused** — They devote their time and resources to growing only one business.
- **Organized** — They keep financial records and increase administration as their business grows.

“Growth Entrepreneurs” emerged as those who operate higher growth businesses, overcame significant growth hurdles, and express a clear vision for future business growth.

clients represent an extremely valuable and often unnoticed segment of MFI portfolios. Their steady borrowing patterns and diversified investments make them an attractive market segment for lenders, while generating substantial social impact that is spread across family members. Thus, ensuring financial inclusion for this client group is critical to financial institutions from both a business and social mission perspective.

Principal recommendations arising from this study are the following:

- **Increase loan ranges to help cover the “missing middle.”** While owners of emerging SMEs seek larger loans to grow their business, many microfinance clients—and particularly women—are also increasing their borrowing to fund alternative businesses, home constructions, and other investments, such as rental properties. Lenders, funders and regulators need to consider how best to support these borrowing trends to ensure seamless financial access for microfinance clients pursuing a variety of higher ticket investments.
- **Cast wider nets to capture rising SMEs.** To build greater financial access for emerging SMEs commercial lenders, FinTech companies, and other financial ecosystem actors are needed to support and mainstream innovations that build necessary linkages between SMEs and the financing they seek. Furthermore, MFIs are encouraged to pursue greater cross-selling of financial services (e.g. accounts, digital transfers, payroll services) to emerging SMEs, facilitating their business transactions and contributing to their financial footprint.

- **Direct services to entrepreneurs facing growth hurdles.** Capital-intensive steps such as acquiring fixed assets, securing a strategic business site or expanding to new sites require additional funds, and may benefit from tailored loan products. Increased capabilities in financial record-keeping and personnel management are critical when hiring non-family employees, or expanding to new sites. Furthermore, study findings point to individually-tailored business advising as a potentially effective means of supporting rising SMEs.

- **Re-shape expectations regarding women-owned SMEs.** Women are less likely to be lead owners of higher growth enterprises, largely because of competing family care responsibilities. While increased family care options may form part of a practical strategy for supporting women entrepreneurs, it is important to recognize the value in women choosing to operate lower growth enterprises or occupy support roles as joint owners of higher growth enterprises in order to address their family contexts and priorities.

- **Boost the practical benefits of business formalization.** Owners of emerging SMEs tend to view formal registration and taxation through a practical lens, raising or lowering their position on the formalization spectrum based on their circumstances and growth opportunities. Thus, increasing the tangible benefits and privileges associated with formalization, along with reducing barriers, will likely lead to greater participation.

- **Build financial services to support base of the pyramid (BoP) investing for retirement.** Rental properties emerged as a popular strategy among entrepreneurs for financing retirement. This finding raises a series of related questions, such as: What other options exist for the BoP to finance their retirement? What kinds of services are needed to help ensure that they have sufficient and stable income in their older age?

Introduction



While the majority of MFIs remain highly dedicated to microenterprise lending, in keeping with their original mandates, many are finding themselves serving a growing population of SMEs owned by clients whose businesses began at a micro level and have grown over time.¹ Although they represent only a small percentage of microfinance clients, these owners of emerging SMEs have overcome significant hurdles marked by poverty and marginalization. Most of their businesses continue to operate within the low-income urban neighborhoods where they began. They hire local employees. Furthermore, these firms contribute to the base of the pyramid (BoP) economies where they are located, purchasing and supplying local goods and services.

SME growth has risen to strategic importance for governments and development institutions seeking to boost economic growth and add jobs. A looming constraint to SME growth throughout the developing world is insufficient access to credit. This has led funders and policy-makers to seek new strategies to entice additional financial institutions into the SME space, such that

the financing gap to this so-called “missing middle” may be filled. Recent innovations by new entrants such as “FinTech” (financial technology) companies are providing promising solutions to help bridge the gap between financial service providers and SME owners, leveraging digital data and lowering transaction costs.

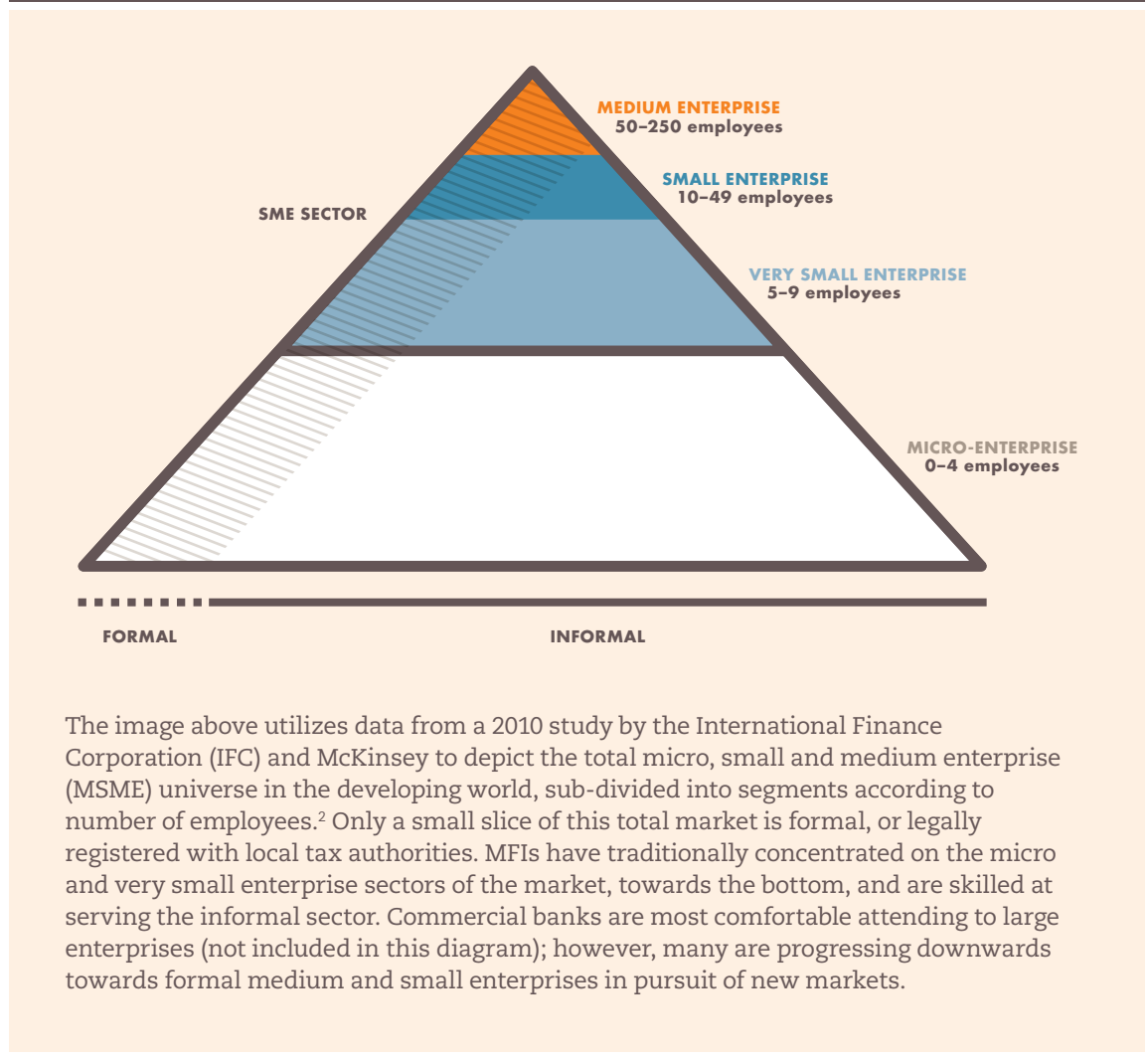
As underscored by previous studies by the IFC, the informal SME market—particularly very small businesses—is most underserved and presents greater vulnerabilities in terms of limited business infrastructure, financial records and legal protection. This research fellowship seeks to identify and study this particular client group within MFI portfolios: the owners of micro-enterprises that have grown their businesses into SMEs. Specifically, the intention is to learn about the nature of these entrepreneurs and their businesses, as well as their experiences in growing their enterprises, overcoming hurdles and utilizing available resources to their benefit. From these insights arise recommendations for financial service providers and institutions seeking growth and financial inclusion for SMEs.

¹ In this report, the term SME is used to refer to very small, small and medium sized enterprises, employing between 5 and 250 workers.

The informal SME market—particularly very small businesses—is most underserved and presents greater vulnerabilities in terms of limited business infrastructure, financial records, and legal protection.

FIGURE 1

Visualizing the SME Sector



² Peer Stein, Tony Goland, and Robert Schiff, *Two Trillion and Counting*. Washington, DC: IFC and McKinsey (2010).

This report is organized in the following manner:

Chapter One presents a typology of microfinance clients who have significantly increased their borrowing over time, specifically identifying and describing the “Growth Entrepreneurs” who own and operate higher growth businesses.

Chapter Two focuses on a series of cross-cutting themes related to business growth and clients’ use of financial services, highlighting study findings that emerged across the client typologies.

Chapter Three summarizes conclusions arising from the study, and sets forth a series of recommendations for financial institutions, governments, donors and other actors interested in supporting growth and greater financial inclusion for SMEs.

Contextual Descriptions and Comparisons

Research for this study was undertaken in Peru, Ecuador and the Dominican Republic, working in partnership with the following leading microfinance institutions: MiBanco, Banco Solidario and Banco ADOPEM. Qualitative research focused on business owners in urban neighborhoods of Lima, Quito, Guayaquil and Santo Domingo. A summary of the research methodology, including the criteria and process for selecting countries and MFIs, is included in Annex 1.³

Economic and Business Climates

While all three countries present comparable macro-economic indicators and are classified as “upper middle income countries” by the World Bank, economic climates varied between the cities where clients were interviewed. On the one hand, Lima’s outer urban municipalities pulsate with economic activity and evident growth, which has fueled the development of local enterprises. On the

other extreme was the economic recession felt in Quito, and to a slightly lesser extent in Guayaquil, as Ecuador’s public spending has evaporated with the steep fall in international oil prices. Business owners unanimously claimed the national economic crisis as a primary growth constraint.

With respect to local business conditions, entrepreneurs in the Dominican Republic face extreme challenges in securing reliable electrical power—a constraint which was mentioned by several interviewees. In Ecuador, business formalization is unusually widespread, as in recent years the government has simplified registration for smaller enterprises, and has significantly increased enforcement—particularly in the urban areas. Every one of the businesses visited as part of this study was registered and operated within the formalization spectrum. On the other extreme was Santo Domingo, with very little evidence of formalization, or of a functioning regulatory regime for smaller enterprises.

Microfinance Context and Institutions

The three study countries host mature microfinance industries, with a competitive supply of diverse microfinance services within urban settings, and well-functioning credit bureaus. Peru maintains first place within the Microscope rating, based on its highly enabling environment for microfinance. Lenders rely heavily on credit bureau ratings to approve loans, even unsecured loans at relatively large amounts.⁴ Not surprisingly, within the study the highest levels of borrowing were witnessed in Lima—usually from multiple sources, and frequently directed to other family members.⁵ While Ecuador and the Dominican Republic are generally considered favorable markets for microfinance, interest rate caps imposed by regulators in Ecuador were negatively impacting lenders’ willingness to serve the SME sector.⁶ Not surprisingly, financial inclusion—and particularly access to formal borrowing in urban settings—is rated relatively high within the study countries.

³ The present study did not seek to undertake an assessment of MFIs’ current practices in attending to SME clients, nor evaluate the quality of these portfolios. Several studies already exist, and they reveal important operational insights. Furthermore, the scope of this study offers only a limited view of the factors impacting entrepreneurs in each context, basing most observations on the interviews with clients and staff of the MFIs.

⁴ The study found loans of up to \$30,000 for high performing clients with no guarantor or collateral.

⁵ Once clients had built up their credit histories, they frequently leveraged these for the sake of other family members’ borrowing needs. This observation was also made in the recent report published by CFI on the client perspective in Peru: Caitlin Sanford et al., *Client Voices: Peru Country Report*. Washington, DC: CFI (2016).

⁶ Businesses generating annual revenues above \$100,000 are considered “small enterprises,” and their interest rates are capped at 11%, which is significantly below microenterprise interest ceilings of 19%.

All three participating microfinance institutions are regulated microfinance banks that offer a variety of financial products while concentrating primarily on microenterprise lending. The three of them currently apply an “organic” approach to SMEs emerging from within their portfolios, which has entailed only slightly modifying loan terms without other major adjustments to the loan assessment, evaluation or monitoring processes.⁷

As can be observed in the table below, MiBanco’s extensive client base and prior focus

on SME lending resulted in larger study group size, which was identified based on significant loan size growth over a period of more than three years. Banco Solidario’s data was influenced by their lending policies, whereby business loans are limited to a range of \$1,000–20,000 in response to interest rate ceilings set by regulators. Banco ADOPEM’s average loan size is one of the lowest among peers in the Dominican Republic, as well as within the study group, resulting in a much smaller number of clients with loans over \$6,000.

TABLE 1
Participating MFIs—Key Indicators

INDICATOR	MIBANCO	BANCO SOLIDARIO	BANCO ADOPEM
Total microfinance borrowers (2015)	877,712	89,458	217,971
Total microfinance portfolio (2015, US\$)	\$ 2,609,787,354	\$ 263,478,415	\$ 109,599,807
Avg. outstanding loan (2015, US\$)	\$ 3,211	\$ 2,945	\$ 503
Clients with significant loan size growth ⁸	53,991	2,472	131

⁷ A 2014 IFC report coined the term “organic model” to describe MFIs that make minor adjustments in order to accommodate for clients’ increasing borrowing needs, without requiring significant modification of their existing business model. International Finance Corporation, *Experiences of Microfinance Institutions Serving Very Small to Small Enterprises in Latin America*. Washington, DC: IFC (2014).

⁸ Criteria for determining significant loan size growth are detailed in Annex 1—Research Methodology.

Higher Growth Enterprises and Their Owners—the Growth Entrepreneurs



To identify those clients who had grown their businesses from micro into small enterprises, loan size was applied as an initial filter, selecting those who had begun with small loans and had increased their borrowing significantly over a minimum of three years. The specific loan ranges applied to each MFI's database are detailed in Annex 1.

From these initial study sets, a group of clients were pre-selected as potential interview candidates at each MFI, again seeking to pinpoint those that had transformed their businesses from a micro-enterprise into an SME. Clients living within selected urban locations who demonstrated significant loan size growth (most of them borrowing at least ten times their initial loan amount) over relatively long periods (+5 years) were prioritized, seeking a proportional gender representation and a diversity of business types. MFI staff were responsible for making the final selection, choosing from among the pre-selected candidates.⁹

The clients interviewed had all experienced business growth, as was evident from the significant increases in their borrowing capacities, and further confirmed through the interviews. Growth was observed in the quantity of inventory, assets, employees and profits invested in family equity. Thirteen of the clients (24%) own businesses that could be classified as SMEs, based on the number of employees. Nevertheless, growth patterns and priorities varied significantly among client groups. Furthermore, it became clear during the interviews that a majority of clients are

not likely to attain significant business growth beyond their current level—either because of perceived obstacles or competing priorities. For a notable segment, however, business growth is still a strong and convincing prospect. The defining variable that emerged was the client's vision for the growth of their business, which is influenced by factors such as age (and life stage priorities), gender, personality, up-bringing and education. Thus clients were classified into typologies, based largely on this defining variable.¹⁰

A first client typology, labeled the “Growth Entrepreneurs,” or GEs, is defined as business owners who express a clear vision for the growth of their business and

⁹ Twenty interviews were scheduled with each MFI, with the hope of completing at least 18.

¹⁰ Classifying clients into typologies based on the above criteria, rather than segmenting according to business size (i.e. number of employees), led to much richer and coherent descriptions of each.

TABLE 2

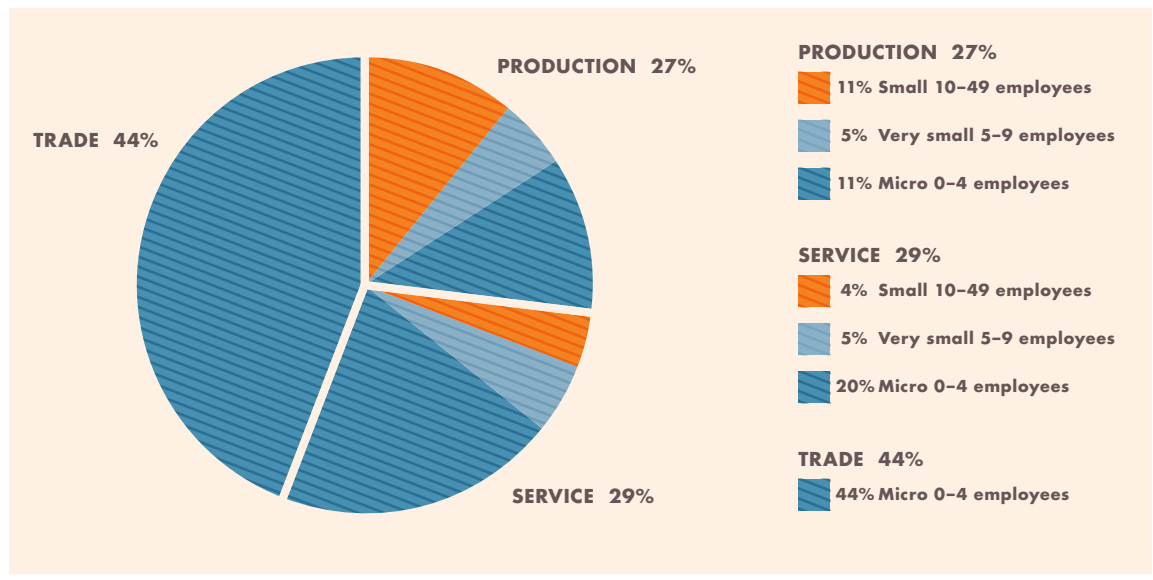
Clients Interviewed

COUNTRY (MFI)	CITY	INTERVIEWS COMPLETED	% WOMEN*
Peru (MiBanco)	Lima	17	59%
Ecuador (Banco Solidario)	Quito Guayaquil	9 9	50%
Dominican Republic (Banco ADOPEM)	Santo Domingo	20	80%
TOTAL		55	64%

* Gender of client/interviewee does not necessarily coincide with the gender of the business owner-manager.

FIGURE 2

Clients' Businesses by Sector and Size



have already overcome significant hurdles in growing their firms.¹¹ Specifically, this group employs at least two non-family members in their business. This qualification is based on a commonly-used indicator for measuring business size, while also recognizing that significant growth is contingent upon being able to incorporate employees outside the family.

**“Hay que soñar en grande.”
(One has to dream big.)**

A GROWTH ENTREPRENEUR IN ECUADOR

For some GEs, their growth vision aspires to domestic competitiveness in their industry. One entrepreneur expressed his desire to become the number one national producer of shoes; another strives to be the top producer of leather handicrafts in the country. However, for most GEs their vision is a very specific next step or several steps, often involving the purchase and construction of additional space or sites, adding new products and expanding into new markets. Of the seven cases that mentioned “access to capital” as a growth constraint, all have a clear idea of how they would invest these additional resources.

The GE group represents 25% of the clients interviewed, and is comprised of six small businesses, three very small businesses and five microenterprises. The remaining 75% of the interviewees will be referred to as the Lower Growth (LG) group. The GEs are characterized by a relatively coherent typology that is distinct from the other big borrowers. The following qualities were common across research contexts:

1. Growth Entrepreneurs are predominantly male; nevertheless, women are not entirely out of the picture. Over 90% of the GE cases revealed businesses led by men. Nevertheless, the majority of the GE cases (64%) involve joint ownership between an entrepreneur and his wife, or sister, who in many cases manages the business’s finances or assists with sales.¹² These roles align well with women’s need to be near the home, or attending to family responsibilities during certain hours of the day. Not surprisingly, “family unity” was commonly cited as a critical factor contributing to the success of these family-run enterprises.

In a few of the higher growth businesses that are jointly owned by couples, the wives began as the sole owners of the enterprise

¹¹ As it turns out, the Growth Entrepreneur typology is quite similar to the Aspen Network of Development Entrepreneurs (ANDE) definition of a small and growing business (SGB). ANDE defines SGBs as “commercially viable businesses with 5 to 250 employees that have a significant potential for growth and whose managers desire to grow them.”

¹² Interestingly, the institutional data for this group was frequently misleading, in that women were often registered as borrowers for jointly-owned businesses operating under the leadership of a male family member.

until it reached a certain size, at which point their husbands joined them and assumed leadership going forward. One such example is that of Magda, who ran a small cafe just outside a university in Quito.¹³ When she was finally granted a coveted commercial site on the campus her husband also joined her, providing much of the vision for the restaurant's growth and future projections. "Siempre se necesita dos cabezas" (One always needs two minds.), he commented, referring to the virtues of their joint leadership of the business. Similarly, Francisco helped his wife set up a poultry-selling stand on a busy corner of their street. However, once they moved off the street and into their own shop, which coincided with the arrival of their first child, he left his employment at a poultry farm to take over the growing enterprise.¹⁴

2. Growth Entrepreneurs tend to be young or middle aged, falling between 30 and 49 years old. They have had sufficient time to gain experience in their industry, and to grow their business over time, while maintaining the vision and energy necessary to continue investing in its future growth. For the one business owner over age 50, he has already begun preparing his son to take over operations before long. There were no GEs in their 20s, which is not surprising given that the average firm age for this group is 12.9 years, and the median is 11 years.

3. Interestingly, the businesses of all fourteen GEs fall within the production or service sectors, even though trade-related enterprises figured most prominently among the overall group interviewed (44% of all businesses). This seems to suggest that production and service firms served by microfinance lenders may face a greater likelihood of transitioning from a micro to a small enterprise than businesses within the trade sector. One explanation for this might be that the optimal growth size for production and service firms, in terms of number of employees, is greater than for trade firms typically operating within low-income urban neighborhoods. For example, a local corner store (i.e., tienda, colmado) is unlikely to reach ten employees, whereas a prosperous restaurant or carpentry shop is more apt to grow to this size.¹⁵



Magda and her husband and daughter ring up the morning sales at their campus restaurant.

4. A hallmark characteristic of Growth Entrepreneurs is that they are exclusively dedicated to operating and growing their sole business. This quality stands out from the practices of the broader group interviewed, where business diversification is a common practice, as well as investments in property and vehicle rentals. Based on the business histories relayed during interviews, this singular focus is a quality that is consistent throughout the life of most GEs. In the majority of the GE cases (64%), both spouses are engaged in jointly running the business, and in only two cases is the spouse involved in a separate income-generating endeavor (employment or running another business).¹⁶ These findings seem to suggest that running a higher growth business may require this level of dedication from the owner or joint owners.

5. The borrowing patterns of Growth Entrepreneurs demonstrate progressively increasing loan sizes that follow clients' growing repayment capacities and borrowing needs, which is a pattern that does not differ significantly from the borrowing trajectories of the Lower Growth group. A distinction can be made, however, in terms of their loan use practices, as **GEs tend to focus investments toward their one, core business,** much in line with the previous observation. Major investments tend to involve purchasing machines or tools, buying or building a business site, as well as purchasing inputs. These clients also used financing to buy or build their home;

¹³ All names in the report have been changed to protect clients' identities.

¹⁴ These findings are consistent with the 2013 FondoMicro survey in the Dominican Republic, which describes how women-owned micro-enterprises will often incorporate a male family member, frequently the husband, as they grow into an SME. These thereby transform into jointly-owned firms in response to the increasing demands of small enterprise ownership and management. Marina Ortiz, Miguel Cabal, and Rita Mena, *Micro, pequeñas y medianas empresas en la República Dominicana 2013*. Santo Domingo: FondoMicro (2014).

¹⁵ A 2007 FondoMicro report suggests greater SME growth (in terms of employee numbers) among manufacturing and service firms due to the labor-oriented nature of these sectors' growth relative to trade. Rolando Guzmán and Marina Ortiz, *Tamaño, eficiencia y uso de la capacidad instalada de pequeñas y medianas empresas de la República Dominicana*. Santo Domingo: FondoMicro (2007).

¹⁶ In one of the cases where ownership is not shared with a spouse the owner is single (unmarried), and in another case the owner works jointly with his son.

Growth Entrepreneurs employed a wider range of financial services than the Lower Growth group.

however, they had not yet invested in other income sources such as rental properties.

A hypothesis going into this study was that GEs would exhibit greater borrowing from multiple lenders, and increased use of a range of financial services in addition to loans. Interestingly, the study results did not confirm greater borrowing activity among this group, and in fact several entrepreneurs were borrowing exclusively from the participating microfinance bank. GEs did, however, claim use of a slightly wider range of financial services than the LG group. The most commonly used services were savings accounts to make or receive payments via transfer or deposit, checking accounts, and credit cards (for both personal and business use).

6. Growth Entrepreneurs tend to have higher levels of education than the Lower Growth group. Notably, several GEs resumed studies, particularly at the university level, after establishing their business. Thus, this is a quality that developed in connection with the entrepreneur's management of their growing enterprise. Several entrepreneurs emphasized the importance of education during their interviews as contributing to their business administration abilities and facilitating growth (e.g., introducing new designs, markets, and technologies). Interviews pointed to a strong relationship between education levels and technology use, particularly computers and the Internet. Thus, higher growth entrepreneurs were also more likely to utilize these tools in their businesses than their lower growth counterparts. Possibly the strongest indicator

of the value GEs place on education is demonstrated in their children, given that families with older children all had at least one university student or graduate among them.

7. Another defining feature of the GE group is the practice of keeping written financial accounts for their business. While smaller enterprises appeared to be surviving with minimal record-keeping (almost 60% of Lower Growth entrepreneurs said they kept accounts "in their head"), written records were kept for all but one of the higher growth enterprises. Although the scope of this study did not include an in-depth assessment of entrepreneurs' accounting practices, financial record-keeping emerged as a fundamental component of higher growth enterprises. It makes sense that financial management practices increase in importance with business growth as entrepreneurs are faced with managing greater recourses, growing numbers of employees and possibly multiple sites.

8. Growth Entrepreneurs typically launch their business with both experience and vision. The interviews revealed that most of the owners (or lead owners) of higher growth enterprises (1) gained experience through working as an employee for another firm, typically in the same field as their current enterprise, and that (2) they purposely left employment to launch or significantly grow their own business. In several cases the entrepreneur learned their business working in a family enterprise. "I was born in a workshop," commented a furniture maker who began working in his father's carpentry shop as a child. Nevertheless, the majority gained their experience through employment outside the family.

These findings suggest that the decision to leave employment to grow one's own enterprise is a visionary move—one that is motivated by opportunity as much as necessity. An entrepreneur's vision, as mentioned previously, is a defining feature between typologies and key determinant of business growth—both past and future. Thus, it may be of no great surprise that the

A Growth Entrepreneur's Story—Rising Above the Floods



When the rivers rose and washed away their home and entire woodworking shop, built from scratch over twelve years of arduous labor, Laura and her family had absolutely no place to go. She and her husband, Miguel, and their three children, had to find a way to start all over. “Allí no se pudo sacar nada.” (We couldn’t salvage anything.) They had been borrowing from Banco ADOPEM for six years and managed to piece together financing from Banco ADOPEM and other sources to purchase property in a neighboring community of Santo Domingo. Gradually, step-by-step, they built a new home and much larger workshop. Now, ten years after the flood, Miguel and Laura have more work than ever before and employ a team of seven workers in addition to Laura’s two older sons.

As with many jointly-owned family enterprises, the effective division of labor between spouses is very evident. Miguel runs

the workshop, having grown up working in his father’s own furniture shop, while Laura manages the administrative work, keeping the financial accounts and following up with customers. Their youngest daughter is studying to become a lawyer, and Laura herself has recently returned to high school, with plans to pursue a university degree.

Laura expresses great appreciation for the financing they received from Banco ADOPEM, particularly after losing their entire business in the flood. She is also grateful for training she received in financial education, which she says has helped her to watch out for unnecessary spending, and to avoid falling into over-indebtedness.

Laura and Miguel began borrowing from Banco ADOPEM in 2000 with a loan of approximately \$300. Last year they borrowed \$6,700 to cover construction costs needed to build a second storey above their workshop, and the upstairs residence where they now live. Prior loans have been used to purchase lumber, woodworking machines and tools, and more recently the delivery truck used to transport finished products to their customers throughout the Dominican Republic. They sell directly to individuals, not through stores. However, Laura and Miguel dream of building a store in a more commercial area of town to display their furniture and serve as a point for distribution and sales. In fact, they have their sights set on a piece of land not far from their home. Laura claims that all that is needed is the financing.

entrepreneurs who launch their enterprises with not only a practical knowledge of their business, but also the visionary decision to invest themselves fully in making it succeed, are most likely to be found within the GE typology.

As mentioned above, the majority of the clients interviewed (75%) fall into the Lower Growth group. This group could be described as having less ambitious business growth intentions than the Growth Entrepreneur group, and, in most cases, they own smaller businesses. For a significant proportion of these entrepreneurs, growth constraints are external to the business itself, whether due to competing family demands, diminishing health or increasing age. It is important to note that this group included three very small enterprises and one small enterprise. In each of these cases, business owners expressed doubts about future growth or stated a specific intention to slow down.

The LG group possesses several characteristics that distinguish it from the GE group.

1. Lower Growth clients tend to use their loans for a wider variety of investment opportunities. While GEs focus the majority of their borrowing on growing their sole enterprise, and possibly building their home, LG clients are more likely to diversify their business activities and invest in other income-producing alternatives, such as property or vehicle rentals. Furthermore, among the LG group are several cases of clients who purchased properties for their adult children or financed their business endeavors.

2. Generally speaking, the LG group has had less education than GEs. They are less likely to keep financial records for their business or use any form of technology and they tend towards higher levels of informality in terms of government registration and taxation.

3. This is a group that demographically swings towards an older age, and is increasingly represented by female business owners. Indeed, many of those interviewed are

entrepreneurs who have matured within microfinance portfolios and are working their way towards a retirement for which they may or may not be financially prepared.

Despite these common characteristics, the LG group is not homogenous and can be better understood through further segmentation based primarily on the client's business growth aspirations. These three sub-typologies of the LG group are Strivers, Sustainers and Slowing Down.

Strivers are relatively established in their businesses, and have a clear vision for growth in terms of securing a new or improved business site, adding employees or purchasing fixed assets. They were well represented by both men and women, who were young and middle-aged, and had businesses in all of the three sectors (trade, service and production). Although more Strivers hired non-family employees than the other LG sub-typologies, the need to add non-family employees was also creating a growth hurdle for several business owners. The other common growth impediment was the need to purchase and construct a strategic business site, which was often contingent upon significant financing.

Sustainers are still seeking modest business growth, though with less ambition than their Striver counterparts. Women outnumbered men 2 to 1, and their ages were middle to older (at least 40 years old). Trade firms were the most prevalent in this group, such as market vendors and small general stores.

Slowing Down clients are primarily women and over half of them were of older age (at least 50 years old). Their businesses are concentrated in the trade sector and their income sources tend to be diversified. Many of them had shifted their investment priorities (e.g., loans, business profits) towards building family equity in the form of home constructions, rental properties, and businesses for their children. It could be said that this group's business growth constraints are largely

TABLE 3

Typologies of Clients Interviewed¹⁷

GROWTH ENTREPRENEURS (GEs)	LOWER GROWTH (LG)		
25% OF TOTAL	STRIVERS (20%)	SUSTAINERS (22%)	SLOWING DOWN (33%)
<ul style="list-style-type: none"> ➤ Minimum of 2 non-family employees ➤ Clear and credible vision for business growth 	<ul style="list-style-type: none"> ➤ Clear vision for growth; seeking to add sites, employees, equipment 	<ul style="list-style-type: none"> ➤ Still seeking modest business growth 	<ul style="list-style-type: none"> ➤ Seeking to maintain or reduce business involvement
<ol style="list-style-type: none"> 1. Primarily men, or jointly-owned enterprises led by a man (+90%) 2. Mostly young and middle-aged (30–49 years) 3. Businesses are primarily in production and service sectors 4. Solely dedicated to their principal business (vs. engagement in multiple enterprises) 5. Loans utilized primarily for their business. Some have also built/improved their homes 6. Greater use of a variety of financial services including bank accounts and credit cards 7. Tend to have higher levels of education and/or are pursuing higher degrees 8. Tend to keep financial records (written or electronic) 9. Most worked previously for a firm and left employment to establish their business 10. Frequently cited growth limitations are competition and access to capital 	<ol style="list-style-type: none"> 1. Women and men (40–60) 2. Mostly young and middle-aged 3. Businesses in all three sectors 4. Higher presence of non-family employees than other two LG segments 5. Business growth limitations are primarily tied to adding new sites (with related capital needs) and employees 	<ol style="list-style-type: none"> 1. Higher % of women than men (67%) 2. Mostly middle and older age 3. Primarily trade sector 	<ol style="list-style-type: none"> 1. Primarily women (+80%) 2. Mostly older age (+50 years) 3. Concentrated in trade (+60%) 4. Higher diversification of income sources 5. Investments shifted towards building family equity—homes, rental units, and businesses for family members 6. Growth limits self-determined
	<p>GENERAL CHARACTERISTICS:</p> <ul style="list-style-type: none"> ➤ Greater diversification of business activities and financial investments, including loan use ➤ Lower levels of education, use of technology, keeping of financial records, and business formalization than GEs. (less notable differences between LG segments) ➤ Boundaries are more “permeable” between LG segments than between lower and higher growth 		

¹⁷ A total of 55 interviews were conducted with clients of MiBanco (Peru), Banco Solidario (Ecuador), and Banco ADOPEM (Dominican Republic).

A Striver's Story—Diversifying Growth



A warm smile and an outgoing personality are great assets for a vendor, and Carlos has put these to good use selling fish in an informal sidewalk market in Comas, a northern district of Lima. Six days a week Carlos purchases his fresh fish, which he then sells at his market stall. “Todo lo que traigo lo vendo.” (Everything I bring, I sell.) He described how his customers line up daily to buy his fish. By mid-day, all of Carlos’ fish is sold and his stall has been cleaned up and packed away.

Raised by a father who was a fish vendor, Carlos began working as an assistant for one of his cousins, who sold fish at the informal street market in Comas. In 2000, when his cousin migrated to the USA, Carlos gratefully inherited his market stall. He also purchased a second-hand car to help transport his seafood, and to drive as a taxi in the afternoons, earning additional income. The following year, Carlos hired an assistant to help him sell fish. A few years later, he was distributing

to several larger customers, including local “cevicherias” (restaurants specializing in selling “ceviche”, a Latin American dish of marinated raw seafood). Today, Carlos employs a nephew as his assistant, and also pays a driver to help him with distribution.

In addition to his seafood business, Carlos has continued purchasing vehicles, which he rents to other drivers. With loans from MiBanco as well as other financial institutions, Carlos has purchased a variety of cars and mini-vans to lend as taxis and run public transportation routes. Carlos’ first loan from MiBanco was approved in 2004, for approximately \$300, to help finance his fish-selling business. He has continued borrowing since then, more recently securing much larger loans to purchase new vehicles. His last loan was for \$35,000, which he applied towards the purchase a new “combi” or mini-van. He currently owns two taxis and two mini-vans and has plans to purchase several more.

Carlos lives alone and pays rent for his apartment as well as approximately \$260 per month in child support for his 12-year-old daughter. He manages all his business transactions in cash, and keeps accounts in his head rather than relying on written record-keeping or computerized systems. With respect to his fish business, Carlos plans to purchase a stall in a formal market, which will require registering his currently informal business with the municipality. Further down the road, he aspires to owning his own home, and, like many successful entrepreneurs, hopes to build additional residences so he can eventually retire on property rentals.

self-determined, as they have settled with operating at current size or allowed their businesses to slow down in keeping with their diminished levels of effort.

While this study focused primarily on Growth Entrepreneurs and what can be learned from them, Lower Growth clients represent an extremely valuable and often unnoticed segment of MFI portfolios. On the one hand, LG clients are reliable high-ticket borrowers, generating revenues at relatively low cost

for their long-term lenders. By diversifying their investments over a variety of endeavors, including side businesses and rental units, LG clients lower their financial risk as well as the risk assumed by their lenders. Furthermore, through investing heavily in building family equity and creating family jobs, LG clients generate substantial social impact that is spread across many family members. Thus, ensuring financial inclusion for this client group is critical to financial institutions from both a business and social mission perspective.

A Slowing Down Client's Story—Preparing for Retirement



Consuelo has been selling fruit in markets around Quito for the past 36 years. She began selling from a small, wooden kiosk, and in 1994, the local municipality built a new market where Consuelo has been selling ever since. She has one employee who helps her in the market and manages all her transactions in cash, keeping no written accounts. Consuelo's husband, Diego, provides transportation services, working as an independent truck owner and operator. November and December are particularly prosperous months for the couple, as they set up a stall at the annual Christmas Fair and sell high volumes of seasonal decorations.

Now in their late-50s, Consuelo and Diego have raised four children, financed the construction of their home, and are preparing to build additional rental apartments to generate future income. They began borrowing from Banco Solidario in 2008 with an initial loan of approximately \$1,000. Their loans have been used to make home improvements and help finance the purchase of a new truck for Diego. Last year, Consuelo borrowed \$13,484 to purchase land and build a fence around the property where they plan to build four new rental apartments. She and Diego borrow together for their mutual investments and jointly respond to their debt obligations.

When asked about her future plans, Consuelo speaks of the new rental apartments she is preparing to build. She plans to work “hasta que pueda” (as long as she can), and eventually live from her rental income. The country's economic crisis has affected her sales, and she is facing greater competition from informal produce markets. Nevertheless, Consuelo and Diego have much to celebrate, as their enterprises have provided for their family over decades, and with prudent administration of the family's resources, have enabled them to build family assets, such as their home and rental apartments, and to create a source of future income after retiring from their work.

2

Cross-Cutting Themes

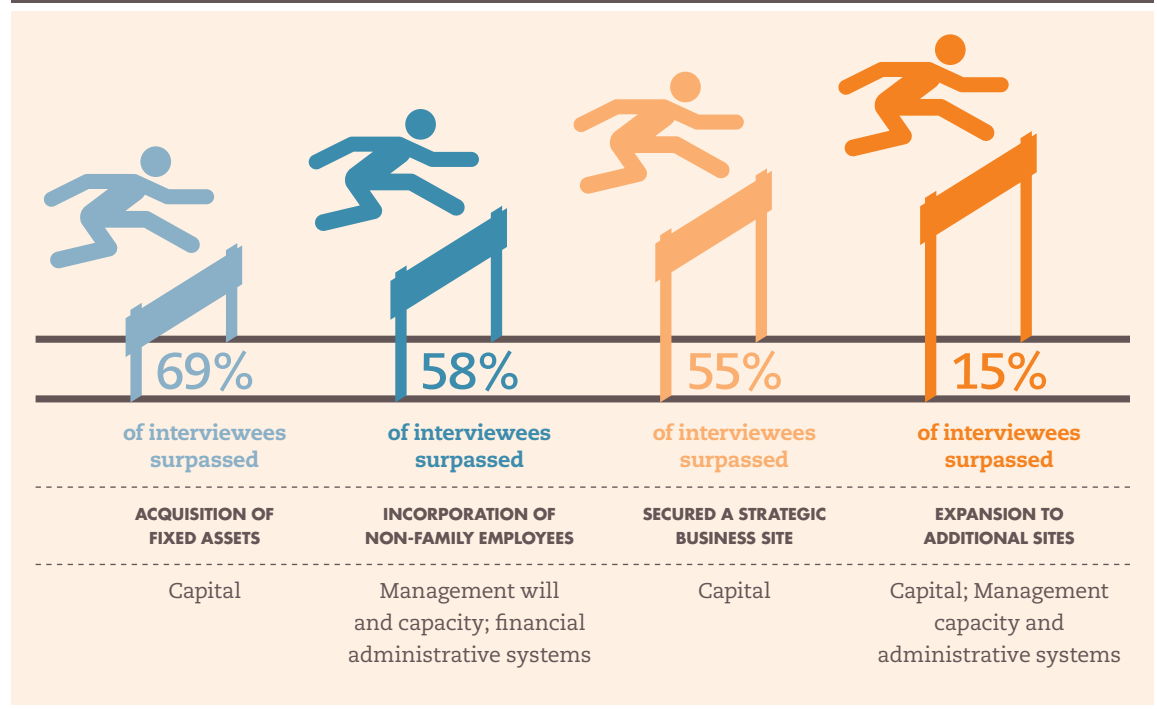
Enterprise Growth Progression: Overcoming Hurdles

Enterprise growth does not necessarily follow a defined path or progression, but may best be described as a series of hurdles that must be overcome in order to reach higher stages of development (see Figure 3). Many of these hurdles are encountered repeatedly, as businesses progress to greater levels of complexity and maturity, or following crises or set-backs that require rebuilding and reshaping an existing enterprise.

The most common growth hurdle that clients interviewed faced was the **acquisition of fixed assets** needed for their business operations. Production shops purchased machinery and tools, restaurants secured cooking appliances and furniture, and vendors sought transport vehicles. 69% of the entrepreneurs interviewed had purchased fixed assets for their business; and those who had not were in retail trade businesses that did not require these types of investments. Fixed assets were often purchased repeatedly, at

FIGURE 3

Enterprise Growth Hurdles



distinct moments in the business's development, such as when adding new products or services or opening a second business site. Usually, acquiring fixed assets presents significant challenges to entrepreneurs needing capital with no prior credit history; however, this was not the case for any of the entrepreneurs interviewed. They had all secured financing to support these investments, as part of their increased borrowing from the MFI and other lenders.

Another common growth hurdle is the **incorporation of non-family employees** within a microenterprise. Growing businesses need additional employees; however the costs and risks associated with employing "outsiders" was sufficient to discourage several of the business owners interviewed from moving beyond this hurdle. Among the interviewees, only 58% had employed non-family members. In addition to an owner's desire and capacity to manage employees is the need for more advanced administrative and financial systems to support their productive participation. This topic is addressed more fully in the section that follows.

A third growth hurdle is **securing a fixed business site that allows a business to continue its growth trajectory**. Many of the businesses studied began in small, informal and sometimes precarious locations, including street corners, informal markets and borrowed rooms of family residences. Growth often implied increasing space to accommodate additional inventory, equipment, employees or customers. Several entrepreneurs had to relocate their businesses to ensure greater security for their increasing assets and inventory. Increased visibility and improved customer access were also motivations for moving businesses to more strategic locations. Of the clients interviewed, 55% had secured a business site that allows them to accommodate for future growth. Notably, many of them were still in the process of building or expanding these sites.

Overcoming this hurdle proved more challenging than acquiring fixed assets because of the larger investment size. As with housing construction, business sites were often built in stages, starting with a lot purchase, and progressing with incremental constructions as financing became available. A common strategy observed is building the business owner's home above or below their shop or store, maximizing the use of their property, while enabling direct

oversight of their business' resources and operations. Incremental financing for business site purchase, construction and expansion was often secured from the participating MFI. However, in a few cases, interviewees had obtained larger mortgage-backed loans from commercial banks to finance these sizeable investments. Meanwhile, several of the growing enterprises, including at least three of the Striver cases, were clearly stuck at this hurdle, still searching for the financing needed to take this next growth step.

Another type of growth hurdle that several interviewees expressed interest in, but only eight (15% of total) had embarked upon is **expanding their business to additional sites**. By extending their physical presence to new locations, businesses can increase their markets and capture new customers. This is a growth step that requires not only additional capital to acquire and equip a new site, but also increased management and administrative capacities to effectively oversee multi-site operations.

Approximately a third of the entrepreneurs (36%) mentioned business-related crises that negatively impacted their business' growth. The majority of these were caused by theft, whether from outsiders, employees, or clients who had failed to make payments. Others had been impacted by calamities (flood, fire, volcanic eruption) or government sanctions against their business practices. Two entrepreneurs mentioned facing tough competition from a sudden influx of foreign imports. Most of these crises-related hurdles were overcome through a combination of determination, innovation and additional financing.

It is worth noting that in several cases crises spurred entrepreneurs towards new opportunities leading to growth. A flood wiped out a workshop that then moved to a more strategic location. Public prosecution closed down shoe production under stolen brand names, thus prompting the creation of a private label.

As former studies have pointed out, business growth also follows a human development process, whereby an owner's capabilities mature as she faces opportunities and overcomes obstacles that move her business forward. Interestingly, the average length of business operations among the GE group is 12.9 years, and the median term is 11 years, which may seem long compared to other contexts. However, given



Ramon proudly displays the leather handicrafts produced in his back-street workshop, which employs 25.

that the entrepreneurs interviewed for this study are microfinance clients who began with truly micro enterprises and extremely limited resources—both financial and human—it is understandable that growth has taken them longer than what is commonly expected of SMEs. In other words, when entrepreneurs start from behind, in terms of education and access to resources and networks, it can be assumed that their growth progression will be slower. A topic of much discussion is how to speed up this growth process, and to support businesses in making the transition from one step or hurdle to the next. For this group in particular, the needs are both external (e.g. financial services, business linkages) and internal (e.g. increasing capabilities). Capacity building is fundamental, as enterprises cannot advance beyond the abilities of their owner-managers (referring to a person who both owns and manages a business).

Employees: At the Heart of Business Growth

One of the standard measures of business size across sectors and countries is a firm's number of employees. The majority of micro-enterprises in the developing world have no employees beyond their single owner, and those that grow are most likely to employ family members as a first step. Employee growth begins with the family for a host of reasons, of which the following arose from client interviews: it keeps costs down, creates jobs for family members and builds on existing trust.

The addition of non-family employees emerged within the study as a key step in

business growth, but also a significant barrier for those who resist. This step enabled enterprises to grow beyond the scope of the family labor force, and tends to signal several necessary, related developments. First of all, a firm needs to generate sufficient steady income to cover the added operational cost. Secondly, increasing financial and administrative controls become imperative to guide employee transactions and safeguard business resources such as cash and inventory. Furthermore, in Ecuador specifically, employment of non-family members is highly regulated, thus pushing firms towards greater formalization. Indeed, the majority of microenterprises, and just over 40% of those interviewed, have never taken the step of adding non-family employees.

A key distinction that emerged between Growth Entrepreneurs and LG entrepreneurs is their attitude with respect to non-family employees. Among the GE group were notable examples of owners who highly valued their employees, and portrayed them as essential to the enterprise's success. Ramon, the owner of a leather workshop in Lima, employs 25 workers—primarily women. When asked what has contributed to his business' success, he responded, "Nuestros colaboradores. Son la parte fundamental." (Our employees [literally "collaborators"]. They are fundamental.) Esperanza, a school owner in Santo Domingo, described her teachers as "socios," or partners, explaining that the quality of the school's education depended primarily on them. Magda, a restaurant owner in Quito, related how being an employer is also a vocation, as she often had to support and encourage employees facing troubles at home.

On the other hand, among several of the LG clients were references to negative experiences with former non-family employees who had stolen from them or set up competing businesses. Sandra, a restaurant owner in Guayaquil, complained that "80% de los despidos han sido por plata" (80% of [employee] terminations were because of cash [theft])." Esther, an entrepreneur in Santo Domingo, had to recruit additional family members to run her second corner store ("colmado") after facing severe losses from employee theft. Pedro, the owner of a carpentry shop in Quito, has resorted to only hiring family members after several employees "stole" his handicraft

designs to produce their own competing products. Entrepreneurs also expressed concerns that employees did not attend to customers with the same level of service as the owner. “Dejar a otros no es igual” (Leaving [the business] to others is not the same.), lamented Rita, a paint shop owner in Lima. Not surprisingly, many of these entrepreneurs have reduced or completely eliminated non-family employees, minimizing their opportunities for business growth.

Positive attitudes towards non-family employees are tied to an entrepreneur’s level of confidence that employees will contribute rather than detract from the enterprises’ success. Entrepreneurs that exhibit these attitudes are more likely to hire employees when needed for growth. Fundamental to this mindset is reliance upon financial and administrative systems that control resources and disclose discrepancies in a timely manner. Former studies have pointed to a directly proportional relationship between the number of employees in a micro-enterprise and the existence of financial accounts.¹⁸ Conversely, one can deduce that financial record-keeping contributes to a positive attitude towards employees, which thereby enables business growth. Thus, tools and training that facilitate greater capability in accounting and financial administration may equip entrepreneurs in overcoming this important growth hurdle.

Gender Revisited: Where Are the Women in Small Enterprise?

As mentioned earlier, women do not figure prominently as lead owners or owner-managers of higher growth enterprises, representing only one of the GEs interviewed. Nevertheless, women are joint-owners in 64% of the GE cases, and in several of them they initiated the micro-enterprises that later transitioned to joint-ownership after having grown to a certain size. Now their husbands have the primary leadership role in managing the firm and in determining its future growth.

Speculation abounds as to why women-led enterprises are less likely to make the transition from micro to small business. Clearly, the demands of caring for the family, and particularly raising younger children, continue to lie primarily with the female members of a household. In

The addition of non-family employees emerged within the study as a key step in business growth, but also a significant barrier.

addition to childcare responsibilities, women entrepreneurs often spoke of having to direct their attention away from their businesses for a period of time to care for an ailing husband or an elderly parent. These observations concur with findings from similar studies conducted by Freedom From Hunger, which highlight that a woman’s context strongly influences her vision and motivation for future business growth.¹⁹ The outcomes of this study also confirm previous findings revealing that women’s investment strategies tend to be more diversified than men’s in terms of creating additional income sources for the family, making home improvements, establishing income opportunities for adult children and investing for retirement. Thus, as evidenced in the Lower Growth group, borrowing may increase without necessarily contributing to the formation of a higher growth enterprise.

The lack of female owner-managers among the GE group may be cause for concern to some; however, it is important to realize that business growth is largely self-determined, based on the owner-manager’s vision, as was evidenced by the typologies that emerged from interviews. This study did not uncover any clear limitations in women’s access to credit. Rather, the participating financial institutions demonstrated great dedication in serving women clients, who represented between 47% and 67% of the three institutions’ total borrowers. Generally speaking, women are known to intentionally select enterprises that accommodate their multiple family obligations, and may limit their business involvement as necessary to attend to competing priorities. Ideally, these decisions should be just as highly valued as the choice to dedicate oneself fully to growing a specific enterprise.

¹⁸ The 2013 FondoMicro survey of MSMEs in the Dominican Republic found that only 37.4% of owner-operated micro-enterprises kept financial records, as compared to 81% of enterprises with 6–10 employees. Marina Ortiz, Miguel Cabal, and Rita Mena, *Micro, pequeñas y medianas empresas en la República Dominicana 2013*. Santo Domingo: FondoMicro (2014).

¹⁹ See, for example, Bobbi Gray and Caitlin Scott, *When Dreamers Become Leaders*. Davis, CA: Freedom From Hunger (2016). A similar study was conducted in Mexico by Bobbi Gray, Marja Sainio and Matilde Olazabal, *What drives performance of successful women entrepreneurs in Mexico?* Davis, CA: Freedom From Hunger (2014).

The lone female business owner found in the GE group runs a small private school, which might be classified as a type of “socially-motivated enterprise.” Esperanza’s school grew out of a homework club that she and a handful of other teachers had formed to assist neighborhood children with learning disabilities. Clearly, Esperanza’s vision for the school was strong enough to justify the

time and energy needed of her to grow her enterprise to its current size—and probably beyond. Moreover, childcare support provided by her mother enables Esperanza to dedicate time and attention to her school without neglecting her own young children.

An important finding is the role that women often play as joint owners of higher growth enterprises. In addition to being co-owners,

A Female Growth Entrepreneur’s Story—A Gift for Lost Savannah



“El mejor y más grande regalo para nuestra Republica es educar a nuestros niños y niñas.” (The best and biggest gift we can give our country is to educate our boys and girls.)

A QUOTE PAINTED ON THE FRONT OF THE “DIVINE ANGELS EDUCATIONAL CENTER” IN SANTO DOMINGO

Children’s chatter and laughter can be heard behind the high wall in front of Angelitos Divinos (Divine Angels), a small primary school located on a quiet corner of Sabana Perdida (literally *Lost Savannah*), a developing neighborhood of Santo Domingo. Angelitos Divinos is run by Esperanza, the visionary owner who started with a small after-school homework club for students struggling with learning disabilities. Esperanza was teaching at a public school when she and another teacher decided to offer afternoon tutorials in one of the rooms of

her mother’s house. About five years later, she and four other teachers decided to launch their own school, transforming the remaining rooms of her mother’s house into classrooms. Around that time Esperanza, began borrowing from Banco ADOPEM to help finance the remodeling. She initially borrowed \$600 in 2006, and has continued with a steady stream of loans since then, financing additional classrooms and improvements to the school infrastructure. Her last loan of approximately \$7,800 allowed her to add office space, a library, and widen the playground. Now Esperanza is eyeing the property next door, with plans to expand further and include courses in computer technology. “Mi visión es grande.” (My vision is big.)

Esperanza resumed university studies when she launched her own school, and in 2007, she graduated with a degree in Educational Administration. She and her staff of twelve now serve a total of 168 primary students. Esperanza’s mother runs the school cafeteria and helps care for Esperanza’s two young children, who are one and four years old. Her husband works in his own profession, as a press photographer. Esperanza attributes her success to the support she has received from God and from her family, especially her mother, in addition to her “partners”—the teachers of Angelitos Divinos—and their commitment to providing quality education.

women were in charge of the finances and administration of approximately six of the GE firms, and in at least three of the Striver firms. Several female co-owners were also tasked with managing sales and customer relationships. Thus, any strategies to support enterprise growth through improved financial administration capabilities or marketing and customer service would do well to take into account female business partners who occupy these types of roles.

Business Formalization: Why Bother?

As part of the study, clients were asked about their level of business formalization (registration, tax regimen and employee contributions). They were also asked about their motives for formalizing or deciding to remain informal. These outcomes are summarized as key factors influencing clients' formalization practices.

National regulation and enforcement. Clearly the greatest determinant of formalization practices among entrepreneurs was local regulations and the degree of enforcement. For example, in Ecuador regulations have been adjusted according to business size, with increasing simplicity and reduced burden for the smallest. Furthermore, the current government has stepped up enforcement such that all entrepreneurs interviewed had secured some degree of formalization for their business. On the other extreme is the Dominican Republic, where tax regimes remain overly burdensome for smaller enterprises and enforcement among micro-enterprises is minimal. Consequently, very few clients reported any type of tax registration—and many had difficulty even understanding the question.

Consumers and suppliers. One of the strongest incentives to formalization is selling to customers who require official receipts. This is most common among those enterprises that sell goods or services to formally registered companies that present their accounting to tax authorities. Victor, a machine shop owner in Lima, explained that with formalization, “Tengo acceso a más clientes” (I have access to more clients). Even Angela, who transports children to school in Santo Domingo, was



Francisco and his wife take a short pause, after processing the morning truckload of chickens from PRONACA.

obliged to register so she could provide receipts to parents seeking reimbursements from their corporate employers.

In a few cases, entrepreneurs who purchase inputs from formal enterprises may also be required to register their business. Francisco, who processes poultry in Guayaquil, receives a delivery of a thousand live chickens every morning from PRONACA, one of the largest distributors of food products in Ecuador. Given the volume of his purchases, Francisco had to formalize his businesses to comply with PRONACA's accounting requirements.

Customers and suppliers can also influence enterprises away from formalization. Businesses that concentrate on serving low-income communities where micro-entrepreneurs tend to operate are rarely requested to produce official receipts. Even manufacturers who produce goods for national or international markets may choose to stick with informality as much as possible. Ramon, who owns a leather workshop in Lima, states that formalizing his business would work to his disadvantage precisely because he purchases his inputs from informal suppliers without receipts. He fears that switching to formal suppliers, who sell at higher prices, would reduce his competitiveness in a very tight market.

Level of visibility. Another key factor influencing a business' formalization is how easily it can be spotted by tax authorities. Restaurants located on busy streets or within

The businesses studied remain predominantly cash-based, and use of bank accounts is minimal.

college campuses tend to be registered, while informal workshops—sometimes employing dozens—operate unnoticed behind garage doors. Likewise, shops or stalls found in formal markets or commercial centers are likely to hold some type of basic registration, often paid through an annual fee to the local municipality. In a few cases, businesses had actually de-formalized, cancelling or downgrading their legal registration status upon moving to a less visible location.

The above observations suggest that a business' degree of formalization is primarily based on practical considerations, and that in certain circumstances the decision not to formalize benefits business outcomes. Entrepreneurs chose to formalize when they perceived a high risk of being sanctioned by officials, or as a strategy to reach specific customers or suppliers, or a condition to operate within established commercial centers. In none of the cases studied did formalization represent a barrier or obstacle to growth. Nevertheless, as businesses grew, the tendency was to pursue greater formalization for the reasons mentioned above. Given the practical nature of this decision, policy makers would do well to keep barriers low for business owners seeking formalization, simplifying registration and taxation processes, particularly for micro and small enterprises.

Financial Use: Still Mostly Loans

Clients throughout the study recognized access to loans as critical to their business at every stage of growth. The majority began borrowing from MFIs since very early in their business' life, starting with small working capital loans and increasing progressively as their financing

needs grew. MFIs have succeeded in retaining clients with increased borrowing needs by offering larger loans with longer tenors and slightly lower interest rates. Furthermore, clients stated repeatedly that the **ease** and **speed** of loan processing by the MFI has kept them loyal. Several also mentioned how financing was especially valued following a crisis, enabling them to get their business back on its feet.

As their financing needs have grown, clients have branched out, borrowing from multiple sources. They have also stepped up their borrowing by speeding up repayment, re-financing loans, taking out parallel loans, or consolidating debt from several sources. Among this group, loans use has been dynamic and extensive.

As mentioned above, access to financial services is considered high within the urban settings where this study took place. Nevertheless, the businesses studied remain predominantly cash-based, and use of bank accounts is minimal. Among those who saved in a bank or used a checking account for their business, very few obtained these services from the MFI, signaling an opportunity for greater cross-selling of financial products.

With respect to savings, attitudes varied notably between contexts. In Peru, where memories of hyperinflation linger, clients spoke mostly of keeping small amounts of cash at home (referred to as a “caja chica” or petty cash fund). However, clients in Ecuador, whose economy operates in dollars, were saving with banks and cooperatives. Interestingly, clients demonstrated low levels of savings with the three MFIs, despite that all three institutions disburse loans directly into borrowers' savings accounts. Across the three countries, most of those who saved either referred to a having a specific objective (e.g., a daughter's university fees, to take a trip, or purchase a home in a lower-crime neighborhood), or to keeping a small cushion to cover for unplanned expenses.

**“Yo invierto todo. (El capital) lo hago trabajar.”
(I invest everything. I put it to work.)**

A BEAUTY SALON OWNER'S EXPLANATION FOR WHY SHE IS NOT SAVING IN THE BANK (LIMA)

“Lo considero algo muerto.” (I consider it dead.)

A VETERINARIAN IN GUAYAQUIL REFERRING TO SAVINGS IN THE BANK

Among the entrepreneurs interviewed, savings was rarely mentioned as a long-term strategy to provide for future income needs or to build a retirement nest egg. Instead, they either poured profits back into their business, or sought alternative investment opportunities that generated high returns, such as land purchases and rentals.

Rental Properties: The Popular Pension Plan

“Como tengo ya 57 años, ya no quiero más fuerte.” (Since I’m already 57, I don’t want any harder [work].)

A MARKET VENDOR IN LIMA

“Después de pagar todo y sacar las hijas de la escuela puedo descansar.” (After paying off everything and getting my daughters through school I can rest.)

A 37-YEAR-OLD PAINT STORE OWNER IN LIMA

“Tengo tantos planes, pero ya me siento cansado.” (I have so many plans, but I already feel tired.)

A 42-YEAR-OLD BAKERY STORE OWNER IN GUAYAQUIL

Entrepreneurs work hard—and when it comes to envisioning their older age, they want to be able to have the luxury of slowing down. Business owners in the Lower Growth group made comments such as the ones above, and often spoke of fatigue and of the desire to eventually slow down and stop working. Clearly, they have worked hard to build up their businesses from scratch, requiring long hours and few breaks. Most of them have raised a family, put their kids through school, built a house and even created jobs or homes for their adult children.

Nevertheless, for many entrepreneurs, their economic futures feel uncertain. Throughout the developing world, active saving for retirement and participation in formal financial services for older age like pensions are minimal. Entrepreneurs of micro-businesses and SMEs face even fewer options than the formally employed, as they

tend to operate outside the scope of either private or state-sponsored pension plans.²⁰ No doubt there are some entrepreneurs who are hoping that their children will help support them when they are too old to work. Indeed, a few have already begun handing over their businesses to their sons and daughters, with the expectation that they will continue to receive financial benefits.

“Tengo que pensar en mi vejez, la enfermedad.... Pensar a tiempo.” (I need to think about my [future] old age, and infirmities.... To think in time.)

A DAY-CARE OWNER IN SANTO DOMINGO, REFLECTING ON HER REASONS FOR BUILDING RENTAL APARTMENTS BEHIND HER HOME

An encouraging practice that was observed within the three countries studied is increasing investment in rental units. Over 60% of LG clients have bought and built rental properties, and most of them are continuing to build more. In fact, at least ten of them have used their loans to finance the purchase and construction of rental properties, repaying these with income from their relatively stable microenterprises. For example, Claude, a Haitian migrant living in Santo Domingo, has slowly built his second story home and two rental apartments below with loans he repays with the meager income from his door-to-door sales business. Apartments are often built above or below the client’s own residence, as incremental construction projects that may reach up to four or five stories. Clients have also bought lots when they have landed on a good deal, and later develop these into rental spaces. Former homes and business sites are also rented as owners move to better locations.

Rental properties are not only an attractive investment strategy for successful micro-entrepreneurs, rental income has become the de-facto pension for much of this population. Undoubtedly, steady urban growth is fueling domestic rental markets, making this a very profitable venture and relatively stable source of future income. These practices signaled areas of potential service to growing entrepreneurs seeking stable and secure investment options to finance their aspirations for a future retirement.

²⁰ Ecuador is an exception, where formal registration of employees is more common, and therefore many entrepreneurs are contributing to their own social security. Nevertheless, because these contributions are so small, retirement pay-outs are expected to be minimal.

3

Conclusions and Recommendations for Action

Characteristics of Growth Entrepreneurs

- 1 GEs express a **clear vision of growth for their business**, which is often informed by prior work experience within a similar line of business and validated by their decision to **leave employment to start their own enterprise**.
- 2 GEs have overcome a significant growth hurdle by **hiring non-family employees**. GEs not only see these employees as critical to their firm's growth, but also tend to **express positive attitudes towards their contributions**.
- 3 GEs, and frequently joint-owners among family members, are **dedicated exclusively to their sole family business**. Likewise, **investments (both loans and profits) are directed to growing the business**, rather than diversifying into other business or investment ventures.
- 4 GEs tend to **keep financial records** and exhibit greater order in their financial administration. This is tied to their **higher education level**, whether pursued prior to starting their business or while operating as a business owner and manager.
- 5 Demographically, GEs tend to be **male and within the younger and middle age ranges** (between 30 and 49 years old).

SMEs are emerging within microfinance portfolios, offering valuable insights for institutions supporting growth and financial inclusion for this sector. From this study emerged a group of entrepreneurs who own higher growth enterprises. These business owners, who overcame key growth hurdles and express a clear vision of future business growth, are referred to as “Growth Entrepreneurs” (GEs). This group of rising entrepreneurs holds several common characteristics, which are listed to the left. By identifying Growth Entrepreneurs, financial service providers and institutions supporting SMEs can pinpoint local growth opportunities and specific hurdles faced by emerging SMEs. Furthermore, by targeting Growth Entrepreneurs, institutions may strategically focus financial services and other support to SME sectors that are likely to be more vulnerable and underserved yet hold great potential for significant growth and job creation.

Based on this study, the following insights and recommendations for financial service providers, policy-makers, donors and others engaged in promoting growth and greater financial inclusion for SMEs are put forth:

Increase microfinance loan ranges to help cover the “missing middle.” Owners of emerging SMEs and successful microenterprises tend to pursue loans that exceed standard microenterprise lending ranges, favoring slightly longer tenures and lower interest rates. For many of them, and in particular for women, increased borrowing is used to finance multiple businesses, home construction, and other types of investments such as rentals. Thus, larger loans fuel SME growth as well as other types of investments that diversify family income sources and build equity.

Interest rate caps on SME and housing microfinance loans are particularly unhelpful, contributing to increasingly underserved markets for smaller SMEs and those seeking financing for home improvements and rental units.

➤ Microfinance lenders need to assess their institutional priorities and operational capacities to assume larger ticket loans to retain existing borrowers. This becomes even more important when incorporating new clients at higher borrowing levels, requiring modifications to loan underwriting and servicing processes.

➤ Policy-makers, investors and donors may choose to steer away from policies and regulations that are tied to microfinance loan sizes, given the rising demand for larger loans among existing microfinance borrowers and the variety of investment uses. Furthermore, interest rate caps on SME and housing microfinance loans, such as those applied by regulators in Ecuador, are particularly unhelpful, contributing to increasingly underserved markets for smaller SMEs and those seeking financing for home improvements or rental units.

Cast wider nets to capture rising SMEs.

While this study focused on SMEs emerging within microfinance portfolios, throughout the developing world SMEs remain highly underserved, signaling both need and opportunity to reach further into these markets with appropriate financial services. As evidenced by the Growth Entrepreneurs, rising SMEs seek a broader range of financial services as they grow. They also highly value ease and speed of loan processing when pursuing financing, particularly when faced with an important growth opportunity. Nevertheless, many emerging SMEs continue to operate with a high degree of informality, relying heavily on unregistered financial transactions and minimal technology use, which add to their invisibility and exclusion from formal financial systems.

➤ These insights reiterate the value of commercial lenders moving down-market into the SME space. Many of the challenges lenders face in attracting SME customers and performing analysis and underwriting for smaller loans are being addressed through innovations powered by technology. Donors, investors and other financial ecosystem actors are needed to support these FinTech solutions, which are creating financial access for SME markets. On the end-user side, the ease and speed of loan processes enabled through FinTech are well matched with SME borrowers' priorities.

➤ As emerging SMEs seek a broader range of financial services to support their capital and transaction needs, lenders would do well to promote and cross-sell their existing services, realizing that sales may involve an educational process for rising entrepreneurs. (A list of potential services by client typology can be found in Annex 2.) This, in turn, is likely to foster increased use of account-based transactions, contributing to SME-owners' formal financial histories, and facilitating future loan assessment. Moreover, as financial service providers leverage digital technology developments such as BiM, Peru's new digital payments platform, this will offer SMEs the opportunity to increase the ease and speed of financial transactions while building their digital footprint, bolstering future access to financing.

Direct services to entrepreneurs facing growth hurdles.

The financing needs of rising SMEs are particularly acute as they reach specific growth hurdles or business crises. Growth hurdles requiring significant capital include acquiring costly fixed assets,

purchasing and building a strategic business site, and expanding to additional sites. Business owners may also face significant capital needs when overcoming crises directly affecting their business. Growth hurdles such as adding non-family employees and expanding to additional sites require increased management and financial administration capabilities from business owners.

- Growth hurdles present an opportunity for financial service providers to offer uniquely tailored products to their clients. Leasing and car loans are examples of financing directed at fixed asset acquisition. Other possibilities include offering modified housing microfinance or consumer loans to support the incremental construction of new business sites, or mortgages for purchases backed by a formal land title. Furthermore, ensuring continuous access to financing following a crisis may prove strategic in enabling clients' businesses to recover and advance.
- As growing enterprises add non-family employees and new business sites, financial record-keeping and other administrative practices become a higher priority for business owners. Specifically, the practice of keeping written financial accounts emerged as a key growth condition necessary for rising SMEs. For institutions supporting entrepreneurship and business growth, further research is likely needed to identify appropriate tools and strategies to facilitate increased capability in financial management among business owners. Findings from this study suggest that individually tailored services and direct advising may be more effective than courses or training sessions, especially given the extreme heterogeneity among businesses and business-owners. An innovative approach to tailored business advising is MiBanco's "MiConsultor" (My Consultant) Program, described in Box 1. Because emerging SMEs are often jointly owned and managed by various members of a family, business support services can increase their effectiveness by including co-owners and family members involved in the firm's operations.

Re-shape expectations regarding women-owned SMEs. Findings from this study reveal that Growth Entrepreneurs emerge in contexts where family care-giving needs are being addressed—usually by other family members. This care-giving encompasses raising children, assisting the elderly and also attending to the sick or handicapped. Because care-giving roles are typically assumed by female members of households, women entrepreneurs are most impacted in terms of their business roles and aspirations. Therefore, if family or external support is unavailable or insufficient to meet their care-giving responsibilities, women are likely to choose a lower growth business or jointly own a higher growth business, which is led by another (often male) family member. Practical considerations may include increasing support services for women entrepreneurs, such as child care options, while recognizing the value in women choosing to prioritize family care over business growth even when such options exist.

Boost the practical benefits of business formalization. The degree of formalization business owners pursue is a largely practical consideration, involving increased access to customers and suppliers or reduced risk of sanctions. In certain circumstances, owners may decide to remain or become less formal for the benefit of their business, such as when purchasing inputs from informal suppliers at reduced prices.

- Effective strategies by policy-makers to increase formalization among rising SMEs offer tangible benefits, such as access to specific markets (e.g. government contracts), imports and commercial spaces, along with well-designed tax incentives. These, combined with diminished barriers to formalization through simplified registration and segmented tax regimes, stimulate greater participation from smaller businesses.

Build financial services to support base of the pyramid (BoP) investing for retirement. Financial inclusion encompasses prudent planning and investing for the latter years of one's life; however, much of the developing world, and particularly entrepreneurs and the self-employed, has few options, falling outside the reach of both private and public pension

Programa MiConsultor: Business Consulting Tailor-Made for Rising Entrepreneurs

In 2011, MiBanco launched a trial program connecting groups of university students concentrating in business and administration with high performing clients of MiBanco. Each group of three students met with their assigned micro-entrepreneur over a period of six months, performing a diagnostic of business needs and developing specific strategies with the client in response to these needs. Entrepreneurs were selected based on longevity and a history of increasing loans with MiBanco, accompanied by favorable repayment performance. They also had to agree to dedicate approximately two hours per week to working with the students during the course of the program.

Over the past five years, clients of MiBanco have received personalized advising in topics such financial accounting, pricing, business management, marketing and sales.

Family members of entrepreneurs are also encouraged to participate in these group sessions, as a means of expanding the program's benefit.

“Me han ayudado a ordenarme. Antes tenía mi papelito, apuntaba ahí y me olvidaba donde lo dejaba. Ahora todo lo trabajo en la computadora.” *(They helped me get organized. Before I had my little paper, and would take notes and then forget where I'd left it. Now I keep all my work in the computer.)*

MIBANCO CLIENT (FEMALE) WHO PARTICIPATED IN MICONCONSULTOR PROGRAM

“Antes usaba la computadora solo para Youtube. Ahora uso Word, Excel, hago mi inventario, costos, balance, etc.” *(Before I used my computer only to watch YouTube. Now I use Word, Excel, and I keep my inventory, costs, balance sheet, etc.)*

MIBANCO CLIENT (MALE) WHO PARTICIPATED IN MICONCONSULTOR PROGRAM

These testimonials appear in MiConsultor promotional materials. Two of the MiBanco clients interviewed in this study had participated in the MiConsultor program, and they spoke of benefits such as improved order in their business accounting practices and revised pricing based on more accurate cost calculations and market studies. One of them also spoke of developing new business growth goals as a result of their participation.

The MiConsultor program began with nine entrepreneurs in Ventanilla, an urban settlement north of Lima, and since then has served a total of 794 clients. At present, 40 entrepreneurs are enrolled in the program, and they are being served by students from two universities. Future plans include consolidation of the current program, and further expansion to new areas surrounding Lima.

programs. As this study has revealed, investing in rental properties is a popular strategy among aging business owners. This raises several questions for financial service providers and proponents of financial inclusion:

▣ How common is this strategy of investing in rental properties to finance retirement among the BoP in other contexts? What are other promising practices among these populations? Further study is needed to identify and evaluate existing practices.

▣ How can financial service providers and the broader microfinance industry better support the BoP in planning for retirement, whether investing in rentals or other options? What other services might be extended to these populations, such as micro-pensions or specialized savings plans? These are questions that echo the call for greater research and innovation in extending the frontiers of financial inclusion to encompass the financial needs of the BoP in their later years.

Research Methodology

Consultations and Secondary Research

This study began with an extensive review of existing literature on the topics of SME finance, business development, entrepreneurial development, along with gender-related studies on each of these. I also interviewed a wide range of researchers, consultant, practitioners and donors working in these fields, most of whom are listed in the “Acknowledgements” section. From these I was able to refine my hypotheses and study questions, and design the initial interview guides for clients and loan officers.

Country and MFI Selection

Latin America was chosen as the regional context for this study, given its rich history in microfinance and mature markets, including retail institutions, regulators, credit bureaus, and network associations. Countries with similar macro-economic conditions were considered, allowing for common patterns to emerge among entrepreneurs and their business experiences, and enabling broader application of findings. Nevertheless, it was the MFI selection process that ultimately weighed most heavily in determining the study locations.

MFI selection was based on the following criteria:

1. Located in an “approved” country; only one MFI per country
2. Over ten years of experience in microenterprise lending
3. More than 25,000 active borrowers.
4. Offers a range of financial services (e.g. savings and insurance)
5. High participation of women clients (ideally 50% or greater)
6. Evidence of positive performance in 2015 (In terms of: Return On Equity, Return On Assets, Portfolio At Risk)
7. Have granted business loans over \$10,000 (and ideally at least a hundred of these are active)

Furthermore, MFIs were sought that expressed interest in moving into SME markets, and a desire to learn more about the SMEs that have developed within their own portfolios. A total of three MFIs participated in the study: MiBanco in Peru, Banco Solidario in Ecuador and Banco ADOPEM in the Dominican Republic, of which the first two are members of the Accion Network.

MFI Data Processing and Analysis

Each participating MFI was asked to share specific data from their information systems relative to client borrowing histories (loan sizes and dates), use of other financial services, demographic data (age, sex, education level, marital status, number of children), and business information (type of business, number of employees, monthly income). These data sets were used to determine the study group, seeking to identify clients who had begun with small loans and had increased their borrowing significantly over time. The table below lists the filters applied to each MFI's client data. These were determined together with the MFI, and responded primarily to parameters set by local banking regulators for classifying SME loans.

Although I had initially hoped to extract relevant findings from analyzing MFI data, this proved to be less fruitful than expected. I found that each institution collects different data (e.g. only two of them register number of employees), and their classifications can vary significantly (e.g., business categories, definitions of "employee," whether education level refers to attendance or actual completion, etc.). Furthermore, my analysis of the most straightforward statistics (gender, geography, loan size) did not reveal significant findings with respect to financial use or borrowing trends. Therefore, I decided to focus more heavily on the qualitative research, and increased the number of client interviews to an average of 18 per institution.

TABLE 4

Filters Applied to Client Data to Determine Study Group

PERÚ— MIBANCO	ECUADOR— BANCO SOLIDARIO	DOMINICAN REPUBLIC— BANCO ADOPEM
1. Last loan over US\$ 6,000	1. Monthly income above US\$ 7,000	1. Last loan over US\$ 6,000
2. First loan under US\$ 3,000	2. Last disbursement above US\$ 3,000	2. First loan under US\$ 1,000
3. First loan disbursed before 2013	3. First loan under US\$ 3,000	3. First loan disbursed before 2013
	4. First loan disbursed before 2013	

In-depth Interviews with Clients and Loan Officers

The objective of the in-depth interviews was to address the following research questions:

- What are common characteristics of higher growth businesses and their owners ("Growth Entrepreneurs")?
- What is the growth progression of microenterprises as they transition into SMEs?
- How did entrepreneurs use loans and other financial services to grow their enterprise?
- What kinds of services—both financial and non-financial—are most important to this group?

Using the study sets of each MFI, I preselected approximately 40 candidates for in-depth

BOX 2**Topics Included in the Interview Guide**

1. Personal and family information
 - ☒ Ages and education levels of all members
 - ☒ Other income sources
 - ☒ Family assets (and changes over time)
2. Business information
 - ☒ History of the business: a timeline identifying key moments
 - ☒ Employees
 - ☒ Formal registration and tax status
 - ☒ Sites/location
 - ☒ Accounting and cash management
 - ☒ Customers and competition
 - ☒ Suppliers
 - ☒ Use of technology
3. Financial service use (with the MFI and other institutions)
 - ☒ Loans
 - ☒ Savings
 - ☒ Others (checking accounts, credit cards, insurance, ATM use, etc.)
4. Business support services
 - ☒ Training or advice received
 - ☒ Resulting changes
5. Owner's vision/perspectives
 - ☒ Vision for growth
 - ☒ Growth limitations
 - ☒ Success factors

interviews, prioritizing those with significant loan size growth over longer periods (+5 years) while seeking a gender representation proportional to the MFI's overall portfolio and a diversity of business types. From these, each MFI chose 20 interviewees based on their own perception of appropriate selection (i.e. clients whose businesses had demonstrated significant growth) and clients' willingness and availability to meet. Since the higher borrowing clients are concentrated in major cities (generally the capital), we decided to focus exclusively on these cities. In Lima, we narrowed the focus even further, given the significant number of MiBanco clients to choose from, and limited interviews to San Juan de Lurigancho and Comas—two large urban settlements to the east and north of Lima.

While the study set selection from MFI databases was straightforward and objective, interviewee selection was more subjective, biased by my own pre-selection process, as well as the final decisions made by each MFI. In the end, practical considerations weighed heavily on interview scheduling decisions, such as ease of access, distance, safety and client availability.

Interviews were semi-structured, following a standard guide, and were usually conducted at the entrepreneur's home or business site. The topics included are listed in Box 2. Separately, I also asked a short list of questions to each client's loan officer, focusing on their perception of the client's success factors and the potential for business growth along with any perceived constraints. Other information obtained on each client included: their most recent loan evaluation, borrowing history with the MFI, current credit bureau report, and a downloaded statement (from an official website) of their tax registration status. All of these were valuable in obtaining a more complete picture of each entrepreneur and their business.

Potential Services According to Client Typologies

TABLE 5

Potential Services According to Client Typologies

	GROWTH ENTREPRENEURS	STRIVERS	SUSTAINERS AND SLOWING DOWN
FINANCIAL SERVICES		Savings accounts Credit cards Retirement/pension funds	
	<ul style="list-style-type: none"> ➤ Larger loans with longer terms and slightly lower interest rates ➤ Fixed asset loans ➤ Mortgage loans ➤ Checking accounts ➤ Credit lines ➤ Investment capital 	<ul style="list-style-type: none"> ➤ Larger loans with longer terms and slightly lower interest rates ➤ Fixed asset loans ➤ Home/business improvement loans ➤ Checking accounts 	<ul style="list-style-type: none"> ➤ Home improvement loans
NON-FINANCIAL SERVICES	<ul style="list-style-type: none"> ➤ Tailored advising services (e.g. MiConsultor program) 	<ul style="list-style-type: none"> ➤ Support to increase capabilities in business administration (e.g. bookkeeping) and management 	<ul style="list-style-type: none"> ➤ Financial training or advising for retirement planning ➤ Support to increase capabilities in basic financial administration

The Center for Financial Inclusion at Accion (CFI) is an action-oriented think tank working toward full global financial inclusion.

Constructing a financial inclusion sector that reaches everyone with quality services will require the combined efforts of many actors. CFI contributes to full inclusion by collaborating with sector participants to tackle challenges beyond the scope of any one actor, using tools that include research, convening, capacity building, and communications.

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