

EMPLOYMENT SECTOR
— SOCIAL FINANCE PROGRAM —

***Formalisation
through micro-
finance:
an empirical study in
Egypt***

Nicolas Gachet
Virginie Staehli

Working Paper N° 52

International Labour Office
Geneva



Social Finance Program

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Abstract

As one of the major sources of decent work deficit, the reduction of the informal economy is one of the main challenges for the International Labour Organisation. Up to know it is mainly governments that have tried to resolve this problem through repressive policy, often with little result. This failure is largely explained by the cost of formalisation and the little incentive to operate in formality and it is now getting widely acknowledged that incentive-based approaches should be adopted.

As the outcomes of the informality affect the whole society, private actors should also get involved in the issue. This paper investigates the role Microfinance institutions (MFI) could play in the formalisation of the economy. In Egypt, some MFIs link the amount of their loans with the formality status of their clients. The paper, first, examine in details the effectiveness of the credit as an incentive to induce clients to formalise and, second, reviews the advantage for a MFI to deal with more formal client.

Though some clients formalise to get larger loan, the investigation did not provide probative evidences that MFI can significantly encourage their clients to formalise. Nevertheless, the findings show the necessity to conduct further studies. As a final point, this investigation demonstrates clearly that the provision of documents conditioning the loan amount is a good way for MFIs to reduce asymmetrical information and select trustworthy clients.

Employment Sector
International Labour Organisation, Geneva

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First published 2008

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ISBN 978-92-2-121497-7
ISBN 978-92-2-121498-4

First published in 2008

ILO Cataloguing in Publication Data

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Printed by the International Labour Office, Geneva, Switzerland

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Foreword

Informality is a challenge for decent work, it deprives public authorities of revenues, weakens social security systems, fragments economic and financial transactions, creates unfair competition in product and factor markets and slows down attempts at social organization. Ways and means to push back the frontier of the informal economy have therefore been a constant concern for the ILO ever since its 1972 report on the informal economy in Kenya. So far, few policies have been successful, least of all repressive measures. In this context there is an increasing interest in incentive- and market-based approaches. The provision of microfinance is one of them. It has the particular potential of combining net benefits to the individual client with a business case to the MFI and a gradual formalisation effect as a result of increasing documentation requirements.

To throw light on the scope and limitations of using access to finance – and in particular to credit – as an incentive to obtain documents that confer a formal status to the client of a microfinance institution, the ILO and the University of Geneva commissioned a study to examine the practices of two MFIs in Egypt, ABA and DBACD. This report by Nicolas Gachet with contribution by Virginie Staehli is the result of the research based on a master thesis prepared in 2007 by Pilar Acosta, Nicolas Chamorel, Nicolas Gachet and Virginie Staehli for their Master in Advanced Studies at the Universities of Geneva and Lausanne. The empirical work and field survey in Egypt were supported by grants from the ILO Social Finance Programme and the Foundation Ernest Boninchi.

The report explores the methodology adopted by two MFIs in Egypt to link progressive loan amounts to higher documentation requirements. Two main issues are addressed: the effectiveness of the incentive and the business case for the MFI. The findings would not seem to support a substantial impact of lending conditions on formalisation. At the same time they confirm the business case for a microfinance institution in designing its services in ways that oblige the client to obtain progressive documentation.

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Acronyms

ABA	Alexandria Business Association
DBACE	Dakahlya Businessmens' Association for Community Development
EGP	Egyptian pound
ILO	International Labour Organisation
MFI	Microfinance institution
M/SME	Micro/Small and Medium Enterprise
NGO	Non Governmental Organisation
ROSCA	Rotating Savings and Credit Association

1. Introduction

The informal economy is growing throughout the world (Schneider, 2005; ILO, 2002b). It has for long been recognized as one of the main development challenges. The level of poverty in a country is usually closely linked with the size of its informal economy. As a source of major decent work deficit, it has also been one of the key challenges for the International Labour Organisation (ILO). People working in the informal economy – employees as well as employers – lack decent work conditions (ILO, 2002a). At the macro-economic level, government and the public services are deprived of substantial revenues which could be invested in poverty alleviation. Public authorities find difficult to design suitable policies to alleviate poverty as they know little about the enterprises and the workers operating in the informal economy. Pushing back the frontier of informality is both in the public interest and in the interest of those who have no choice but work under indecent conditions.

For a long time, governments have tried to tackle the informal economy primary through repressive policies. More often than not, the policies failed to resolve the problem, because of deficient enforcement capability, poorly designed incentives and an inappropriate degree of red tape.

Therefore, it is necessary to adopt a new approach to reduce informality. In this respect, it is increasingly recognized that more effective incentive-based approaches should be adopted to reduce the informal economy (USAID, 2005). The idea is that by reducing the cost of formalisation and improving the benefit to operate in the formal economy, enterprises would by themselves move from informality to formality.

Private sector operators may also have an interest to help formalise their clients in the informal economy. It is especially valid for Microfinance institutions (MFI) as they bridge informal and formal segments of the economy. On the one hand, they rely on formal procedures and operate usually under governmental control and most of their clients operate in the informal economy. These clients are often denied access to the formal financial system as they can not provide traditional collateral. On the other hand, MFIs copy informal finance practices notably with respect to collateralisation.

In such an operating environment it is conceivable that MFIs could use their financial operations as an incentive to encourage entrepreneurs to formalise especially if there is also a business case for the MFI. Graduation lending is a case in points. With increasing amounts of loans, MFIs could require increasing documentation with a “surreptitious” formalisation effect on the borrower. MFIs in Egypt, for example, link the loan amount to the provision of documents showing ownership of assets, relation to public sector authorities and status with regard to banks. In this way, MFIs establish a link between financial transactions and formality creating conditions for gradual formalisation among their clients.

To be effective such a methodology requires that the costs of not obtaining the loan exceed the costs of obtaining the document. These costs are financial and opportunity costs in terms of earnings foregone with potential formal sector suppliers or customers. The outcome of this cost-benefit calculation obviously varies with competition in the supply of microcredit. If the client of a MFI can also turn to alternative sources of credit that do not require documentation, then the cost and benefit calculation is different and the graduation effect mitigated. In this case the MFI will be restrained in its graduation strategy.

This paper investigates the links between the provision of credit and formalisation. More specifically, we examine in detail whether a MFI can provide sufficient incentives to induce formalisation among its clients. We also explore the business case for the MFIs that promote the formalisation of their clients.

The paper is based on a client survey carried out in January-March 2007 with two MFIs in Egypt, Alexandria Business Association (ABA) and Dakahlya Businessmens’ Association for Community Development (DBACD).

2. Credit as an incentive to formalise

2.1 Collaterals and collaterals substitutes

Lenders have to find a way to incite borrowers to repay the loan. The formal financial system use “collaterals”, assets pledged by the borrower to the lender until a

loan is paid back. In case of default, the lender has the right to seize and sell this asset¹. In formal financial transaction, the loan contract with the collateral attached has to be enforceable in courts (Balkenhol & Schütte, 2002). In cases where the borrower can not provide such assets, banks usually consider the transaction too risky and costly, and abstain from making a lending decision.

In the informal economy many people are unable to provide such bank-acceptable guarantees. Even those that possess assets do not have ownership titles (De Soto, 2000). Consequently, many economic actors remain excluded from the formal banking system, despite their effective debt absorption capacity. As a result, they miss income generating opportunities, while banks miss opportunities to conclude loan contracts that could have been profitable.

In the informal financial sector, borrowing and lending are based on personal relationships and other collateral substitutes, as practiced by moneylenders or rotating savings and credit associations (ROSCAs). Inspired by informal finance and dealing with the same informal clients, MFIs developed forms of relationships that did not resort to the use of traditional collaterals to secure their loans. Unlike genuine collateral, substitutes have limited or no market value and the loan contract can not be enforced through the courts. In the absence of formal foreclosure, MFIs resort to para-legal or social means to protect their assets and screen risk. The best known substitute is the peer-pressure, derived from joint liability. Another example is the probation lending.

2.2 Links of the collateral issue with our research

This paper discusses whether client graduation can induce entrepreneurs to formalise. In a context where entrepreneurs urgently need credit but do not have collateral, we assume that MFIs could encourage their clients to obtain documents. With increasing scarcity of credit and less competition in local financial markets, entrepreneurs might be induced to seek documents, so as to obtain access to credit.

¹ The most typical examples of collateral are the mortgage on land/title, chattel, pawning, assignment or blocked savings.

Following a progressive lending principle, the MFI can successively impose higher requirements with increasing loan size. Thus, the larger the loan, the more documents the clients have to provide.

While we are questioning the use of credit as an incentive to encourage entrepreneurs to formalise, we also question the profitability for MFIs to deal with more formal clients. More specifically, we assume that these documents are used as collateral substitutes and hence a method to reduce the transaction cost.

2.3 ABA and DBACD

MFIs that link the amount of their loans to progressive documentation documents are, for example, Alexandria Business Association (ABA), based in Alexandria, and Dakahlya Businessmens' Association for Community Development (DBACD), in Mansoura. ABA and DBACD are NGOs specialized in microcredit, both were created by local business associations² with USAID support. They proceed with a same logic and offer similar services: ABA and DBACD are the leading MFI in their respective governorate – Alexandria and Dakahlya, both are active in urban and rural areas³, and both provide similar products. ABA and DBACD started their activities⁴ with an individual lending methodology targeted at micro, small and medium enterprises (M/SME) that cannot access the formal financial system. Credits are granted to manufacturing, trade and services to finance working capital or investment needs, but not start-up activities. Once they reached financial sustainability, ABA and DBACD also launched group lending programs⁵ to reach even poorer people, especially women, and help them to initiate income generating activities. Both programs are designed to help clients upgrade from one program to another. Ultimately, their clients should join the formal financial system and deal with banks.

² The fact that these MFIs were created by a business association might explain their interest to formalise clients.

³ DBACD is more active in rural areas than ABA, but the latter is extending its activities in rural areas.

⁴ ABA launched individual loan program in 1990, while DBACD started it in 1998.

⁵ ABA reached its financial self-sufficiency in 1994 and launched a first group lending program in 1999, while DBACD reached it in 2000 and launched its program in 2001 (www.mixmarket.org ; www.aba-sme.com ; www.dbacd-eg.org).

2.4 Eligibility requirements

In their individual lending program, ABA and DBACD set eligibility requirements which link the amount of the credit to the possession of some legal and managerial documents. Access to credit depends on the *de jure* and *de facto* formality of the client (Nelson & De Bruijn, 2005). The *de jure* formality concerns the compliance of the enterprise with legal and administrative rules, while the *de facto* formality is related to the business management and the structure of the enterprise. The table 1 presents these eligibility requirements for both MFIs.

Figure 1 Requirement for individual loans

	ABA Eligibility Requirements	DBACD Eligibility Requirements
↑ Amount of the loan	Above 25'000 Non bankruptcy certificate	
	Above 20'000 Financial & Tax statements	
	Above 15'000 Bank and checking account	
	Above 12'500 Social security certificate	
	Above 10'000 Tax card Licence Commercial registration	Above 10'000 Checking account
	Above 7'500 Ability to read & write	Above 8'000 Non bankruptcy certificate
	Up to 7'500 Identity card Proof of rent/ownership Utility bills	Above 5'000 Tax card Commercial registration
		Up to 5'000 Identity card Proof of rent/ownership Utility bills

The client has to provide new documents with increasing loan size. Thus, the larger the loan the more documents the client has to provide.

The differences between ABA and DBACD in terms of documentation requirements raise two important questions. First of all, they do not exactly ask for the same document in relation to the same loan amount. Some documents are costlier and/or more time consuming than others. For the graduation to be effective, these costs must be more than compensated by the client benefits.

ABA seems to require more documents than DBACD: the operating licence, social security certificate, bank account and tax and financial statements are required by ABA, but not DBACD. The reason is that DBACD considers it unnecessary to explicitly demand a licence, whose possession is implicit with requirement of the commercial registration⁶.

The second question that can be raised from the table 2.1 concerns the amount of the loan. The same documents are required by both institutions but for different amounts of credit. The issue is the same than for the choice of the document. We can suggest the possibility that there are some thresholds that make it worth acquiring a document. Actually, the amount of the loan for which the document is required will certainly change the cost-benefit analysis of the entrepreneur.

3. Methodology

3.1 Selection of the MFIs

A search on the MIX market for MFIs with formalisation objectives produced only one institution, the Alexandria Business Association (ABA). This MFI advertises clearly its goals “*to help the transformation of SMEs from informal to formal sector*”⁷. The MIX market also helped to identify the Dakahlyia Businessmens’ Association for the Community Development (DBACD) as a control MFI as it was very similar to ABA even if they did not explicitly advertise formalisation as a goal⁸.

⁶ The fact that loan officers in DBACD are used to make a copy of the licence when provided by the clients shows that this document is indirectly required.

⁷ MIX Market’s website: www.mixmarket.org; ABA’s website: www.aba-sme.com.

⁸ See annexe 1 for further details.

3.2 The questionnaire

A questionnaire was developed for client surveys⁹. The first part of our questionnaire deals with the socio-demographic profile of the entrepreneurs and the characteristics of the enterprise, the financing, as well as its relationship with the MFI.

The second part of the questionnaire probes into the levels of formality, both *de jure*, i.e. the possession of ID card, licence, commercial registration, tax card, social security certificate, and *de facto*, i.e. the possession of utility bill, proof of rent/ownership, bank and checking accounts, book keeping, and written contract with employees.

3.3 Data collection

The field survey took place between January and March 2007, first in Alexandria (ABA) and then in Mansoura (DBACD). We interviewed active clients operating in the city centre of both Alexandria and Mansoura.

The clients were selected randomly, in accordance with a first stratification by sector of activity, i.e. trade and manufacture, both in urban settings. A second stratification distinguished amounts of credit to obtain an equal proportion of “small” and “large” credit. The threshold was eventually set at 10'000 Egyptian pounds (EGP). The aim of this stratification was to make sure there would not be biases in the comparison between ABA and DBACD.

We set as an objective to have 50 observations for each category to yield significant results. The selection of the clients was performed randomly by the MFIs in accordance with the above stratification. We organised 448 microentrepreneur's interviews, 227 in Alexandria and 221 in Mansoura¹⁰, distributed as follow.

⁹ See annexe 7 for further details.

¹⁰ There were only 21 clients with a big manufacture in the city of Mansoura.

Table 1 Stratification of the sample

		Under 10'000 EGP	Above 10'000 EGP	Total
ABA	Trade	62	61	123
	Manufacture	53	51	104
	Total	115	112	227
DBACD	Trade	62	54	116
	Manufacture	84	21	105
	Total	146	75	221

Source: data from the survey

We complemented the information gathered by the questionnaire by file reviews for each client interviewed. Thus, we gathered information on the credits' history for each and the documents submitted to the MFI.

Finally, directors and managers of both MFIs were interviewed in depth to have a better understanding of their goals, policies and ways of proceeding as well as the legal framework concerning S/MSEs in Egypt.

4. Level of formality of the production units

To assess the effectiveness of the methodology adopted by ABA and DBACD to formalise entrepreneurs, we first investigated the level of formality of the clients interviewed. This assessment verifies the possession of the documents required by the MFIs¹¹. As it is an important difference in the informality issue, a distinction is made between documents that are related to the *de jure* dimension and those to the *de facto* dimension. These two dimensions do not grasp the same reality, though Nelson & De Bruijn (2005) observed a positive relationship between them. They thus allow us to have a more comprehensive understanding of informality.

¹¹ All the documents required by ABA and DBACD are not strictly linked with formality. This is the case for the negative certificate of protest & bankruptcy which is used to check the reliability of the entrepreneur.

4.1 De jure formality

The analysis of the *de jure* formality is based on the possession of a licence, a commercial registration, a tax card and a social security certificate¹². These four documents relate to the formality of the production unit¹³, the first two are linked to the recognition of the activity by the state. The licence gives the enterprise permission to start its activity, while the commercial registration is more or less the equivalent of the ID card for the enterprise. Beyond the simple compliance with the rules, possession of the tax card shows integration in formal transactions of society (USAID, 2005).

Finally, the social security certificate of the entrepreneur/employer is an indicator of the formality of the production unit. The status of Self-employed blends the physical person and the legal entity. If the entrepreneur benefits personally from social security cover it also provides in some way a security for the enterprise. In Egypt, it is compulsory for employers and self-employed to be covered for old age, disability and survivor benefits (SSA & ISSA, 2005).

On the whole, around 80% of the clients interviewed told us that they have a registration certificate for their business and more than 90% of them declared to have a tax card. Finally, the percentage of entrepreneurs paying contributions to social security is lower, around 64%, than for the three other documents, though still higher than what we expected¹⁴.

This high level of *de jure* formality is surprising. Most authors talk of an important and growing informal economy in Egypt. For example, in the Egyptian Integrated Household Survey 1997, the IFPRI (2000) found that 56% of the self-employed possessed a commercial registration. El Mahdi (2002) found that only 16.4% of the M/SMEs possessed a licence, a commercial registration and have a regular book

¹² During the survey, we also asked for the financial and tax statements which are two documents that are also required by ABA. Because of a misunderstanding, the possession of these two documents was not separated in the questionnaire. Thus, we are not able to determine whether the answers given by the clients concern the financial statement, the tax statement or both of them.

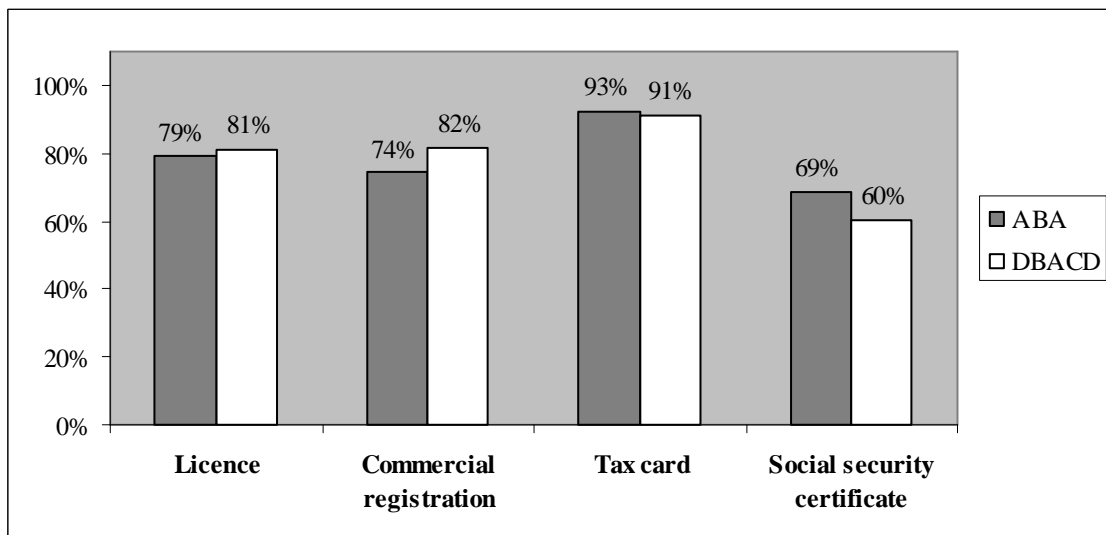
¹³ Licence: law No 453/1954; commercial registration: law No 34/1976; tax card: law No 157/1981; social security: law No 79/1975 & 108/1976.

¹⁴ Based on the Egypt Labor Market Survey 1998, Wahba (2000) found that among all workers aged between 18 and 64 years old 53% had a social security.

keeping, whereas, 68% of ABA clients and 75% DBACD clients possess both a licence and a commercial registration.

This surprisingly high level of formality is not representative of the whole population of production units in ABA and DBACD. Our samples were stratified between clients whose last credit was above or equal to 10'000 EGP and those whose last credit was below 10'000 EGP. This threshold is not the median amount of credit¹⁵. Thus, the production units in ABA and DBACD are on the whole certainly less formal. We choose this threshold as it is the first step where legal documents were required by ABA¹⁶.

Figure 2 Distribution in the possession of de jure documents



Source: data from the survey

If our two samples emphasize a level of *de jure* formality which is higher than what had been observed in previous studies, does it mean that the methodology adopted by ABA and DBACD to grant credit effectively lead to a formalisation among their clients? Not necessarily since clients of both MFIs possess a document in roughly a comparable proportions, and in one case (ABA) it is required, but in the other case it is not (DBACD). Why do 60% of the clients interviewed in DBACD possess a social security certificate while it is not a requirement?

¹⁵ As an indication, the average individual loan size was below 4'000 EGP in ABA and below 3'000 EGP in DBACD.

¹⁶ The idea was to have enough clients who possessed legal documents to assess the effectiveness of this graduation methodology to formalise clients.

In addition, if a client would have joined the MFI in a completely informal state and if he had acquired documents just to get a larger credit, then only clients whose last credit is equal or higher than 10'000 EGP in ABA and 5'000 EGP in DBACD should be in possession of these documents, i.e. 41% of ABA clients and 74% of DBACD clients¹⁷. In actual fact the real percentages are much higher, especially in ABA. This could signal that many clients acquired the documents before reaching the stage where they are required.

4.2 De facto formality

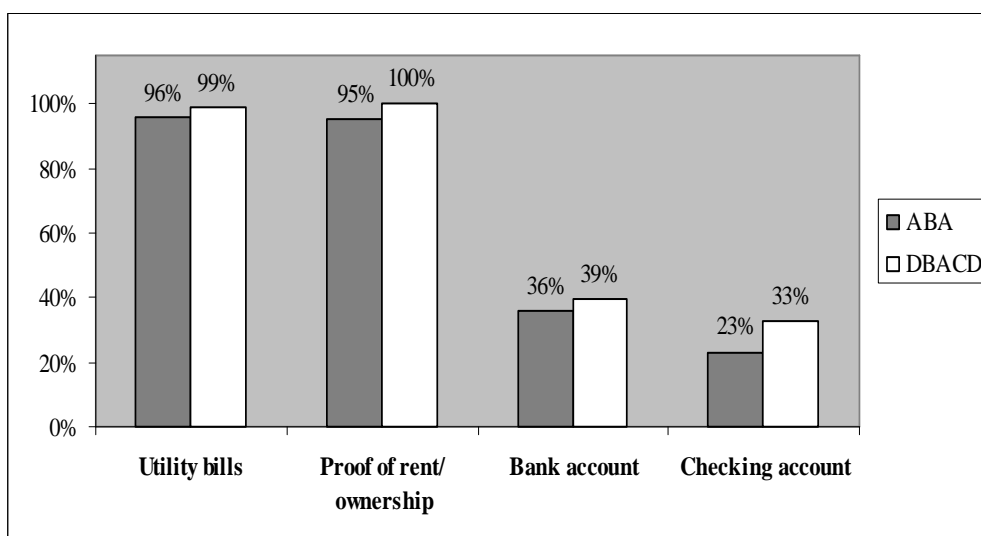
For the assessment of the *de facto* formality we examined the possession and effective use of a proof of rent or ownership, utility bills, bank and checking accounts. The proof of rent/ownership shows the right of the entrepreneurs to operate in the premise. It carries weight since it has to be approved by the authorities. Utility bills demonstrate that the enterprise is legally provided with water and/or electricity.

The bank and checking accounts are two distinct steps in formalisation. At first, clients have to open a bank account. It is only after a few times with a positive balance that they can open a checking account. The use of banking services is a significant step in the integration into the formal economy.

The figure 4.2 shows that in both ABA and DBACD almost every client possesses a proof of rent or ownership of the premises and utility bills. 100% of clients should possess these documents, since they are required by both MFIs for the very first credit. But at the same time, regardless of the financing relation with the MFI, clients in the informal economy have solid reasons to have these documents: it is probably not easy to get water and electricity informally; and the proof of rent is certainly also a security against eviction.

¹⁷ In ABA, only 41% of the clients interviewed had a last credit which was equal or higher than 10'000 EGP. In DBACD, 74% of the clients interviewed had a last credit which was equal or higher than 5'000 EGP.

Figure 3 Distribution in the possession of de facto documents



Source: data from the survey

By contrast, the bank and checking accounts are by far less widespread. It is estimated that only 5% of the M/SMEs in Egypt have a bank account (Nassar, 2006; Hashem. & Baz, 2005). Thus, the two samples present a frequency in the possession of these documents which is above average in the Egyptian economy.

These two documents are required for 15'000 EGP credits in ABA and 10'000 EGP in DBACD. This applies to 29% of clients in ABA and 34% in DBACD.

4.3 Level of the formality according to the MFIs

Questions about formality can be sensitive. Some clients might have not told us the whole story. To correct for this, the MFI files of each client interviewed were examined to check the veracity of the replies. In both MFIs, client files contain either a scan or a photocopy of the documents presented by the clients¹⁸. The file review suggests that clients are objectively less formal than their survey replies would seem to signal.

¹⁸ We only checked for the possession of legal document. We encountered some problem in ABA with the management information system and could often not check the possession of the managerial documents. In DBACD there was no copy of the managerial documents stored in the files.

Table 2 Differences in the possession of legal documents

		Licence	Commercial registration	Tax card	Social security certificate
ABA	Files	63%	63%	85%	57%
	Clients' answers	79%	74%	93%	67%
DBACD	Files	50%	69%	73%	<i>Not required</i>
	Clients' answers	81%	82%	91%	

Source: data from the survey

The discrepancy could be due to misunderstandings of terms used in the survey or a deliberate misrepresentation by respondents anxious to show compliance with formalisation standards¹⁹. Still the level of formality remains high in comparison with the results found in previous studies of the Egyptian economy.

5. Formalisation through microfinance

5.1 Reason of the formalisation

Clients interviewed were asked for each document they possessed whether they had acquired it to get a larger credit or for another reason. The table 3 presents the number of persons who acquired a document to get a credit²⁰.

¹⁹ The huge difference regarding the licence in DBACD can be explained the following way. As explained, DBACD does not explicitly require the licence, but focus instead its attention on the commercial registration. Since to possess the latter the entrepreneur should has a licence we consider that this document is indirectly required by DBACD. Thus, loan officers in DBACD might certainly make a copy of the document only when it is spontaneously presented by the client, which could explain the significant difference between the answers the clients gave us and what we found in the files.

²⁰ The percentages beside are calculated on the basis of the number of clients whose last credit was equal or above the stage where the document is required. That means in ABA 111 clients for the licence, commercial registration and tax card, and 79 clients for the social security certificate. In DBACD that means 152 clients for each document.

Table 3 De jure documents acquired to get a credit

	Licence		Commercial registration		Tax card		Social security certificate	
	Count	Percent	Count	Percent	Count	Percent	Count	Percent
ABA	1	1%	2	2%	3	3%	1	1%
DBACD	7	5%	7	5%	6	4%	Not required	

Source: data from the survey

Few clients declared that they had acquired document in order to get a larger credit. This is especially true in ABA where the licence and the social security certificate were each acquired only 1 time. Among clients whose last credit was equal or above 10'000 EGP no more than 1%, 2% and 3% acquired a licence or a social security certificate, a commercial registration and a tax card respectively.

In DBACD, the frequencies are slightly higher. Each document required was acquired 6 or 7 times. The acquisition of these documents account for 5% and 4% of the clients whose last credit was equal or above 5'000 EGP.

Some clients have acquired more than just one document. Of clients who acquired at least one document, only 6 in ABA and 9 in DBACD formalised their business primarily to get access to credit.

Since the clients of ABA and DBACD were globally by far more formal than the M/SMEs in Egypt, this does not appear to be the result of the MFIs' policy of client graduation with progressive documentation. Why then are clients interviewed formal, if it is not to obtain access to credit?

The table 3 presents the reason of the acquisition of “managerial” documents constituting *de facto* formality. The methodology adopted by ABA and DBACD works better for these documents, especially for the bank and checking accounts²¹. When focusing our attention on the clients who have a last credit for which a bank and checking accounts are required, we can notice that 11% of them in ABA and 19% to

²¹ We did not include the utility bill in the table as no clients told us they acquired this document to get a credit.

16% in DBACD acquired one of these documents in order to get a larger credit. 14 clients in ABA and 24 clients in DBACD acquired at least one of these three documents, a stronger result than for the *de jure* formality²².

Table 4 De facto documents acquired to get a credit

	Proof of rent / ownership		Bank account		Checking account	
	Count	Percent	Count	Percent	Count	Percent
ABA	5	2%	7	11%	7	11%
DBACD	10	5%	14	19%	12	16%

Source: data from the survey

More clients formalised their business for credit in DBACD than in ABA. The fact that DBACD required these documents, except the proof of rent/ownership, for lower amounts of credit could be part of the explanation. Also, with the growth of the enterprise, (some) entrepreneurs might “naturally” formalise their business.

To conclude, access to credit does not seem to be main motivation for clients of MFIs to obtain documents and progressively formalise. Still linking the amount of credit with the possession of some documents could be a suitable methodology to induce a formalisation process. Clients of MFIs were ready to enhance their documentation status to get a (larger) credit. Adding up the number of clients which acquired at least one document we found that 19 clients in ABA and 32 in DBACD formalised for credits which account for 8% and 14% of the clients interviewed.

5.2 Timing of formalisation

In order to check the coherence survey responses, we examined when clients acquired these documents. On the whole, clients who acquired these documents for

²² If we pay attention only to the opening of bank and check accounts it concerns 9 clients in ABA and 14 in DBACD.

reason other than to get a credit got them before having joined their MFI²³. The table 5.3 presents the moment when the document where acquired.

Table 5 Timing in the acquisition of documents

	ABA		DBACD	
	Before having joined the MFI	At the same time or after having joined the MFI	Before having joined the MFI	At the same time or after having joined the MFI
Licence	174	5	167	12
Commercial registration	157	11	169	12
Tax card	201	9	191	10
Social security certificate	152	3		
Proof of rent / ownership	206	6	211	10
Bank account	69	9	70	17
Checking account	45	7	58	15

Source: data from the survey

These results confirm that clients who acquired documents after having joined the MFI correspond to clients who declared they had acquired documents for another reason than to get a credit. Among the clients who acquired a document at the same time or after their first credit²⁴, around half of them had not yet reached the level of credit for which the document is required.

²³ This hypothesis is somewhat unrealistic, as it is quite possible that some clients acquired documents after their first credit for another reason than just getting a larger credit.

²⁴ The first credit in ABA is always below 10'000 EGP, and below 5'000 EGP in DBACD.

5.3 Timing of formalisation according to the MFIs

An analysis of client files allows to determine whether a document was issued before or after their first credit. Unfortunately, if a date of issue is written on the licence, not, however, systematically for the commercial registration, the tax card and the social security certificate. The commercial registration and the tax card have to be renewed every five years. It was not possible to determine whether they were issued for the first time or if the clients had already been in possession of this document. The social security receipt proves that the entrepreneur contributes. It does not show the date when the social security certificate was first issued.

Table 6 Date of issue of the licence according to the MFIs' files

	ABA		DBACD	
	Before having joined the MFI	At the same time or after having joined the MFI	Before having joined the MFI	At the same time or after having joined the MFI
Count	88	52	98	13
Percent	63%	37%	88%	12%

Source: data from the survey

If the answers given by DBACD clients match with file information, there is a significant divergence between the survey responses of ABA clients and file information. Nevertheless, among the 52 clients in ABA that had a licence that was issued after their first credit, 19 still had a credit below the threshold of 10'000 EGP where the licence is required.

6. Factors explaining formality

In section 4 we found a surprisingly high level of formality among the clients interviewed. On the whole, this formality is not the result of the requirements imposed by ABA and DBACD: few clients declared that they had acquired a legal document just to get a larger credit. To have a better understanding of the issue, we investigate the factors explaining the level of formality, using binomial logistic regressions and a

forced method entry. The results are supplemented with information gathered during our interviews with clients and/or staff of the MFIs.

6.1 Factors explaining the de jure formality

Previous studies of the informal economy in Egypt had identified features associated with the individual as well as the activity. Less educated, female, and younger entrepreneurs tend to be less formal (Wahba, 2000; El Mahdi, 2002). Size in terms of the number of wage employee, years of operations as well as the sector of activity also seems to be correlated to formality (El Mahdi, 2002). For our analysis, we examined these factors and added others identified in our survey. Logistic regressions were carried out for each legal document to determine its significance to explain the level of formality²⁵.

Among the determinants of informality in Egypt identified by previous studies, age of the entrepreneurs and number of workers were not significantly associated²⁶ with the possession of the licence, commercial registration, tax card and social security certificate, while sex, education, sector of activity and years of operation were found as significant for the possession of at least one document.

In particular, the number of years of having been in operation was significantly associated with the possession of the licence and social security certificate. The longer the enterprise has been operating, the more likely is it to possess these documents. It does not influence the possession of the commercial registration and tax card, which must be renewed every 5 years. The social security certificate does not need to be renewed, but just requires periodic payments. Thus formalisation is certainly not a one way process and can be reversed and, second, burdensome procedures make a difference to formality²⁷.

²⁵ See the annex for more details.

²⁶ For $p \leq 0.05$.

²⁷ This is actually a point raised in many studies, in particular De Soto (2000) and USAID (2005). It is then argued that the reduction of the cost of legal and administrative procedures would lead to a formalisation process.

Education also tends to affect the possession of the licence and tax card, but the significance is weak. Thence, less educated people tend to be less formal than more educated. This is plausible, as some procedures might be complicated.

Finally, the owners of trade activities are more likely to possess a commercial registration than of manufacturing activities, and male clients are more likely to possess a social security certificate than female clients.

Table 7 Reason of the acquisition of the documents

	Licence		Commercial registration		Tax card		Social security certificate	
	ABA	DBACD	ABA	DBACD	ABA	DBACD	ABA	DBACD
To get credits	1%	4%	1%	4%	1%	3%	1%	
Less corruption and harassment	1%	1%	2%	1%	1%	1%	6%	
To benefit from certain services	1%		1%	1%			3%	12%
Compulsory / no choice	98%	94%	93%	94%	94%	95%	85%	84%
To get another document			2%		2%		3%	1%
Other		1%		1%			3%	2%

Source: data from the survey

The most important factor that explains the possession of the licence, commercial registration, tax card or social security certificate is the pressure of enforcement exercised by public officers. According to the regressions the visibility and exposure of the enterprise strongly influences the possession of four legal documents. Thus, enterprises that are operating hidden from the street – in a flat or inside a house –

or in a remote area where there are no other businesses are more likely to be informal than those operating in a commercial area. Actually, the interviews showed that it was very difficult for clients not to have legal documents since public officers walk along the street to check whether businesses comply with their legal duties – i.e. possess a licence, a commercial registration and pay taxes. Tax cards are distributed to those who do not have them. As shown in the table 6.1, the great majority of the clients, both in ABA and DBACD, told us that they acquired legal documents because it was compulsory and that they had no choice. Therefore, these effective control measures exercised by public authorities made it difficult to single out the incentive effect of the client graduation scheme offered by MFIs.

Nevertheless, the fact that public officers control tightly enterprises in the city centre does not explain completely the very high level of formality we found. Why is it that, despite controls, the majority of M/SMEs in Egypt remain informal? It is true that we stratified our samples and as such they are not representative of all clients in ABA and DBACD, as the great majority of their clients have credits substantially lower than 10'000 EGP and 5'000 EGP respectively.

Regressions gave us some other clues to explain (in)formality. Theoretically, M/SMEs with larger amount of credit should be more formal since they have to provide more documents. When looking at the amount of the largest credit, the regressions revealed that the possession of the 4 legal documents is also significantly influenced by the amount of the largest credit. That could suggest that clients acquired a document to get credit; but, the amount of the loan is not only determined by the possession of documents, but also by financial criteria. It can then be argued that the amount of the largest credit simply reflect the fact that bigger enterprises are more formal than smaller ones. In other words, the relation between the credit size and level of formality is not sufficient to claim that clients acquired documents to get larger credit.

Finally, the regressions also showed that clients in DBACD tend to be more likely to possess a licence and a commercial registration. It can be argued that it is due to the fact that DBACD asks for these documents for smaller loan sizes (5'000 EGP), while ABA asks for them only for credits of 10'000 EGP. As the tax card is distributed by public officers and effectively in possession of almost every client, the difference in

the requirements is insignificant. That the institution is neither significantly associated with the possession of the social security certificate also suggests that the requirements are ineffective in that case. Thus, it is difficult to determine whether the MFIs really have an impact on the *de jure* formality.

6.2 Factors explaining the de facto formality

Proof of rent/ownership and utility bills are required for the very first credit, while the bank and checking account concern the upper amounts of credit. Since the proof of rent/ownership and utility bills are required for the first credit with the MFI, it is plausible to assume that solely clients who just had joined the MFI were not yet in possession of these documents. After having tested different set of variables, we found that the only factor that is statistically significant is the location of the business. Hence, clients that are operating at home or in a market place are less likely to possess rent/ownership and utility bills than those operating in a fixed premise. Actually, it seems rather difficult for entrepreneurs in fixed premise to operate without them. Almost 100% of the clients signalled that they had no choice. By contrast, entrepreneurs operating in a market place have mostly no utility bills and proof of rent.

The possession of the bank and checking accounts is positively affected by the level of education. Poorly educated entrepreneurs are less likely to possess a bank account compared to highly educated entrepreneurs.

Beside the education, we also found that loan size is significantly associated with the possession of both documents. As for legal documents, this suggests that larger enterprises are more likely to possess a bank and checking accounts than smaller ones. The number of workers²⁸, another indicator of enterprise size, is also positively influence the formality.

Finally, the MFIs policy accounts for the possession of the checking account, as clients in DBACD are more likely to possess this document.

²⁸ We counted as workers any person working for the enterprise no matter if they are paid or not.

7. Incentives to formalise or barriers to progress?

Do the documentation requirements imposed by MFIs prevent clients to get larger credits? It can be assumed that some clients might not be willing to acquire documents required for larger credit. Consequently, because of a lack of required documents, those clients would simply be stuck to a certain level of credit. As entrepreneurs do not get larger credits, the growth of the enterprises is hampered and therefore the “natural” formalisation process is to some extent hindered. To throw light on this issue, we focus on the credit history of clients interviewed.

7.1 Stagnating credit

When a client did not increase the amount of the last three credits, he or she was categorized as having not “upgraded”. 91 and 77 clients in our sample did not upgrade in ABA and DBACD respectively. We asked these clients the reasons. The answers were grouped into five categories, i.e. “don’t need more”; “insufficient capacity”; “maximum reached”; “lack of required document”; “other reason”. The first category groups clients who were satisfied with the amount of their last credits²⁹. In the second one, we found clients who would like to have larger credit, but said that they could not afford to pay larger instalments³⁰. Thirdly, some clients also did not upgrade as they reached the largest loan the MFIs granted³¹. The fourth category is made up of clients who did not upgrade as they did not possess the required documents. In that case, we assume that the methodology adopted by ABA and DBACD hinder the growth of the enterprises. Taking into account the “natural” effect of the growth on formality, the methodology should be considered effective if only few clients were prevented to get a larger credit because of a lack of document. Finally, the last category groups all the other reasons.

The table 8 shows that between the two MFIs the reasons of clients for not having upgraded are different. More clients in DBACD seem to be satisfied with their

²⁹ That means that they are certainly not trying to expend their business. As such these clients could be in no way attract to formality with a credit as an incentive.

³⁰ Those “poor” clients are also not likely to be attracted to formality with a credit as an incentive.

³¹ When we conducted the survey, ABA did not lend more than 50’000 EGP while in DBACD the largest amount was 30’000 EGP. Meantime, these amounts have changed to reach 100’000 EGP and 50’000 EGP respectively.

credit than in ABA. Only 14 of ABA clients did not upgrade because of a lack of a required document, whereas it is 19 in DBACD³².

Table 8 Reasons for non-upgrade

	ABA		DBACD	
	Count	Percent	Count	Percent
Don't need more	19	21%	25	32%
Insufficient capacity	26	29%	17	22%
Maximum reached	2	2%	6	8%
Lack of document	14	15%	19	25%
Other reason	30	33%	10	13%

Source: data from the survey

It is possible that clients left the MFI once stuck in a certain level of credit. As we did not interview clients who left the MFI, we do not know if the requirement can be a motive to leave the institution. But this possibility should be taken into account for subsequent studies.

³² In the great majority of the case, both in ABA and DBACD, it is the lack of bank/checking account which prevented clients to get a larger credit.

Table 9 Possession of documents according to the level of credit

		< 5'000	5'000 - 9'999	10'000 - 12'499	12'500 - 14'999	≥ 15'000
<i>De jure</i>	ABA Licence	63%	81%	69%	86%	92%
	DBACD Licence	71%	77%	90%	75%	97%
	ABA Commercial registration	53%	71%	75%	79%	92%
	DBACD Commercial registration	58%	86%	100%	100%	100%
	ABA Tax card	81%	91%	94%	100%	100%
	DBACD Tax card	81%	91%	100%	100%	100%
	ABA Social security certificate	51%	57%	69%	71%	94%
	DBACD Social security certificate	39%	67%	70%	75%	73%
<i>De facto</i>	ABA Utility bills	91%	94%	97%	100%	98%
	DBACD Utility bills	100%	97%	100%	100%	100%
	ABA Proof of rent	87%	96%	100%	93%	98%
	DBACD Proof of rent	100%	100%	100%	100%	100%
	ABA Bank account	13%	22%	28%	36%	72%
	DBACD Bank account	13%	21%	90%	75%	83%
	ABA Checking account	4%	6%	16%	7%	62%
	DBACD Checking account	7%	12%	90%	75%	78%

Source: data from the survey

7.2 Stringency in the enforcement of the requirements

The table 9 presents, for each document, the percentage of clients who possess it. For each document, the grey cells show when it is required by the MFI.

Clients with larger credits tend to be more formal, but the requirements are not strictly enforced, both in ABA and DBACD. Ideally, we should have found a possession of the documents of 100% for each levels of credit for which they are

required. This is by far not the case for most of the documents. Could a strict enforcement of the requirements induce more clients to formalise?

8. What is in it for the MFIs?

For both MFIs financial profitability takes precedent over social mission³³, hence it is plausible to assume that documentation requirements for client formalisation make also financial sense for the MFI.

ABA and DBACD have an individual loans approach. The denial of a future credit helps to induce clients to respect repayment obligation. MFIs might wish to strengthen and complement this collateral substitute by encouraging strong personal relationships between loan officers and clients, and giving a premium to profitable income-generating activities.

According to ABA's and DBACD's senior managers documentation requirements are used to assess the reliability of clients. Each document provides useful information:

- The proof of rent/ownership indicates the place where the client can be found. It also confirms the right to operate in a fixed premise and guarantees certain stability.
- The utility bill indicates whether there is an activity at the above mentioned address. It also gives an idea of the size of the activity.
- The licence and the commercial registration prove that the enterprise is legally recognised by the state and authorised to operate. It is a guarantee that the activity will not stop because of a regulatory intervention. In addition, it shows a certain commitment of the entrepreneur to the business.
- In Egypt, all fiscal charges are deducted directly from enterprises. Debts towards the tax administration must be recovered before all other

³³ In both ABA and DBACD, the direction considers that the social mission can be implemented only if the financial sustainability is reached. As such the financial issue prevails over the social mission.

liabilities, putting at risk likelihood of the MFI to be reimbursed. For the largest loans, ABA also requires a statement whether taxes were duly paid.

- The social security certificate is only required by ABA. It denotes a certain stability of the enterprise and provides a security if something unexpected happens as the entrepreneur would benefit of a regular source of income.
- Both ABA and DBACD have as an objective to help their clients to access the formal banking sector. The bank and checking accounts are thus natural document that the MFI requires. They are also useful when granting larger loans, for which clients have to sign a check of an equal amount. In case of default, the MFI tries to get the money back with a claim on the check³⁴. As there is no money left to claim, the bounced check gives the MFI the right to start a legal procedure which will take between 6 months to 3 years³⁵.
- One document that does not appear in the list of eligibility requirements but that nevertheless exists in both MFIs is the trust receipt (ABA) or promissory note (DBACD). Every client who takes a loan (except those who furnish check) has to sign a document which states that the borrower received a loan that has to be paid back. In case of default, this triggers a mechanism similar to that with a bounced check.

This shows that the client-related documents are useful for the MFIs. They are a good way to gather information about clients creditworthiness. DBACD's executive director qualifies them as an investigation about the capacities of the client. Apart from the checking account and the trust receipt, the documents do not secure the loan in the sense they do not offer any protection against a possible default; but they reduce the asymmetrical information between client and MFIs.

³⁴ If the client is serious and in real trouble, the MFI first give a period of grace or reschedules the instalments.

³⁵ The punishment for trespasser can be as high as 3 years jail.

By contrast, the checking account and the trust receipt are good means of pressure to induce borrowers to pay back. These documents play a role of security device since only clients who really want to respect the contract and are ready to repay the loan fully and on time will pursue the loan negotiation.

In conclusion, these documentation requirements are a good way for MFIs to collect information to reduce asymmetrical information and select trustworthy clients, and therefore also serve the self interest of the MFI.

9. Conclusion

9.1 Summary

Analysis of ABA and DBACD clients demonstrates that the great majority possess those documents for reasons other than to obtain a larger loan. The possession of legal documents is mainly due to the control by government officers. Also larger enterprises tend to be more formal. Enterprises run by more skilled and educated people also tend to be more formal. Nevertheless, formality is a sensitive issue and some of our findings suggest that the formalisation of the clients to get larger credits is more wide spread than what respondents said.

We also examined whether existing documentation requirements prevented clients to borrow larger amount of credit which could hinder the growth of their enterprise. Though some clients were “stuck” at certain levels of credits, the number of clients who acquired a document to get a larger credit was higher than the number of clients who were prevented to get a credit due to the requirements.

Finally, there is an interest for the MFIs to ask for these documents, as they provide useful information about the reliability of the clients. Strictly speaking, these requirements can not be considered as collateral substitute as they do not function as an incentive for the borrower to pay back, but they reduce the asymmetric information and, consequently, lender transaction costs.

This study did not clearly demonstrate that MFIs can significantly encourage the formalisation of their clients. The findings show that it is necessary to deepen the investigation. The role of credit as an incentive to encourage entrepreneurs to formalise their business remains an important issue, as it would open future prospects to reduce the informal economy, for MFIs and other institutions. It demonstrates that private institutions could also act to reduce the informal economy which so far has always been the responsibility of public authorities.

9.2 Open Issues

The biggest challenge encountered in this study was that ABA and DBACD clients were, on the whole, already fairly formal before joining the MFI; this made it difficult to really assess the role credit could play in the formalisation of microentrepreneurs. It appeared that, among the client interviewed, the governmental control was too strong for them to even have the choice of remaining informal.

For this reason, it would be worth conducting a similar survey among the clients of ABA and DBACD operating in rural areas, where they could be expected to be less formal.

Comparing the formality of those clients with the formality of clients in MFIs that do not set such requirements could also allow us to have a better understanding of their effectiveness. Actually, it would be a good way to see whether clients of MFI are, on the whole, more formal than the other microentrepreneurs, in other words whether there is any self-selection among the clients of MFIs based on formality.

Finally, it would be worthwhile to explore the importance of country-specific features by an inter-country comparison.

In addition to these issues of research design, the study also discovered several substantive issues that merit follow-up investigations:

The stringency in the enforcement of the requirements: would a strict enforcement of the requirements lead to more formalisation or, to the contrary, to more drop outs?

Client utility considerations: how important is the loan amount, as well as its financial cost and opportunity cost, in the decision of the microentrepreneur to formalise?

Stability of formalisation: is it reversible if the clients leave the MFI or simply reduce their credits?

Caused or accessory: do documentation requirements really help formalise entrepreneurs that would never have become more formal without them or do they simply speed up a process that comes necessarily with an activity's growth?

9.3 Recommendations

Microfinance Institutions

MFIs consider to get involved in the formalisation of their clients should bear in mind that:

Formalisation is complex process. MFIs should not confine themselves to the compliance side of formality. The larger the range of documents, from the simplest to the most complicated, the better for the formalisation.

The success of the methodology adopted by ABA and DBACD depends on the net benefits to the clients. The choice of the documents should then take into account both the financial and opportunity costs to the client as well as the nuisance factor, like filling forms, or the fear to get in touch with a bank.

The choice of the amount to which a document is linked is another critical issue, necessitating a trial and error approach.

This economic benefit is above all a reduction of asymmetric information for the MFIs. They must be imaginative to grasp all the information each document could provide them.

Beside these general recommendations, specific suggestion can be made to improve the formalisation impact of ABA and DBACD:

ABA and DBACD focus their requirements on the production unit formality. Similar requirements could, however, also be established to formalise the employment relationships within a client's business, like a simple written contract or a social security certificate for the employees.

Formality of the enterprises could also be boosted in its *de facto* dimension. We think in particular to the book-keeping. At a first step, a simple cash book could be required. For larger credits, the MFIs could ask for ledger, balance sheet and/or profit and loss account. These documents would improve greatly the management of the enterprise and provide MFIs with useful information.

Accounting or literacy courses and other non-financial services could boost formalisation.

Finally, the graduation from one document to the next needs to be carefully considered. For example, instead of asking for the licence, commercial registration and tax card at the same time, it could be more appropriate to ask for the documents sequentially.

Government

Governments benefit indirectly from the effects of formalisation induced by MFIs. They can also facilitate the effectiveness of the methodology.

Decreasing the costs – direct and indirect – to acquire legal documents, would affect the relative benefits to the clients.

Governments could establish partnerships with the MFIs that implement this methodology, and engage in a dialogue about changes in documentation that would enhance benefits to clients, MFIs and government.

Annex 1. General information about ABA and DBACD

	ABA	DBACD
Operational Self-Sufficiency	1992	1999
Full Financial Self-Sufficiency	1994	2000
Numbers of active clients (December 2007)	70'957	80'960 *
Individual lending	34'423	36'840 *
Group lending	36'534	44'120 *
Gross loan Portfolio (December 2007)	116'393'294 £	86'208'108 £
Current outstanding balance individual loan	106'327'163 £	71'870'075 £
Current outstanding balance group lending	10'066'131 £	14'338'033 £
Amount of loans disbursed in 2007	236'052'852 £	154'136'900 £
Amount of loans disbursed individual lending	198'591'500 £	98'347'500 £
Amount of loans disbursed per year individual	37'461'350 £	55'789'400 £
Number of loans disbursed in 2007	117'682	130'347
Number of loans disbursed individual loan	41'559	31'292
Number of loans disbursed group lending	76'123	99'055
Average loan size in 2007	2006 £	1'183 £
Individual loan	4'779 £	3'143 £
Group lending	492 £	563 £
Loans disbursed according to business sector in 2007		
Individual lending	Trade 53%	Trade 56%
	Manufacture 15%	Manufacture 12%
	Services 28%	Services 22%
	Others 5%	Others 10%
Loans disbursed according to client gender in 2007		
Individual lending	Male 86%	Male 85%
	Female 14%	Female 15%

Sources: www.mixmarket.org; www.aba-sme.com; www.dbacd-eg.org; courtesy from ABA and DBACD.

Rate of exchange 31st December 2007 : 1\$ = 5.5655

Annex 2. ABA and DBACD's programs

Alexandria Business Association

Program	Amount in EGP	Term
Individual Loan Program for SMEs	1'000 - 50'000	4 - 24 months
Development Path Program (group lending / 3 persons)	500 - 1'500	30 - 40 weeks
Blossom program (group lending / 5 persons)	150 - 800	10 - 40 weeks
Towards Self-Employment Program	300	Grant

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Dakahlya Businessmens' Association for Community Development

Program	Amount in EGP	Term
Individual Loans Program		
Business loans	500 - 30'000	4 - 24 months
Vocational loans	500 - 4'000	4 - 24 months
Consumer loans	500 - 4'000	4 - 24 months
Building and maintenance & Finishing loans	^{a)} 500 - 10'000	4 - 24 months
Back to school loans	500 - 4'000	4 - 12 months
Car renewal & maintenance loans	^{a,b)} 500 - 30'000	4 - 24 months
Bashayer El-Kheir (group lending / 5 persons)	50 - 800	10 - 40 weeks

^{a)} Loans can be higher according to the plan presented.

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^{b)} The amount depends of the kind of car.

Annex 3. Currency rate of exchange (EGP – USD)

5.70717 EGP = 1 USD

1 EGP = 0.17521 USD

Source: XE.com website - <http://www.xe.com/ucc/> - February the 1st 2007

Annex 4. Description of variables

Continuous variables

		N	Minimum	Maximum	Mean	Std. Deviation
	Number of years of operation	209	1	106	18.77	14.88
ABA	Number of workers	227	0	30	2.66	3.97
	Largest Credit	227	1'000	50'000	12'279.74	9'985.72
	Number of years of operation	221	1	59	13.24	10.12
DBACD	Number of workers	221	0	70	3.15	5.82
	Largest Credit	221	1'000	30'000	10'748.87	8'818.97

Categorical variables

			Frequency	Valid Percent	Cumulative Percent
ABA	Sector of activity	Trade	123	54.19%	54.19%
		Manufacture	104	45.81%	100%
			227		
DBACD	Sector of activity	Trade	116	52.49%	52.49%
		Manufacture	105	47.51%	100%
			221		
ABA	Sex of the client	Male	196	87.50%	87.50%
		Female	28	12.50%	100%
			224		
DBACD	Sex of the client	Male	196	88.69%	88.69%
		Female	25	11.31%	100%
			221		
ABA	Education of the client	No formal education	57	25.11%	25.11%
		Primary school	27	11.89%	37.00%
		Preparatory school	19	8.37%	45.37%
		Vocational Training	7	3.08%	48.46%
		Secondary School	20	8.81%	57.27%
		Technical Diploma	40	17.62%	74.89%
		University	57	25.11%	100%

			227		
DBACD	Education of the client	No formal education	44	19.91%	19.91%
		Primary school	28	12.67%	32.58%
		Preparatory school	30	13.57%	46.15%
		Vocational Training	4	1.81%	47.96%
		Secondary School	20	9.05%	57.01%
		Technical Diploma	44	19.91%	76.92%
		University	51	23.08%	100%
			221		
<hr/>					
ABA	Visibility of the enterprise	Not hidden	210	92.51%	92.51%
		Hidden	17	7.49%	100%
			227		
DBACD	Visibility of the enterprise	Not hidden	206	93.21%	93.21%
		Hidden	15	6.79%	100%
			221		
<hr/>					

Annex 5. Correlations table

		Institution	Sector	Sex	Education	Number of years of operation	Number of workers	Visibility	Largest credit
Institution	Pearson Correlation Sig. (2-tailed) N	1 448							
Sector	Pearson Correlation Sig. (2-tailed) N	0.017 0.720 448	1 448						
Sex	Pearson Correlation Sig. (2-tailed) N	-0.018 0.700 445	-0.091 0.055 445	1 445					
Education	Pearson Correlation Sig. (2-tailed) N	0.012 0.801 448	-0.236** 0.000 448	-0.116* 0.014 445	1 448				
Number of years of operation	Pearson Correlation Sig. (2-tailed) N	-0.213** 0.000 430	-0.003 0.956 430	-0.068 0.158 428	-0.186** 0.000 430	1 430			
Number of workers	Pearson Correlation Sig. (2-tailed) N	0.050 0.294 448	0.209** 0.000 448	-0.062 0.192 445	0.098* 0.038 448	-0.026 0.597 430	1 448		
Visibility	Pearson Correlation Sig. (2-tailed) N	-0.014 0.774 448	0.262** 0.000 448	0.059 0.216 445	-0.062 0.189 448	-0.125** 0.010 430	0.108* 0.022 448	1 448	
Largest credit	Pearson Correlation Sig. (2-tailed) N	-0.081 0.086 448	-0.158** 0.001 448	-0.118* 0.013 445	0.196** 0.000 448	0.124* 0.010 430	0.359** 0.000 448	-0.104* 0.028 448	1 448

** Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).

Annex 6. Logistic regressions tables

Binomial logistic regression model – Probability of possessing a licence

	Coefficient	Coefficient Bêta (Odds ratio)	Confidence interval for the odds ratio for 95%	
Institution (ABA is reference)	-0.676	0.509**	0.288	0.898
Education (Universities is reference)				
No formal education	-1.010	0.364**	0.153	0.869
Primary School	-0.864	0.421*	0.152	1.172
Preparatory School	-0.170	0.844	0.284	2.511
Vocational training	-0.402	0.669	0.122	3.661
Secondary School	-0.659	0.517	0.172	1.554
Technical Diploma	-0.560	0.570	0.235	1.391
Number of years of operation	0.087	1.091***	1.052	1.131
Visibility (Not hidden is reference)	1.905	6.717***	2.799	16.122
Largest credit/1000	0.101	1.106***	1.051	1.164
Constant	-1.452	0.234		

N=428

Omnibus tests of model coefficients: Chi-square = 101.144; df. 10; Sig. 0.000.

-2 Log-likelihood = 331.054

Pseudo R² of the model: Cox & Snell R Square = 0.210 Nagelkerke R Square = 0.310.

Significant at the 1% level***, Significant at the 5% level**, Significant at the 10% level*.

Notes: The odds tell us how much more likely it is that an observation possesses a licence rather than not possesses it. The Odds Ratio estimates the change in the odds of possessing the licence for a one-unit increase in the predictor (1000 EGP for the largest credit).

Binomial logistic regression model – Probability of possessing a commercial registration

	Coefficient	Coefficient Bêta (Odds ratio)	Confidence interval for the odds ratio for 95%	
Institution (ABA is reference)	-0.990	0.372***	0.213	0.649
Sector (Trade is reference)	0.821	2.272***	1.308	3.948
Visibility (Not hidden is reference)	1.636	5.133***	2.071	12.720
Largest credit/1000	0.227	1.255***	1.170	1.346
Constant	-1.854	0.157***		

N=448

Omnibus tests of model coefficients: Chi-square = 122.283; df. 10; Sig. 0.000.

-2 Log-likelihood = 348.404

Pseudo R² of the model: Cox & Snell R Square = 0.239 Nagelkerke R Square = 0.367.

Significant at the 1% level***, Significant at the 5% level**, Significant at the 10% level*.

Notes: The odds tell us how much more likely it is that an observation possesses a commercial registration rather than not possesses it. The Odds Ratio estimates the change in the odds of possessing the commercial registration for a one-unit increase in the predictor (1000 EGP for the largest credit).

Binomial logistic regression model – Probability of possessing a tax card

	Coefficient	Coefficient Bêta (Odds ratio)	Confidence interval for the odds ratio for 95%	
Education (Universities is reference)				
No formal education	-2.408	0.09**	0.010	0.796
Primary School	-1.642	0.194	0.018	2.053
Preparatory School	-1.576	0.207	0.019	2.199
Vocational training	-1.844	0.158	0.008	3.336
Secondary School	-2.965	0.052**	0.005	0.519
Technical Diploma	-1.365	0.255	0.025	2.582
Visibility (Not hidden is reference)	3.003	20.148***	6.464	62.800
Largest credit/1000	0.378	1.46***	1.238	1.722
Constant	-0.587	0.556		

N=448

Omnibus tests of model coefficients: Chi-square = 97.319; df. 0; Sig. 0.000.

-2 Log-likelihood = 158.084

Pseudo R² of the model: Cox & Snell R Square = 0.195 Nagelkerke R Square = 0.449.

Significant at the 1% level***, Significant at the 5% level**, Significant at the 10% level*.

Notes: The odds tell us how much more likely it is that an observation possesses a tax card rather than not possesses it. The Odds Ratio estimates the change in the odds of possessing the tax card for a one-unit increase in the predictor (1000 EGP for the largest credit).

Binomial logistic regression model – Probability of possessing a social security certificate

	Coefficient	Coefficient Bêta (Odds ratio)	Confidence interval for the odds ratio for 95%	
Sex (Male is reference)	0.675	1.963**	1.027	3.753
Number of years of operation	0.040	1.041***	1.020	1.063
Visibility (Not hidden is reference)	1.570	4.808***	2.004	11.531
Largest credit/1000	0.073	1.075***	1.042	1.110
Constant	-2.775	0.0623***		

N=427

Omnibus tests of model coefficients: Chi-square = 80.626; df. 4; Sig. 0.000.

-2 Log-likelihood = 474.188

Pseudo R² of the model: Cox & Snell R Square = 0.172 Nagelkerke R Square = 0.237.

Significant at the 1% level***, Significant at the 5% level**, Significant at the 10% level*.

Notes: The odds tell us how much more likely it is that an observation possesses a tax card rather than not possesses it. The Odds Ratio estimates the change in the odds of possessing the tax card for a one-unit increase in the predictor (1000 EGP for the largest credit).

Binomial logistic regression model – Probability of possessing a bank account

	Coefficient	Coefficient Bêta (Odds ratio)	Confidence interval for the odds ratio for 95%	
Education (Universities is reference)				
No formal education	-1.701	0.182***	0.085	0.390
Primary School	-1.491	0.225***	0.094	0.541
Preparatory School	-1.192	0.304***	0.125	0.741
Vocational training	-0.025	0.975	0.251	3.783
Secondary School	-1.545	0.213***	0.076	0.601
Technical Diploma	-0.463	0.629	0.315	1.259
Number of workers	0.137	1.147***	1.056	1.246
Largest credit/1000	0.159	1.172***	1.129	1.218
Constant	-1.835	0.160***		

N=448

Omnibus tests of model coefficients: Chi-square = 194.041; df. 8; Sig. 0.000.

-2 Log-likelihood = 399.732

Pseudo R² of the model: Cox & Snell R Square = 0.352 Nagelkerke R Square = 0.479.

Significant at the 1% level***, Significant at the 5% level**, Significant at the 10% level*.

Notes: The odds tell us how much more likely it is that an observation possesses a bank account rather than not possesses it. The Odds Ratio estimates the change in the odds of possessing the bank account for a one-unit increase in the predictor (1000 EGP for the largest credit).

Binomial logistic regression model – Probability of possessing a checking account

	Coefficient	Coefficient Bêta (Odds ratio)	Confidence interval for the odds ratio for 95%	
Institution (ABA is reference)	-0.943	0.390***	0.220	0.689
Education (Universities is reference)				
No formal education	-1.677	0.187***	0.081	0.429
Primary School	-1.362	0.256***	0.098	0.667
Preparatory School	-1.201	0.301**	0.114	0.796
Vocational training	-1.102	0.332	0.039	2.813
Secondary School	-1.592	0.203***	0.063	0.660
Technical Diploma	-1.136	0.321***	0.146	0.708
Number of workers	0.087	1.091**	1.009	1.178
Largest credit/1000	0.171	1.187***	1.140	1.235
Constant	-1.957	0.141***		

N=448

Omnibus tests of model coefficients: Chi-square = 202.648; df. 9; Sig. 0.000.

-2 Log-likelihood = 327.804

Pseudo R² of the model: Cox & Snell R Square = 0.364 Nagelkerke R Square = 0.524.

Significant at the 1% level***, Significant at the 5% level**, Significant at the 10% level*.

Notes: The odds tell us how much more likely it is that an observation possesses a checking account rather than not possesses it. The Odds Ratio estimates the change in the odds of possessing the checking account for a one-unit increase in the predictor (1000 EGP for the largest credit).

Annex 7. Questionnaire

Profile

Socio-demographic

Q1) Age :

Q2) Sex :

1. Male
2. Female

Q3) Please indicate the highest educational level that you achieved:

1. No formal education
2. Primary school
3. Preparatory school
4. Secondary school
5. Apprenticeship training
6. Vocational /technical training
7. Technical diploma
8. University degree
9. Other (please specify) : _____

Q4) Skills:

1. Literacy (reading and writing)
2. English
3. Accountancy
4. Computer
5. None

Q5) Number of current professional activities?

1. Only my enterprise/business
2. ___ other activitiy(ies).

Q6) Number of people in the household **including yourself**? _____

Q7) Number of people having an income in the household **including yourself**?

Q8) On average, how many hours do you work per day for **this** business?

Q9) On average, how many days do you work per week for **this** business?

Enterprise

Q10) Sector of activity:

1. Trade
2. Manufacture

3. Trade and Manufacture

Q11) What do you sell / produce? _____

Q12) When did you start your activity? _____

Q13) What is the enterprise legal form? _____

Q14) How many shops / premises do you have for this enterprise? _____

Q15) In general, how many people work in your enterprise:

1. Paid employees : _____
2. Paid family members : _____
2. Unpaid family members : _____
3. Paid apprentices : _____
4. Unpaid apprentices : _____
5. Daily workers : _____
6. Other, please specify: _____

Q16) What describes best your business premises:

1. Permanent business premise outside my house
2. My house
3. Marketplace (temporary business premise)
- 4 Other, please specify :

Q17) Is the business hidden?

1. Yes
2. No

Access to credit

Q18) Please classify the three main sources of money that you used to start the enterprise?

- | | | |
|------------------------|--|--------|
| 1. | Personal savings | 1. __ |
| 2. | Money from family / friends | 2. __ |
| 3. | Credit from ABA/DBACD | 3. __ |
| 4. | NGO | 4. __ |
| 5. | Gâm'iyā (ROSCAs) | 5. __ |
| 6. | Credit from a moneylender | 6. __ |
| 7. | Family business (inherited / donation) | 7. __ |
| Other, please specify: | | |
| 8. | _____ | 8. __ |
| 9. | _____ | 9. __ |
| 10. | _____ | 10. __ |

Q19) Please classify your three main sources of working capital?

- | | | |
|------------------------|-----------------------------|--------|
| 1. | Personal savings | 1. __ |
| 2. | Retained earnings | 2. __ |
| 3. | Money from family / friends | 3. __ |
| 4. | Credit from ABA/DBACD | 4. __ |
| 5. | NGO | 5. __ |
| 6. | Gâm'iya (ROSCAs) | 6. __ |
| 7. | Credit from moneylenders | 7. __ |
| 8. | Trade credit from suppliers | 8. __ |
| 9. | Prepayment by customers | 9. __ |
| Other, please specify: | | |
| 10. | _____ | 10. __ |
| 11. | _____ | 11. __ |
| 12. | _____ | 12. __ |

Q20) Please classify the three main needs to improve your enterprise?

- | | | |
|-----------------------|-----------------------------|--------|
| 1. | Access to new markets | 1. __ |
| 2. | More labour force | 2. __ |
| 3. | More qualified labour force | 3. __ |
| 4. | Longer term of credits | 4. __ |
| 5. | Higher amount of credits | 5. __ |
| 6. | Bank account for savings | 6. __ |
| 7. | Equipment | 7. __ |
| 8. | Better place | 8. __ |
| 9. | Lower interest rate | 9. __ |
| Other, please specify | | |
| 10. | _____ | 10. __ |
| 11. | _____ | 11. __ |
| 12. | _____ | 12. __ |

Relationships with ABA/DBACD

(Completion of the table below with MFI's data)

Q21) Since when are you client of ABA/DBACD? _____

Q22) In the past, were you member of a lending group? _____

	mm / yy	Amount (EGP)	Documents / facts
--	---------	--------------	-------------------

1

2

3

4

5

6

7

8

9

10

11

12

13

14

15

16

17

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20

21

22

Q23) Have you ever applied for a loan and been rejected? (Yes/No) _____

Q24) Why were your application rejected (*only if yes*)

1. Eligibility requirements not met (e.g. lack of required documents, ...)
2. Lack of collaterals
3. Too close from last credit
4. Other, please specify :

Q25) Why didn't you ask for a larger loan (only if he did not upgrade for a long time or if there is a reduction of the amount size):

Official Documents

(Please answer to questions Q26 to Q32 in the following table)

Q26) Which of the following documents do you possess? (Yes/No)

- **For the documents in your possession:**

Q27) What was your main reason to get this document?

1. Credit for ABA/DBACD
2. Less corruption and harassment
3. To benefit from certain services
4. Compulsory by government
5. To get another document (please specify which one)
6. Other (please specify)

Q28) When did you obtain this document?

1. Before you applied for your first individual loan
2. In order to get your first individual loan
3. After you got your first individual loan

Q29) Did you receive help to obtain this document?

1. No help
2. Yes, from ABA/DBACD
3. Yes, from the government
4. Yes, from another source (please specify)

Q30) Was it expensive and difficult (and/or time consuming) to obtain this document?

1. No
2. It was **expensive** but not difficult
3. It was not expensive but **difficult**
4. It was **expensive and difficult**

Q31) Is it expensive and difficult (and/or time consuming) to keep this document yearly?

1. No
2. It is **expensive** but not difficult
3. It is not expensive but **difficult**
4. It is **expensive and difficult**

Documents / facts	Possession Q26	Reason Q27 / Q32	When Q28	Help Q29	Costs Q30	Yearly costs Q31
New ID Card						
Licence						
Tax Card						
Commercial registration						
Social security certificate for the employer						
Social security certificate for the employees						
Financial statement						

• **For the documents not in your possession:**

Q32) What is the main reason not to have this document?

1. No use
2. No government control
3. Too expensive / to remain hidden from the government
4. Too difficult
5. I don't know how to do
6. I don't know what it is
7. To maintain my pension
8. Other, please specify

Q33) Which ones did you possess once ? *(please complete the following table)*

Q34) What is the main reason why you don't have them anymore ? *(please complete the following table)*

1. No use
2. No control from government
3. Too costly to keep
4. Too difficult to keep
5. No need for another credit
6. Other, please specify

	Name of document Q33	Reason Q34
1		
2		
3		
4		
5		

Unofficial Documents and Facts

(Please answer to questions Q39 to Q42 in the following table)

Q35) Which one of the following documents do you possess or which affirmation is true for your enterprise? (Yes/No)

Q36) What is your main reason to have this document?

1. Credit
2. No choice
3. Other, please specify

Q37) When did you obtain these documents?

1. Before you applied for your first individual loan
2. In order to get your first individual loan
3. After you got your first individual loan

Q38) What is your main reason not to have this document?

1. No use
2. Too expensive
3. Too difficult
4. I don't know how to do
5. I don't know what it is
6. Other, please specify

Documents / facts	Possession Q35	Reason Q36 / Q38	When Q37
Separation of enterprise and household money			
Accountancy books			
Cash			
Balance sheet			
Income & expenditure			
Utility Bill			
Proof of rent / ownership			
Written contracts			
Bank / post account			
Checking account			
Commercial association / cooperative			
Fire insurance			

Non-financial services

Q39) In general, did you receive help from ABA/DBACD to obtain documents ?

1. ABA/DBACD explained me how to do
2. ABA/DBACD gave me some advices (send me to the One-Stop Shop)
3. ABA/DBACD helped me to fill in the forms
4. ABA/DBACD does not help me
5. Other, please specify _____

Q40) Have you attended lessons provided by ABA/DBACD ?

1. No
2. Literacy
3. Computer
4. English
5. Accountancy
6. General business courses
7. Technical course
8. Specific courses to fill in official documents
9. Other, please specify: _____

Q41) Have ABA/DBACD provided you other services?

1. No
2. Access to computer office
3. Access to library
4. Exhibition room
5. Other, please specify _____

Comments:

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