

# The Financial Behavior of Rural Residents

## Findings from Five Latin American Countries

Jacqueline Urquizo

**ACCIÓN**





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# Executive Summary



This study summarizes the results of market research conducted in 2009–2010 in five countries—Colombia, Dominican Republic, Ecuador, Nicaragua, and Peru—to learn about the financial behavior and use of financial services among rural residents who could become clients of the microfinance institutions that partnered with ACCION International in developing products for rural areas.

Both qualitative and quantitative methods were used. The results provide a detailed portrait of rural residents that can serve as a reference for anyone wishing to design financial services that would meet the needs of these residents or attract them to the services through communications campaigns to increase their use of financial services.

**A market with traditional values.** Rural residents are for the most part very traditional, with strong cultural roots deriving from low outside influence and little immigration. While the low level of external influence may be attractive for developing “experiential” tourism, it presents challenges for financial service providers. The context does not generate a great deal of innovation, and there are many “followers” easily influenced by a leader. Because rural residents have limited ability to predict revenues due to weather and market vagaries, and because they assume the support of social and family networks, they pay relatively little attention to foresight or planning, but pay close attention to fulfilling their duties and maintaining prestige. The primary objectives expressed are: 1) the education of children as a way out of poverty in the next gen-

eration, 2) housing for better living conditions and to build an asset, and 3) business or farm improvement as a means to achieve the first two objectives and as form of self-achievement.

**Socializing.** Microentrepreneurs who work in commerce and services interact frequently with their clients, are highly social, and are key channels of information in towns. By contrast, farmers and production microentrepreneurs have little interaction with customers and other people in their working environments. In the latter case, their social activities are more likely to take place outside the occupational setting.

**Diverse media use.** Radio and TV are important because they connect rural dwellers to the outside world. However, for daily life, rural residents often get information through nontraditional media such as local radio, speakers in the main square, mobile ads in moto-taxis, leaflets and loudspeakers, etc. In addition, key individuals, such as shop owners, and social, economic, and religious gatherings (weekly fairs, parish meetings), are sources of information exchange.

**Agriculture and the rural economy.** Demand in the rural areas is driven by agriculture, with off-farm businesses dependent for clientele on farmers. Therefore, during the harvest season, usually twice a year, sales rise throughout the economy.

**Income sources.** Half the homes have two contributors to household income; in 70 percent of cases, the spouse is the second contributor. Among farming heads of household, about 20 percent have a spouse with a microenterprise, while among microenterprise heads of household, only about 6 percent have a second income from farming. Thus, relatively few households combine income from both farm and microenterprise. In addition, approximately 35 percent of the heads of household perform additional activities, especially the farmers, although these are often seasonal or sporadic.

**Farmers' special characteristics.** The inability of farmers to influence or even predict the final sale income from crops limits the financial planning farmers can usefully do. It also creates significant barriers to access to loans. Regarding savings, approximately one-third of farm households in the sample raise medium or large livestock for sale and small animals for personal consumption; to some degree this can be seen as a means of savings (a marketable store of value). Raising livestock is not generally done to scale, but is significant, as the average value of their total assets in cows or steers was found to be US\$2,300.

**Varied cash flow patterns of microenterprises.** Commerce (65 percent of the surveyed microenterprises), service (23 percent), and production microenterprises (8 percent) all feature different flows of funds, resulting in different financial needs. Commerce microenterprises have frequent small revenues and expenditures, while service enterprises have less frequent large outflows and frequent small revenues. Production microenterprises typically have infrequent and irregular flows for both expenses and revenues; however, these enterprises are often partly funded by buyers. These flows affect the frequency of cash payments, deposits, withdrawals, and needs for loans.

**Rural microenterprises: specific differences from their urban counterparts.** These include higher operating costs for transportation of raw materials, supplies, and finished products to their locations and lower turnover of the merchandise, resulting from lower customer traffic.

**Use of financial services.** Working capital credit and savings are the best known and most used formal financial services. However, while 80 percent of respondents say they know about these products, only 40 percent actually use them. The least known and used products are the debit card, consumer credit, and life insurance.

**The broad concepts of savings and investment.** Rural consumers apply various strategies to make the best of their financial resources, purchasing supplies in advance, investing in semi-liquid productive assets, and saving money. Relatively few people actually save in financial form. Surpluses are used primarily for investment, and many people consider that having idle or "nonworking" funds is a poor use of their money, as more income can be generated when the money is put to work in the business or farm.

**Savings patterns.** One in two consumers saves in money form. A third of those who save maintain a "static" savings amount as a reserve or backup fund; the other two-thirds have savings that are growing over time. However, even for these consumers, saving in money is often done in chunks rather than small regular amounts. Often, for example, a farmer will earn extra money from a special temporary activity, which is put into savings.

**Uses of savings.** Static savings are used as backup funds for emergencies, particularly health crises. Goal-oriented savings are often incremental, and goals are often related to the family (e.g., housing). Typically, investments are funded with savings. However, for higher-priced goods a mix of savings and credit is used to reach the purchase price.

**Savings in financial institutions.** The most significant barriers to formal savings are lack of convenience in operating savings accounts, the perception that amounts are too small to deposit in a financial institution, and bank fees applied to savings accounts.

The important reasons to open savings accounts are to establish relationships with the financial institution for subsequent access to credit, desire to keep significant amounts of funds in a safe place, and the need to facilitate payment transactions involving distance, including supplier payments and remittances.

**Savings behavior by gender.** Although we observed women to have a more positive attitude toward saving, both men and women save, and saving is often done in couples for specific household goals, especially when larger amounts are needed than the small savings made privately by some women. Women perceive that men can save larger amounts because they control the money and have higher incomes.

**Credit demand and supply mismatch.** Rural residents see credit as one of the main enablers of growth. In some areas, microcredit is widely available. However, the perception is that all microcredit is alike and that it is not always adequate to meet needs.

**Prevalence of borrowing.** Depending on the country, between 50 and 70 percent of respondents use debt (formal or informal). Individual microcredit is most frequently used, among 30 percent of farmers and 40 percent of microentrepreneurs. Group lending represents approximately 11 percent of all credit (it was not present at all in Colombia), and loans from family represented 6 percent, largely short-term, occasional, or emergency loans.

**Dissatisfaction with credit offer.** Respondents mentioned requirements (accessibility), high cost, the conditions of the credit, and delays in evaluation. Farmers expressed concern that loans would put their land or collateral at risk. Also, there is a

lack of knowledge about the offer of credit, inexperience in its use, and the sense of having little bargaining power with financial institutions.

**Insurance and risk management.** Rural residents were not well aware of their vulnerability to risk or the potential value of insurance, except when they had actually experienced a particular shock. Solutions are sought only when the occurrence happens. In this sense, agricultural insurance would be readily demanded because most farmers have already experienced weather shocks. In the absence of insurance, adverse events require urgent solutions that force the consumer to use assets starting with the most liquid, such as savings, then moving on to sell other assets or borrow. Microloans are not considered an emergency response option because of the time it takes to get them.

**Frequency of shocks.** The risks of greatest concern are weather risks (for farmers) and health risks. Among respondents, 70 percent had experienced a shock within the past three years. Among farmers, 45 percent had experienced a weather-related shock. With rain-fed agriculture, they have no means of dealing with drought. Health events had affected 25 percent of the sample.

**Background to financial education.** Few if any respondents had involvement with long-term training, though many had received short-term training from programs run by unions, government, suppliers, microfinance institutions (associated with their products), producers' associations, or religious missionaries. In general, the training topics were very specific. Attendance at training is limited because the training is outside the business routine and competes with activities of higher priority, particularly for microentrepreneurs in commerce who cannot leave their shops. Men, in particular, stated that financial education is too basic, that they know how to manage their money, and that they would prefer business, farm, or technical topics.



## CHAPTER I

# Aims of the Study and Research Methodology



This chapter introduces the study, its methodology, and the sample population.

### Introduction

Market research to understand the consumer is important for many reasons: developing products and value propositions, designing marketing strategies, finding new business opportunities, and establishing baselines for ongoing monitoring. This requires a thorough, comprehensive examination of consumers' behavior, their interaction with the environment, and their attitudes toward financial services.

This study of consumer behavior was conducted by ACCION International in 2009–2010 to execute its rural project, supported by the Inter-American Development Bank (IDB) and executed in five countries: Colombia, Dominican Republic, Ecuador, Nicaragua, and Peru. This work is based on samples taken from rural areas surrounding selected microfinance institution (MFI) branches geographically positioned to reach out to the rural market. It targets heads of household who work in an independent activity: entrepreneurs and small farmers, as opposed to laborers or salaried workers.

The report presents information in aggregate and, where relevant, by country. Like all behavioral studies, it is also detailed, so the reader can engage the pieces to build a vision of the targeted consumer.

After a review of some results of secondary research to contextualize the countries and the research methodology used, the chapters that follow

describe the rural population according to socioeconomic and psychographic variables (values and attitudes), social interactions, and financial behavior, considering savings, investment, credit, and risk management. Finally, financial education and awareness and use of formal financial services are discussed.

### A Rural Market Overview

Participating countries have different rural settings and population sizes. Of the five study countries, Colombia has the smallest fraction of its population in rural areas (one-quarter, as Table 1 shows), while Nicaragua, at 43 percent, has the largest. Nevertheless, because of its large total population, the largest numbers of rural residents live in Colombia (11.5 million) and the fewest in Nicaragua (2.5 million).

**Segmenting the farmer market.** The farmers' market is primarily segmented by the amount of land farmed (Table 2), with Peru having the most fragmented holdings. Farms with less than 1 hectare (survival/marginal) or those with more than 20 hectares (large) were not considered in the study, since they need financial products different from those the MFIs participating in the project are able to provide. With this approach, the targeted universe (small and medium-size farms) represents between 50 and 80 percent of existing farms shaded in Table 2.

**Table 1. Rural market in the context of each country**

Country	Agriculture as percent of GDP	Rural residents as percentage of country population	Rural population (millions)
Colombia	7	25	11.5
Peru	7	29	8.3
Ecuador	6	34	4.6
Dominican Republic	6	30	3.1
Nicaragua	19	43	2.5

Source: World Bank Data Catalog, 2009.

## Sampling and Study Methodology

**Defining “rural.”** To conduct this research ACCION collected data from rural residents categorized as “rural” according to criteria determined by the participating MFIs, particularly distance from a branch office. In this sense, the definition of rural does not necessarily align with the criteria used by the relevant national census. Sampling areas were limited to a maximum radius of no more than one hour by car or two hours walking from the branch.

**Survey methodology.** Qualitative analysis was conducted through focus groups and in-depth interviews (20 per country). Quotations from interviews are highlighted throughout the text. Quantitative research was performed through face-to-face surveys in homes or businesses, using paper questionnaires with closed questions, mostly precoded. The samples were between 600 and 745 cases per country (Table 3).

Samples were limited to people ages 25–65 and belonging to one of the following groups:

- **Farmers.** Crop owners whose main household income originates from agricultural activities. Farm size greater than 1 hectare and less than 20 hectares.
- **Microentrepreneurs:** Rural residents running an independent business, with a minimum of six months in operation, whose main household income originates from microenterprise activities.

The sample was not geographically weighted, as it was carried out in specific geographic areas where microfinance institutions could feasibly reach out and find potential customers. Thus, the results cannot be extrapolated to the entire rural population of the country. Also, as each country's sample was approximately similar in size, the aggregate results are given as simple averages (i.e., not weighted by size of sample). Annex A identifies the areas where the target population was sampled.

**Table 2. Farm segmentation by land area (percentage of all farms in that country)**

Country	Survival/marginal < 1 hectares	Small 1 to 5 hectares	Medium 5 to 20/30 hectares*	Large > 20/30 hectares*
Colombia	–	50 <sup>+</sup>	28	22
Peru	24	46	25*	5*
Ecuador	29	35	21	15
Dominican Republic	33	48	15*	4*
Nicaragua	20		50	30

Source: III Agricultural census, INEC, Ecuador. Head of household survey, 2000, INEI, Peru. Agricultural National Survey, 1995, Colombia. Support to the agribusiness transition, IDB, working document, 2002. Agricultural census, 2001, Nicaragua. Some sources considered approximate in their calculations.

+ Includes data of < 1 hectare.

\*20 or 30 hectares options depending on the secondary source information available in each country.



**Table 3. Sample size per country**

Segments	Ecuador	Colombia	Peru	Dominican Republic	Nicaragua	Total
Farmers	369	300	350	250	304	1,573
Microentrepreneurs	376	300	350	375	296	1,697
Total	745	600	700	625	600	<b>3,270</b>



# CHAPTER II

## Profile and Social Interactions



This chapter seeks to understand the characteristics and interactions of rural people within their social surroundings. It also addresses their organizational skills. This information is particularly relevant for determining market segments as well as devising communications strategies in order to influence financial decisions.

### Cultural Characteristics of Rural Life

**High conservation of culture; lack of innovation.** Rural areas have limited in-migration but high out-migration. This situation preserves culture and customs; however, it also limits innovation as a result of limited input from outside, especially among farmers. Most external contributions come from priests who move to rural churches or from microentrepreneurs who settle in the area. The vast majority (90 percent) of families have lived in the same area for more than 10 years, except in Colombia, where displacement by guerrillas and drug trafficking reduces that figure to 60 percent. Cultural wealth preserved for decades or even centuries makes tourism a potential economic opportunity. More broadly, cultural conservatism leads to the formation of a traditional and conservative market made up mainly of “followers” with little propensity for innovation.

**Heavy reliance on social capital; good reputation paramount.** Each person builds “social capital” that acts as a support network. Social capital is based on trust between families and neighbors, which is much stronger in rural than urban areas. Rural residents care about their reputation, and therefore they honor financial commitments

to maintain the prestige of being trustworthy. This feature strengthens the commitment to pay financial obligations. However, the possession of this intangible asset reduces saving for emergencies and the purchase of insurance; adverse events are resolved with the support of the social network.

**Limited propensity to plan; reactive response to adverse events as they arise.** Reasons for this may include the press of solving short-term needs, uncertainties surrounding revenues from crops, and trust in the social network for any eventuality. At the same time, rural residents are highly adaptable and resourceful. Balancing the management of two aspects (planning versus resourcefulness) is a possible task for financial education and for communication about future-focused products such as insurance and savings.

**Importance of religion and church.** Historical traditions remain strong in rural areas. There are important beliefs that should be considered in communication with prospective customers.

**Early risers and walkers.** Especially among farmers, the day starts early. Routines are primarily

governed by agricultural activities that must be attended to early in the morning, such as milking cows, irrigation control, etc. Because of inconsistency in access to roads or lack of vehicles, farmers and children walk a significant period of time to reach their fields or to attend school. The use of motorcycles and bicycles is growing and represents a savings and investment opportunity.

### **Higher growth plans of young families.**

Natural lifecycles mean that younger families have more plans aimed at optimizing their crops or promoting the growth of their businesses. The average age of farmers is greater than the average for microentrepreneurs, and so it is no surprise that farmers have fewer plans for growth. Estimation of the market for various products should consider family lifecycles.

## Family Dynamics

**Extended families.** It is common for grandparents or grandchildren to live at home (28 percent of families). Grandparents take care of their grandchildren, because of the absence of one parent, or because the daughter is working. This should be considered in the projections of financial products that benefit each member of the entire household (e.g., extension of insurance coverage).

**Couple dynamics.** Three-quarters of households are made up of couples, whether married (45 percent) or cohabiting (30 percent); the remaining 25 percent of households are single or widowed. Couples show high cohesion; they generally work together, rely on one another, have the same social circle, and share the same experiences. This circumstance favors good coordination on issues of money management and family goals. Although for specific financial decisions, women can play an influential role. It was observed that where the level of male chauvinism was a bit higher, women have less chance to share their points of view or to make decisions.

**Role of children.** Between 70 and 85 percent of households have children living at home. Between 20 and 45 percent had children over 21 years old, particularly in farm households. Adult chil-

dren, whether living with parents or not, are key influencers of their parents. On the other hand, 25 percent of microentrepreneur households and 40 percent of farm households have children living outside the area. This percentage reached 52 for farm households in Ecuador. This fact shows an important market for domestic money transfer services between urban and rural areas.

## Profile of Women

**Traditional roles still in force.** Women are caretakers. They take care of the children, the household, and usually the animals. If they are grandmothers, they may take care of the grandchildren. *“When my daughter died, I took my granddaughter. Then, you have to pitch in and give.”* In making decisions, other than consultations with their husbands, women also rely heavily on the opinion of their adult sons and, in some cases, their brothers. Women’s circles of relationships are generally limited to the family. It was observed that women in farmers’ household have less self-confidence than men.

**Women and daily household finances.** Women manage household finances, but the spouse gets involved for purchases or larger savings. In investments, women give greater priority to improving the household than men, who give greater priority to business investments. Women are more inclined to save, but men are the ones who receive income. Consequently, it is important to consider the couple as a unit.

**Microentrepreneurs.** Generally, women’s microenterprise income is marginal to that of the spouse or partner. Women are responsible for secondary activities and care for small businesses. Their free time is limited, since both family and business activities occupy them. Under these circumstances, growing their businesses is difficult, and some express a lack of information on how to manage their businesses. Women also show more anxiety about debt payments than men and therefore are less likely to engage in further obligations until previous debts are paid. They feel more apprehensive when transporting money for fear of being robbed.

**Women farmers.** Women help their husbands, but it is rare to see a single female farmer because of the work that it requires. Therefore, women generally turn to other occupations, like microenterprise. Women often engage in agriculture, helping the spouse at harvest time.

**Family financial decision making.** The couple decides jointly how to use their money. Working together, they constitute a sort of business partnership aimed at common objectives for both business and family. However, women manage and save the money. They show a more responsible attitude toward money management than men. In purchasing decisions for financial services, men and women play complementary roles. Financial service providers would need to consider ways to bridge between the two, taking the different roles—initiators, influencers, decision makers, users—into account. For example, for a housing finance product, the woman might initiate, while given the amount of money involved, the decision maker or payer would be the man. Thus, an effective marketing and customer relationship should reach everyone in their respective roles.

## Life Views and Values

**Values.** Values are the basis of behavior and therefore should be considered when developing a communication strategy. Among the values asserted by the surveyed population were:

- Work
- Solidarity (e.g., traditional practice of informally exchanging work, known as *minga* or *minka*)
- Family
- Love for nature, land, and animals
- Humility (farmers)
- Religion (women)

**Objectives.** The survey participants described the following as their core objectives:

- **Education** of the children as the main route out of poverty.
- **The house**, to improve their quality of life and create assets. This objective includes everything from the purchase of land to the construction or improvement of existing homes.

- **Improve business/crops**, which has a dual role: as a means of obtaining income needed for other goals and, at the same time, as a way to satisfy their “need for achievement.” This “need for achievement” is larger in the men and youth segment.

**Life in rural areas.** This analysis sought to understand the target market value in rural surroundings. Among the advantages of rural life were:

- Feeling in control
- Tranquility
- Low crime rate and increased safety
- Fresh air
- Healthy food
- Easier to manage their lives, compared to the city

Disadvantages also surfaced:

- Lower-quality education and limited opportunities for higher education
- Limited medical services
- Distance from government support, especially infrastructure and basic utilities

## Socializing

**Moments of socializing.** Microentrepreneurs who work in commerce and services have frequent interaction with their customers; this gives them a more extrovert profile, unlike farmers and production microentrepreneurs, who usually work alone, with family, or in some cases with assistants. The most relevant work interactions are with suppliers or buyers. Socialization outside work occurs through sports, associations, or visits with relatives and neighbors. Sometimes such activities are accompanied by alcohol consumption.

**Visits to the city.** The frequency of visits to the city depends on the distance. At each visit, residents try to accomplish as many tasks as possible to dilute the costs of transportation. Therefore, they wait to make one trip with several activities including: 1) purchase of goods, 2) use of services (e.g., doctor visits), 3) financial transactions, and 4) sharing news. Rural residents seek expedited services to avoid spending hours making a simple financial transaction in a bank office. On the other

hand, the establishment of local banking correspondent agents would not eliminate trips to the city. It would, however, increase the safety of moving money. One of the biggest concerns, especially for women, is the possibility of theft.

**Associations.** Understanding the variety of associations (Table 4) is useful for identification of niche target markets or proposals for group retail products. Leaders who are capable of organizing and convening associations often have higher education or come from outside, such as pastors, doctors, or promoters trained by NGOs.

**Short or nonexistent vacations.** Because they have to take care of their animals, crops, or business, rural residents rarely leave their home areas. This contributes to the low level of innovation, as it prevents expanding their vision beyond the local level.

**Free time.** Time spent not working is divided among sports, family, religion, and work on alternatives to the main work activity. Activities on weekends or holidays include:

- Visits to the parents or in-laws

- Group sports—soccer and volleyball—generally for social interaction rather than physical fitness
- Caring for crops, for those microentrepreneurs who cultivate land as a secondary activity
- Religious activities
- Remaining open to make more sales
- Participating in *mingas* (described above)
- Attending fairs

## Communications

**Mobile phones.** Whenever there is a signal, mobile telephones are widely used (Table 5). Text messaging is distrusted because of service inconsistency, with frequent failed or slow messages. Short texts are more frequent.

**Opinion sources.** The rural market is informed by mass media but acts according to its local environment. Word of mouth and leaders' opinions are important (Table 6). Thus, a mix of media should be suited to rural population and marketing needs.

**Table 4. Main types of associations in rural areas**

Type	Description
Associations or committees	<ul style="list-style-type: none"> <li>• Peasant communities provide platforms for community work, including <i>mingas</i> or <i>minkas</i> (a traditional practice of exchanging work for work).</li> <li>• Producers' committees have a leader and pursue a specific objective. Examples: water committees, coffee producers, religious groups, saving groups, and temporary committees created for a defined purpose.</li> <li>• The participation of microentrepreneurs in committees, especially those in commerce and services, is limited because they have to run their businesses. However, microentrepreneurs play an important role in spreading information to their customers.</li> </ul>
Cooperatives	<ul style="list-style-type: none"> <li>• Farmers associate to attain group benefits such as better prices for their products, inputs, or technical assistance. There are also financial cooperatives.</li> </ul>
Weekly fairs	<ul style="list-style-type: none"> <li>• Once a week, buyers and sellers, farmers, and microenterprises gather. This is one of the most important gatherings, with strong cash flow in the market.</li> </ul>
Church associations	<ul style="list-style-type: none"> <li>• Churches have a strong presence in rural areas, often constituting the starting point for community programs.</li> </ul>

**Table 5. Mobile phone ownership (percentage penetration among sample)**

Segment	Ecuador	Colombia	Peru	Dominican Republic	Nicaragua
Farmers <sup>a</sup>	63	91	45	73	63
Microentrepreneurs <sup>b</sup>	69	93	53	90	73

a. n = 1,573.

b. n = 1,697.

**Table 6. Communication media available in rural areas**

Type	Media	Remarks
Mass media	<ul style="list-style-type: none"> <li>• Television</li> </ul>	<ul style="list-style-type: none"> <li>• Connection with the outside world</li> <li>• News far from their reality</li> <li>• Night time use—generally news</li> <li>• Requires electricity</li> </ul>
	<ul style="list-style-type: none"> <li>• Radio</li> </ul>	<ul style="list-style-type: none"> <li>• National and local news</li> <li>• Anytime, but most often mornings</li> <li>• Requires electricity, disregarding batteries because of their high cost</li> </ul>
Targeted mass media	<ul style="list-style-type: none"> <li>• Speakers (e.g., broadcasting in the town square)</li> <li>• Mobile, e.g., on motorbikes or taxis</li> <li>• Fliers, posters and loudspeakers</li> <li>• Text messages (cell phones)</li> </ul>	<ul style="list-style-type: none"> <li>• Generally from the municipality</li> <li>• Music and community announcements</li> <li>• For specific, timely announcements</li> <li>• Directed at areas of the target market</li> <li>• Text messages used rarely</li> </ul>
Groups	<ul style="list-style-type: none"> <li>• Committee meetings</li> <li>• Church group meetings</li> <li>• Soccer/volleyball games</li> </ul>	<ul style="list-style-type: none"> <li>• Influence of opinion leaders</li> <li>• Specific niche markets (e.g., coffee farmers)</li> <li>• Unfiltered information has credibility</li> </ul>
Individuals	<ul style="list-style-type: none"> <li>• Word of mouth</li> </ul>	<ul style="list-style-type: none"> <li>• Shopkeepers and customers</li> <li>• Suppliers also are important since they visit several businesses</li> <li>• Credit promoters and other NGO's promoters disseminate information through population, which is later passed to others</li> </ul>





## CHAPTER III

# The Economy of Rural Inhabitants



This chapter covers the household and business economics of microentrepreneurs and farmers. It discusses assets, income combinations, and cash flow.

### General Notes

**Agriculture, the central economic axis in rural areas.** Between 60 and 70 percent of heads of households depend directly on agricultural activities, either as farmers or farm laborers. Thus, business and economic dynamics depend on the timing of harvests, which stimulate local demand at all levels. This fact creates seasonality in all kinds of businesses during the harvest seasons, usually twice yearly. This seasonality is relevant for design of products and services as well as planning for promotions campaigns.

**Transportation.** The cost and frequency of transportation is a key development factor for the exchange of goods and services between towns and cities, and even for quality of life. It may be interesting to explore opportunities for financial products to support the development of transportation and the financing of motorcycles or cars. Approximately 6 percent of the surveyed market engaged in transportation as secondary occupation.

**Motors.** Because of limited electricity, the need for efficiency, and the need for transportation, buying a motor (motorized vehicle, electric motor, chain-saw, boat motor, or pump motor to bring water) is one of the most common and necessary purchases of fixed assets in rural areas, presenting an opportunity for focused funding.

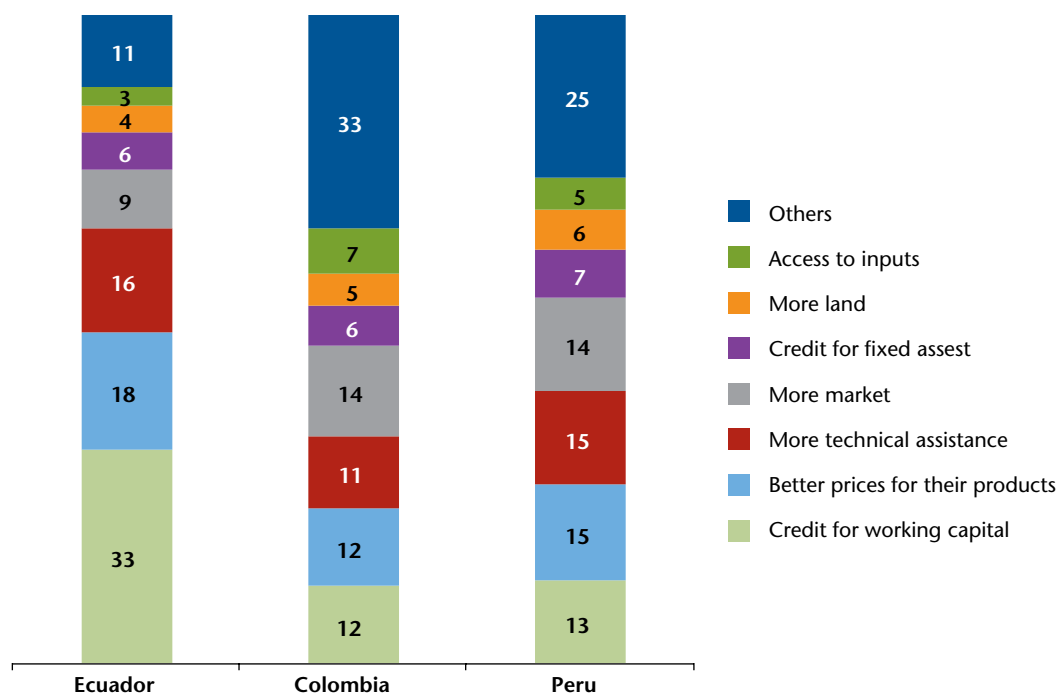
**Farmers' views on factors of development.** Farmers' views of the most important factors for agricultural development differ by country. While access to capital was seen as more important in Ecuador, Peruvians mentioned landholdings and Colombians identified the availability of labor as much more relevant (Figure A).

In qualitative research, among the policies and investments farmers named as increasing the likelihood of progress were: low-cost capital, secure minimum commodity prices, access to the market, high-quality inputs at stable prices, investments to optimize water use (mechanized irrigation, tubular wells, or greenhouses), tree planting (mentioned by farmers with more land), and soil studies to enable crop improvement. These responses point to loans for fixed assets and long-term financial products.

### Household Income

**Diversification of income.** Understanding the level of income diversification within a household helps to interpret better the capacity of the target market for payments, savings, and coping with risk. Heads of household perform additional activities, from a quarter to half of the time in our sample, especially farmers with less land (Figure B).

**Figure A. Development factors considered by farmers<sup>a</sup> (percentage of all mentions)**



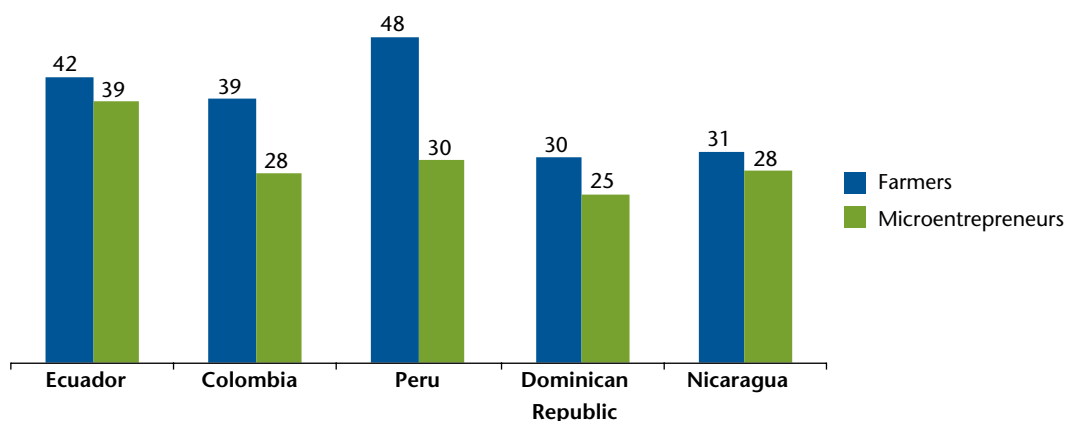
Note: Multiple answers were permitted.  
a. n = 8,550 mentions.

**Secondary Activities.** Microenterprises and farmers who have a secondary occupation tend to select occupations in their same line (Table 7). Thus, farmers often take jobs that require physical exertion (construction work, logging, hunting, fishing, or collecting), while microentrepreneurs engage in other businesses or take informal or formal salaried employment. In all cases, day labor is an option for secondary income, especially at harvest time.

### Spouse's Occupation

Most spouses in our sample have the same occupation, solidifying the concept that they act as partners (Figure C). In 70 percent of households, the second most important income earner was the spouse of the head of household. About 20 percent of farmer's spouses have a microenterprise. Consequently, they could have access to credit for mi-

**Figure B. Heads of households carrying out subsidiary income-earning activities (Percentage of all farmers<sup>a</sup> or microentrepreneurs<sup>b</sup> surveyed)**



a. n = 1,573.  
b. n = 1,697.

**Table 7. Secondary activities of the head of household (among heads of household that perform secondary activities)**

Microentrepreneur <sup>a</sup>	Percentage	Farmer <sup>b</sup>	Percentage
Independent business	25	Hunting, fishing, logging, harvesting	25
Day laborer	11	Day laborer	20
Hunting, fishing, logging, harvesting	8	Independent business	13
Assistance to spouse	8	Assistance to spouse	10
Transportation services	6	Construction work, industrial	7
Wage earners	6	Transportation services	6
Others	36	Others	19
<b>Total</b>	<b>100</b>	<b>Total</b>	<b>100</b>

a. n = 613.  
b. n = 512.

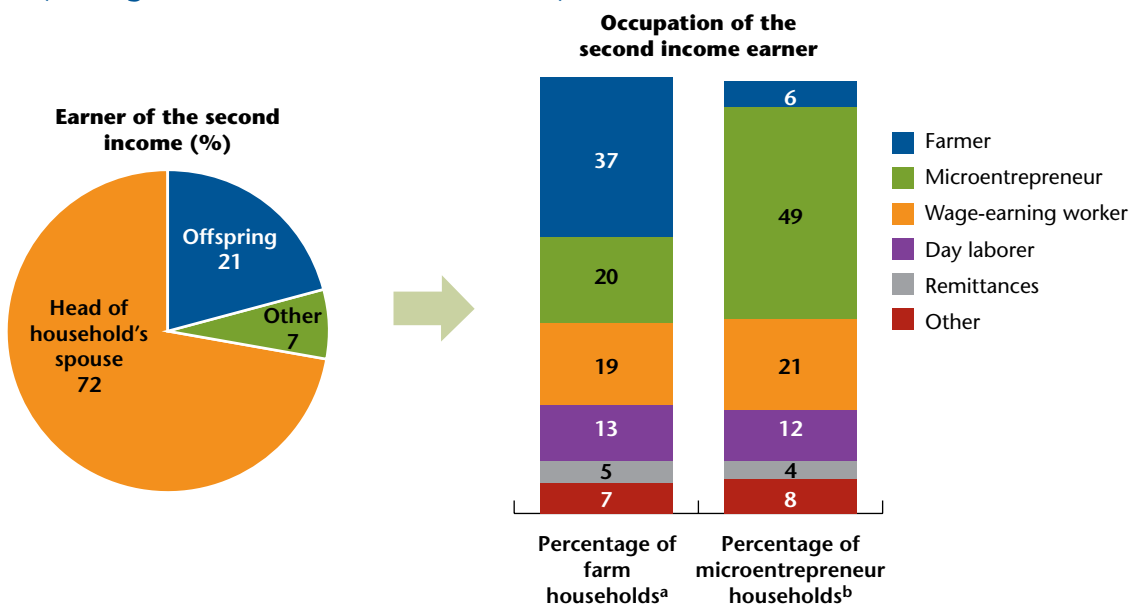
croentrepreneurs. However, the reverse is not true: very few spouses of microentrepreneurs engage in farming. The prevalence of wage or salary employment (formal or informal) is about the same in both types of households, about 20 percent.

Notably, when the female spouse helps perform activities for temporary extra income, this is generally seen as marginal or minor income and is not considered in the quantitative answers. Similarly, the spouse’s help in the business or farm is not considered as additional income even though

it reduces the operating cost by preventing the need for hired labor.

**Remittances.** In our sample, relatively few households received remittances on a regular basis from relatives living abroad. In Colombia, fewer than 1 percent of households received remittances regularly, rising to 8.7 percent among rural households in Nicaragua. Regular remittances are more frequently used to pay planned routine expenses. Remittances received occasionally (e.g., birthday, Mother’s Day) are more directed to “luxuries.”

**Figure C. Occupation of the second contributor to household income (among households with two incomes)**



a. n = 466.  
b. n = 459.

**Table 8. Variety of assets of rural households**

Assets	Description and comments	Liquidity
<b>Current</b>		
Savings/cash	Savings in financial institutions or at home	High
Accounts receivable	Sales on credit	Medium high
Livestock	Cattle, goats, pigs, and sheep	Medium high
Merchandise	Final products. Farmers with nonperishable food (e.g., coffee, beans, dry corn)	Medium
Inputs	Paint, flour, seeds	Medium
Crops at future prices	Valuation according to proximity of harvest date	Medium
<b>Noncurrent</b>		
Dairy cattle	Highly priced for the constant revenue obtained from the milk	Medium low
Plow animals	New animals are hard to train, difficult to sell Farmers are the only buyers	Low
Equipment	Power saws, motorcycles, coolers, bread-kneading machines, etc.	Low
Land	Higher value if with fruit trees. Used as guarantee (if ownership documentation is available)	Low
Home appliances	Televisions, refrigerators, etc.	Low
House and plot	Last resort. Mostly used as collateral. Greater value if located near a town, city, or road	Very low

### Asset Ownership Pattern

**Liquidation of assets.** Rural families often have no fully liquid assets, but often have relatively illiquid assets (Table 8). When cash is needed they may take the following actions: take cash in savings, collect accounts receivable, use assets as collateral for loans, call on social networks (intangible assets) for loans from friends and family, or liquidate productive assets such as inventory, inputs, animals, or future crops. Financial tools that enable greater leverage or liquidity of fixed assets, such as adaptations of “factoring,” would be useful.

### Land and Title

**Landholdings.** Farm plots in our sample were generally between 1 and 12 hectares (Table 9). The vast majority were smaller than 5 hectares, particularly in the Dominican Republic. In the Dominican Republic and Peru, holdings are fragmented as a result of agrarian reform or continued transfer from generation to generation. Small and fragmented holdings hinder economies of scale and make it difficult to generate income from farming alone. In the Dominican Republic, it is common to rent land. However, it is very frequent for a farm

**Table 9. Size of productive unit among farming households (percentage of all farming households)**

Hectares	Colombia	Ecuador	Dominican Republic	Peru	Nicaragua
1 to 3	67	53	76	66	31
3 to 5	24	37	24	18	52
> 5	9	10	0	16	17
	100	100	100	100	100

n = 1,573.

**Table 10. Number of productive land units per farmer (percentage of all farming households)**

# of units	Ecuador <sup>a</sup>	Colombia <sup>b</sup>	Peru <sup>c</sup>
1	50	88	42
2	22	8	22
3	17	3	14
> 3	11	1	22
	100	100	100

a. n = 369 farmers; b. n = 300 farmers; c. n = 350 farmers.

household to manage more than one productive unit, although patterns of consolidation vary widely by country (Table 10).

**Land titles.** Although most land for smallholder agriculture is obtained by inheritance, some households bought their land. Others obtained the land through donation from the government, as in the case of Nicaragua, or simple possession, as in the Peruvian jungle. However, not all have property titles, especially in the sample in Peru (Table 11).

### Access to Capital and Other Factors of Production

**Microloans.** Among the sample of households, 30 percent have an individual microcredit from a microfinance institution, 11 percent from a government development financial institution, and 6 percent from a solidarity group. Most farmers (72 percent) are self-financed. Only 12 percent of farmers used loans from financial institutions for their crops. The supply of microloans is medium or large,

depending on the country. However, these loans were considered unattractive because of high interest rates and specific requirements. Loans from government agriculture development banks were also seen as inaccessible, chiefly because smallholders had difficulty meeting eligibility requirements.

**Fixed-asset loans.** A need was perceived for loans for fixed-asset investment or investments in permanent crops such as fruit trees or equipment that requires larger amounts and longer periods than typical microfinance institutions supply.

**Workforce.** Most labor is supplied by the household and some by hired laborers. Day laborers are hired especially for sowing and reaping. Labor is scarce in some areas as a result of migration of youth to the city or outside the country (for example, in Nicaragua, day laborers prefer to work in Costa Rica for better pay). In Ecuador and Peru, shared labor is often practiced through the tradition of *minga*. Laborers are often paid when crops are sold, which limits the bargaining power of farmers when selling their products because they need the money urgently to fulfill obligations to laborers. Short-term credit for labor might reduce this pressure to sell at any price.

**Irrigation technology.** Modern irrigation systems are just beginning to emerge in the market studied (Table 12). Most farmers depend on river flow or rain, especially in Amazonian countries. With climate change looming, there will be more need to improve irrigation systems through the acquisition of engines to bring water or construction of boreholes. This reveals an important financing opportunity.

**Table 11. Type of property title among farmers (percentage of all farm households)**

Ownership of farming land	Ecuador <sup>a</sup>	Colombia <sup>b</sup>	Peru <sup>c</sup>
Owned with property title	65	68	47
Occupied as if owned (no title deed)	17	11	40
Rented	8	18	11
Shared crops	5	1	1
Other	5	2	1
Total	100	100	100

a. n = 369; b. n = 300; c. n = 350.

**Table 12. Irrigation system used (percentage of all farmers surveyed)**

Irrigation system used	Ecuador <sup>a</sup>	Colombia <sup>b</sup>	Peru <sup>c</sup>
Rainfall	59	65	55
Basin or canal	29	22	42
Modern technology	7	8	2
Other	5	5	1
Total	100	100	100

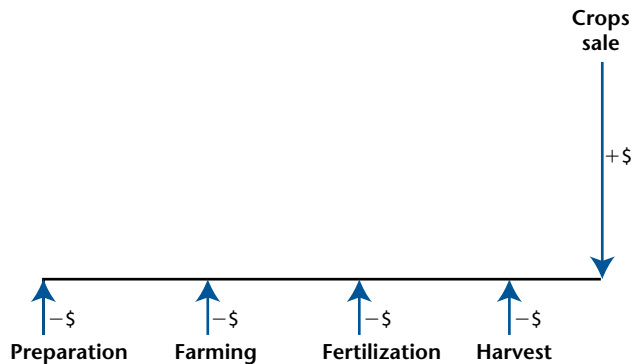
a. n = 369; b. n = 300; c. n = 350.

**Tractors.** The mechanization of planting is mixed, with just over half of all farmers using tractors or machinery, a much higher percentage in Peru (71 percent), and a lower percentage in Nicaragua (41 percent). In some areas, tractors are rented by the hour; in other areas, animals are still used to plow. Mechanization provides another financing opportunity, especially for leasing.

### The Agricultural Cycle and Financing Needs

**Seasonal pattern of cash flows.** Farmers spend money for planting, fertilizing, and spraying crops. Not until harvest does money come in (Figure D). Each stage in crop development involves a potential need for credit products with partial or modular disbursements or a line of credit per growing season. In most cases (approximately 80 percent), there are one or two harvests per year. A few crops in a few places have more than two annual harvests.

**Figure D. Cash flow in agriculture**



**Crop choice and planting.** Risk factors must be weighed at planting time. Farmers decide what crops to plant depending on their knowledge about that crop and their experience of supply and demand so that they can “guesstimate” the final prices of their products. When the need for money is great, they may choose crops with short growing cycles, such as tomatoes, which need only four months. When deciding what to plant, farmers need information, particularly on prices, as well as the assurance that financing will be available. The most important cost components at this stage are seeds and inputs such as fertilizers and pesticides. Inputs are typically self-financed or supplier-financed (Table 13).

**Harvest.** The major costs in this phase are labor and transportation. The high circulation of cash at this stage, particularly on the road, raises security concerns. For these reasons, payments and cash transfer services are a necessity during the harvest season.

**Pricing at harvest time.** Crop prices are not a function of production costs and are often not related to quality, but rather are based strictly on supply and demand. The lack of a guaranteed price makes it difficult for farmers to set budgets and creates barriers to access to credit, affecting both microfinance institutions and farmers. Some farmers perceive that a better price is possible if they take their products directly to market. Others (44 percent) prefer to sell to an intermediary at the farm gate, because of the effort and cost involved in transporting their products. The intermediary, with market knowledge, sets the price. Factors that restrict the bargaining power of the farmer include the perishable nature of the product, supply of the product at the time of sale, fear of being unable to sell the crop before it goes bad, and the need to cover debts.

**Quality and price.** If an individual farmer improves the quality of his or her product, it does not necessarily lead to a better price, because wholesale buyers, treating crops as commodities, aggregate products in a valley or region without discriminating between individual producers. More successful quality differentiation strategies occur at the regional level, suggesting that a regional branding strategy for certain products could help to improve



**Table 13. Funding sources for expenses during sowing and harvest (percentage of farmers)**

Funding source	Inputs	Farming workforce	Harvest workforce	Transportation
Money saved for this purpose	71	72	52	48
Credit from a financial institution	11	12	7	6
Buyer's advance payment	6	6	8	7
Supplier credit	7	0	0	0
Share of crop	0	0	27	33
Other	5	10	6	6
	100	100	100	100

n = 369 in Ecuador, 300 in Colombia, and 350 in Peru.

the product price at any point on its commercial chain (e.g., cocoa beans from Tingo Maria).

**The need for information.** Farmers deal with the reality of supply and demand in their own immediate areas. Access to national production and price information would be an important reference, but more important is to have information at the local or regional level.

**The role of cooperatives in sales.** The sale of products in associations or groups improves prices only when there is sufficient critical mass locally to strengthen the negotiating position with more powerful buyers.

**Use of harvest income.** When harvest income comes in, top priorities for the use of the money are debt repayment and reserve funds for the next sowing season (Table 14). Long-term savings are a lower priority. In general, investment and savings increase when products are sold at a better price than expected.

**Financial services opportunities generated by harvest income.** The needs shown in the table above suggest a range of opportunities to offer financial services such as payment services (repayment of debts, laborers, etc.) and short-term savings (for next sowing season, consumption during growing season, or for emergencies).

### Economic Role of Livestock

**Prevalence of livestock.** On average, 30 percent of farming households rear animals, though this varies widely by country (Figure E). Rearing animals provides economic support and a source of employment for farm households. The number of animals raised per farm household is not significant because of land constraints and human resources required for care. About a third of households have only one or two animals of a given type, while only 15 percent have more than 10 animals in a herd. Understanding these assets is important, as livestock acts as a main form of savings in farmers' households. It can also be useful to

**Table 14. Priority in the use of income per harvest season (percentage of farmers)**

	Ecuador <sup>a</sup>	Colombia <sup>b</sup>	Peru <sup>c</sup>	Dominican Republic <sup>d</sup>	Nicaragua <sup>e</sup>
Pay crops/harvest debt	51	60	47	69	40
Put aside for next sowing season	16	9	32	12	37
Pay housing debt	20	17	10	14	9
Put aside for times without income	4	4	4	5	14
Put aside for emergencies	6	8	3	0	0
Investment	3	2	4	0	0

a. n = 369; b. n = 300; c. n = 350; d. n = 250; e. n = 304.

design a possible scheme of guarantees for credit using livestock, especially cattle.

**Livestock values.** The immediate cash price of cattle was found to be on average \$500 per head, but this varies widely according to the country and life stage of the animal. The averages for other livestock were: pigs (\$75), sheep (\$60), and goats (\$30). Thus, a cattle owner in need of immediate sales would have an average of \$2,300 in cash.

**Role of livestock.** Not all animals have the same economic role. Pigs can be seen as in-kind savings. Since cows, sheep, and goats produce milk and/or wool and have long growing periods, they are thought of as good investments. Chickens are raised mainly for in-house consumption. Farmers in Peru and Ecuador breed guinea pigs or ducks to sell for occasional income supplements (15 percent of farm households). While animal husbandry is often thought of as a form of saving, these differences in economic characteristics should be noted. Likewise, animal husbandry provides employment that might not be replaceable if “saving in money” were to substitute for “saving in animals.”

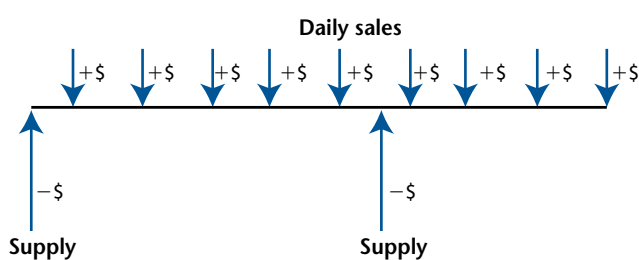
### Microentrepreneurs in Rural Areas

**Sector distribution.** Microenterprises in rural areas differ from their urban counterparts in terms of the slower speed of merchandise turnover and higher operating cost. They are concentrated in re-

tail trade (65 percent), with 23 percent in services, 8 percent in production, and 4 percent as buyers of agricultural products.

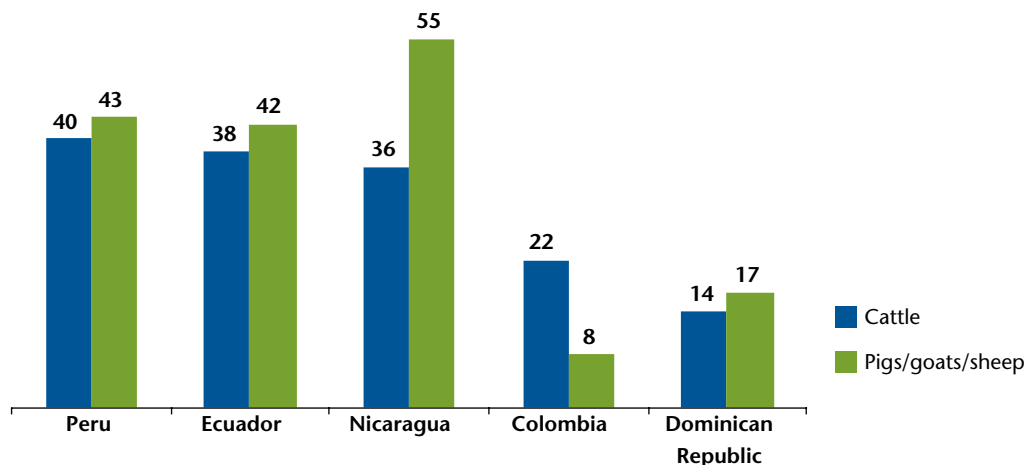
**Retail microenterprises.** These enterprises, two-thirds of the sample, trade in grocery products and perishables. There are also warehouses, gift shops, liquor stores, and agricultural input sellers. These enterprises usually have daily revenues. If they have capital or transportation constraints, they must buy stock frequently (Figure F).

**Figure F. Cash flow pattern for a retail microenterprise**



**Service microenterprises.** These include transportation, restaurants, and repair shops, accounting for nearly a quarter of the sampled microenterprises. Like retail enterprises, service businesses receive revenues regularly, often daily. However, these enterprises have a greater use of fixed assets, and thus start-up costs are often higher. Proprietors may be more inclined to save to maintain or replace such assets (Figure G).

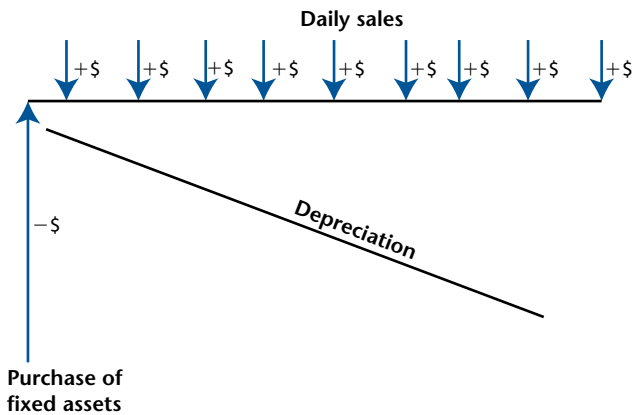
**Figure E. Agriculture households<sup>a</sup> where livestock is held (percentage of farm households)**



a. n = 1,573.



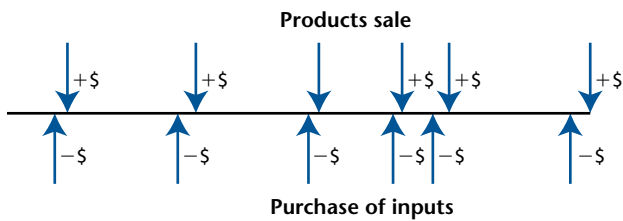
**Figure G. Cash flow pattern for a service microenterprise**



**Production microenterprises.** This relatively small segment (8 percent of interviewees) includes handicrafts, carpentry, metalwork, tailoring, and the like. The pattern of input purchase and sales is often irregular, with income received when products are delivered (Figure H). Inputs are often fi-

nanced by buyers, and supplies may sometimes be a form of savings. Such enterprises may wish to use a range of financial services, including short-term working capital and fixed-asset loans, transactions-oriented bank accounts, and various savings products.

**Figure H. Cash flow pattern for a production microenterprise**





## CHAPTER IV

# Savings and Investment



This chapter describes how rural residents consider savings and investment in the process of optimizing their scarce resources. It demonstrates the interrelationship between savings and investment, the alternatives to liquid savings (cash), types of savings, and barriers to savings, both real and perceived.

### Management of the Liquid Surpluses

**Savings strategies.** Rural residents use diverse strategies to optimize their financial resources, whether they wish to spend less, save more, or increase their profitability. For example, they may buy agricultural inputs in advance to obtain discounts, protect themselves from inflation, or save trips into town by buying more in a single trip. They may invest in productive assets that can easily be sold, such as livestock or merchandise. These investments serve a double purpose, both producing income and serving as a financial backup. They also save in financial form, including cash. Recognizing this, in designing strategies to mobilize financial savings the broad concepts of savings should be taken into account, as well as strategies that integrate, not replace, the current forms of savings.

**Attitudes toward savings and investment.** Rural residents evidence conflicted views about savings. They value the advantages and benefits of savings even while they state a preference for reinvesting all surpluses. As one resident said, “We believe more in the crops than in having money saved.” There is a belief that savings are stalled funds, a luxury that they cannot afford, even while recognizing their importance. Survey

subjects make a clear distinction between investing and savings (Figure I). Among the views stated were these:

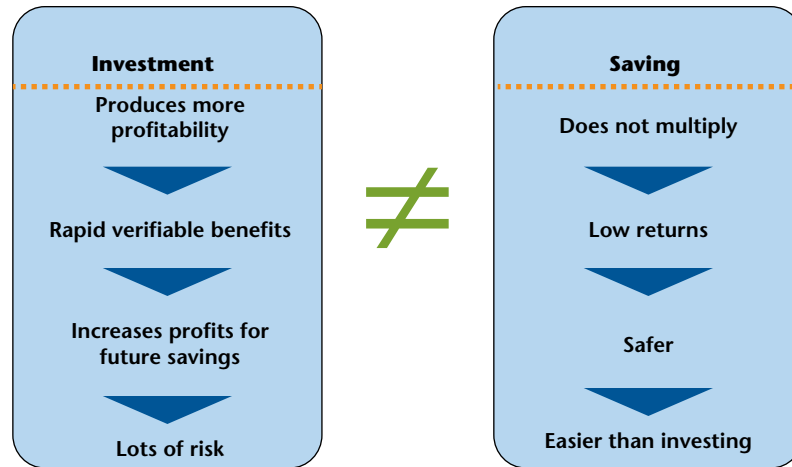
- *“Invest to grow; save to invest.”*
- *“Savings are kept until needed; investing is to earn in the future.”*
- *“Investing is to grow; saving is for precaution.”*
- *“We believe more in the crops than in having money saved.”*

**Savers vs. investors.** Saving is seen as easier than investing, because investments require work and involve risk. Although the preference is to invest, savings and investing are closely connected because investment comes from previous savings. Microentrepreneurs specifically manage money actively for investment and have a greater need for cash transaction services. Savers have more regular income, are more passive, and move cash less often.

### Savings in Cash

**Savings in cash—dynamic.** Funds set aside with an investment objective may later be used in an emergency. To promote savings, however, what matters is the initial reason for saving rather than the ultimate use.

**Figure I. Perceptions about saving and investing**



**Frequency of savings in cash.** Half of the rural residents we surveyed save money. Of these, one-third possesses a savings reserve that doesn't grow. The other two-thirds have a growing balance (Figure J). The data in Figure J help determine whether a financial institution would opt for a strategy directed at developing a new market—that is, converting nonsavers into savers—or, one based on attracting current savers to the institution.

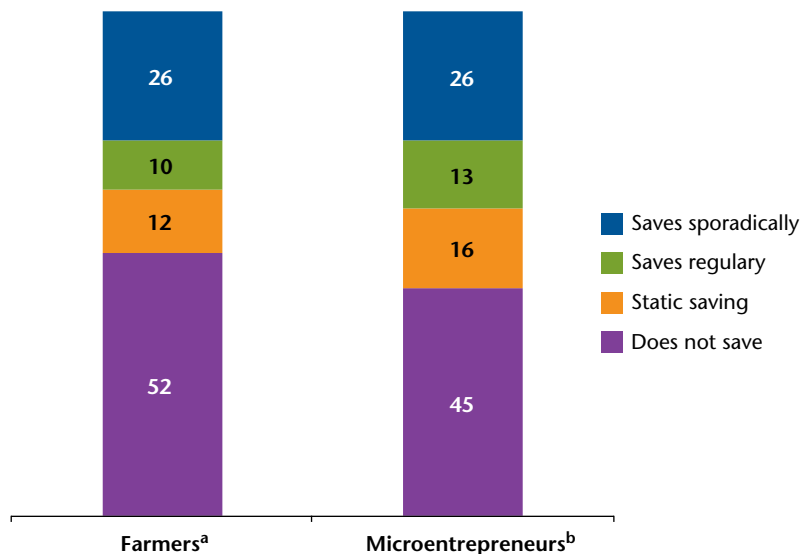
**Investments**

When asked whether they had invested in fixed assets or education during the past year, slightly over

a third said no, another third had made one investment, and the remainder had made more than one investment. Investments were most frequently made in education, purchase of machinery or equipment, and home and business improvement (Figure K).

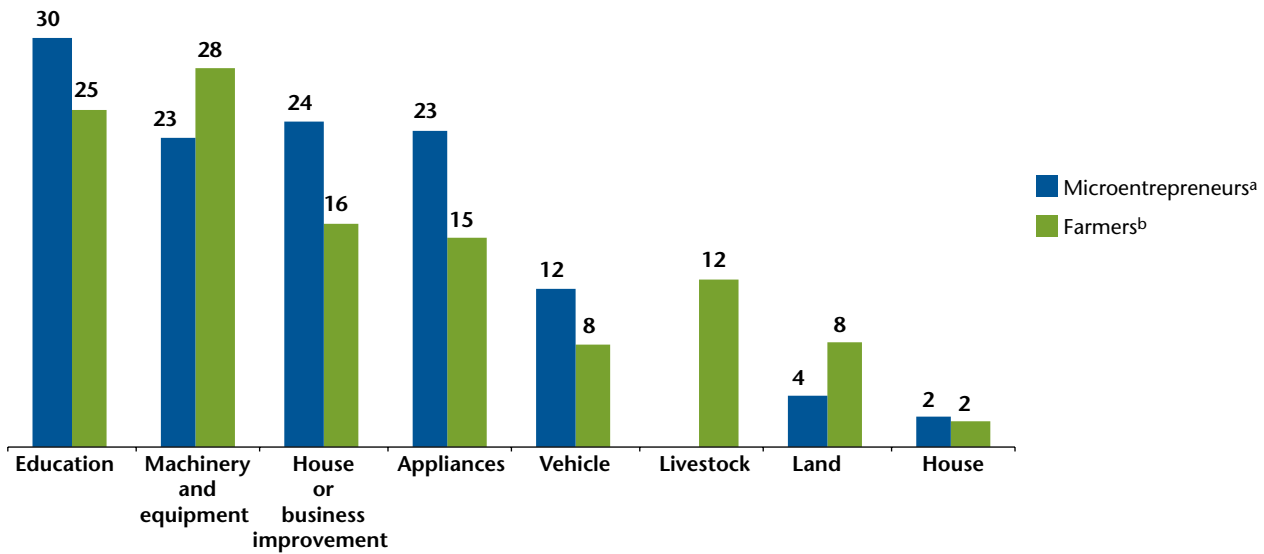
The analyzed investments are made largely with savings and sometimes with extra income (Figure L). Credit is also an option. The message is clear that, especially for fixed assets, savings is the starting point, while credit is a complement to savings that can augment the investment.

**Figure J. Frequency of money saving (percentage of all respondents)**



a. n = 1,573; b. n = 1,697.

**Figure K. Type of investment (percentage of all respondents who invested in the past year)**

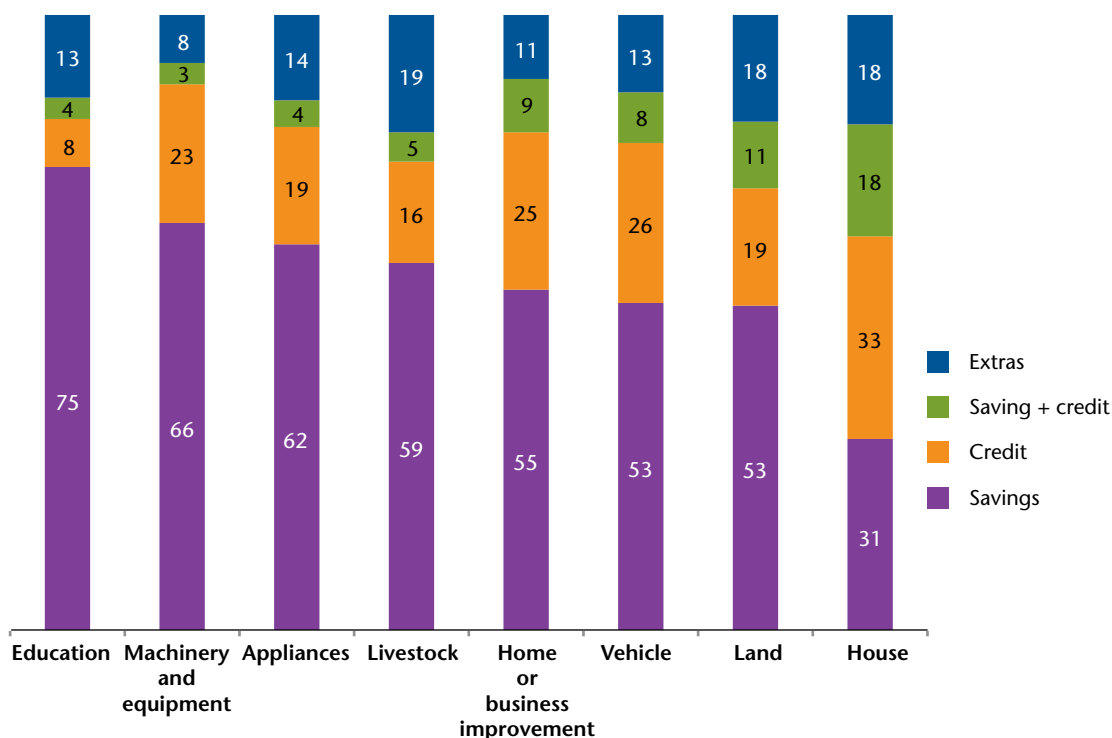


Note: Multiple answers were permitted.  
 a. n = 1,697; b. n = 1,573.

**Size of purchases made with savings.** The size of investments made with savings indicates the amount of cash managed by the target market (Table 15). The data show that savings do not necessarily involve small amounts and that the

amount saved may be related to the objective for which it was saved. It is observed, for example, that the amounts saved for expanding a home or business are significant and that a large portion of the market (20 percent) engages in such savings.

**Figure L. Funding sources for investments (percentage of respondents making investment of given type in the past year)**



n = 2,060.

**Table 15. Average amount of self-funded purchases and size of market per investment**

Investment	Average purchase amount in US\$ (only purchases using savings)	% of market investing in such items
Education	317	27
Appliances	582	19
Machinery or equipment	660	25
Cattle	892	12
House or business improvement	1,882	20
Vehicle	3,230	10
Land	3,856	6
Housing	No significant data	2

n = 2,060.

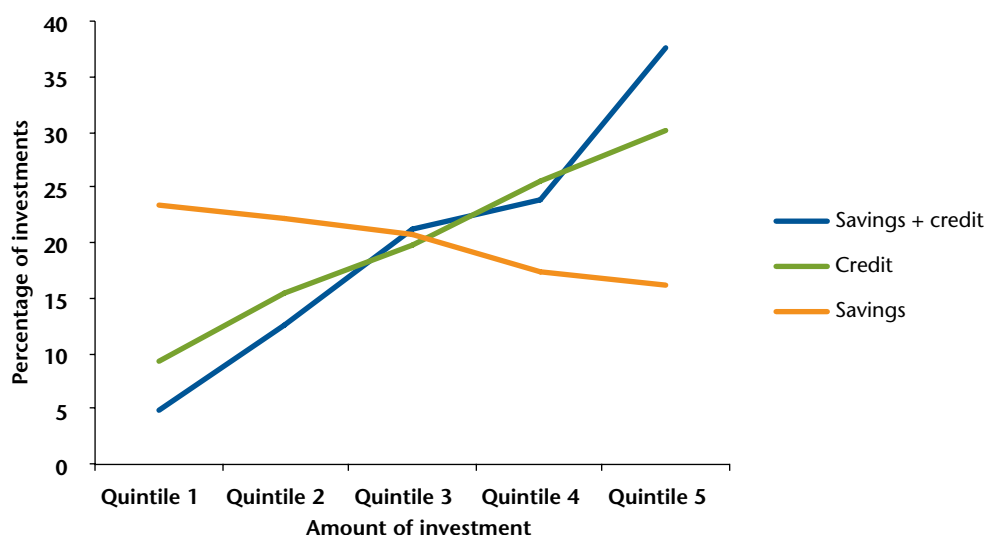
**Use of credit for investment.** The greater the value of the good, the greater is the use of credit. For big-ticket investments, rural residents combine savings and credit (Figure M).

### Savings Market Segmentation

**The cash savings process.** In the qualitative study, it was observed that if one partner is employed with a regular income flow, she/he is most often the person who is in charge of savings, probably because the income from farms and micro-

enterprise is variable, irregular, and used first for reinvestment. We identified two ways people save. Some accumulate savings little by little. This form of savings is most frequent for microentrepreneurs in commerce and service who have daily small cash flows from which they put aside a small quantity every day. Their savings balance is growing. Some respondents save in blocks, putting aside significant amounts at once, usually either to be used immediately or saved to be used in near future. Some examples of occurrences leading to savings in large blocks are: crop sales, the sale of

**Figure M. Combination of funding sources based on the value of the good (by quintiles of amount of investment)**



n = 2,060.

a cow, payment for work completed or delivered (especially for microenterprises in the production sector), and end-of-season payments for working temporarily out of town.

**Sequencing savings.** Among rural residents who save, very few (12 to 15 percent) set aside savings before they start to spend (Figure N). Most of the targeted market saves in reverse: they save what is left over after paying (especially common among women). Understanding this sequencing is important for institutions wishing to capture savings: those who save before spending have to be captured when they are paid; those who save after spending have to be captured when they pay. This is relevant for a channel strategy and also is a good baseline to track the evolution of a savings market, as savings “before spending” involves major commitment.

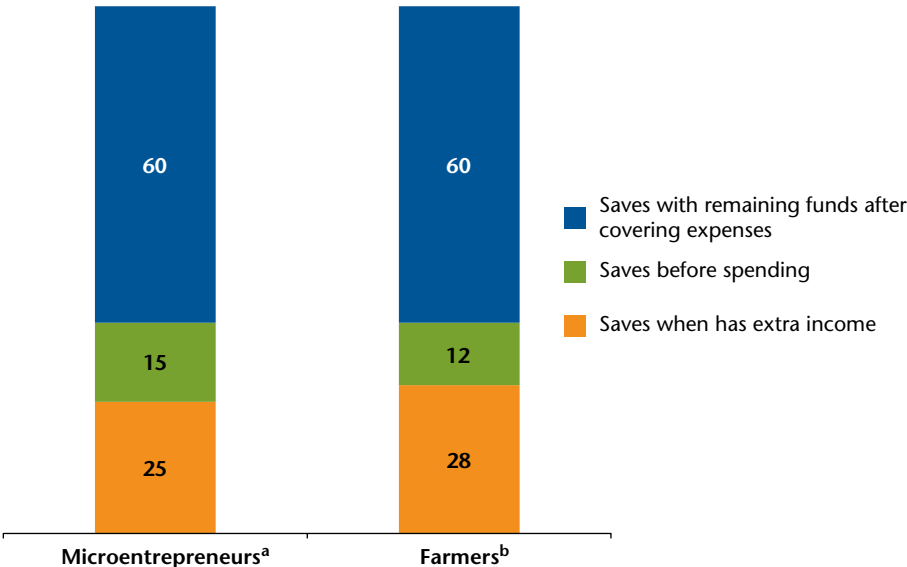
**Saving from extraordinary income sources.** In rural areas, a special type of savings was observed when one household member, generally the man, engages in a temporary activity to obtain an important amount of money beyond routine income. This appeared in a quarter of the cases (Figure N). Examples include leaving the town to work in construction or in a mine, going into the jungle to cut trees with valuable wood, or emigrating temporarily to another country. With the in-

come from these activities, the family has enough funds to buy fixed assets of significant value but also it takes significant risks and personal sacrifice to obtain that income. It would be relevant to provide insurance or efficient payment systems to support such activities.

**Motivations behind cash savings.** There are generally three drivers behind saving in cash: 1) emergency funds (55 percent of respondents), 2) saving with a goal in mind (45 percent of respondents), and 3) waiting for a business opportunity (more common in the case of microenterprises and women and generally subsumed under saving toward a goal). Savings with a goal and savings for business investments are often united. This type of saving records larger amounts than the small amounts involved in savings for emergency. However, no matter what the initial motivation for savings, when an emergency arises, cash savings are the first to be used.

**Emergency savings—focused on health.** Savings for emergencies (backup savings) is overwhelmingly associated with the need to protect the health of the family. In this regard, health insurance would substitute for emergency savings, freeing those amounts for use toward other goals or for investment.

**Figure N. Modes of saving (percentage of all who save)**



a. n = 916.  
b. n = 755.

**Gender similarities and differences in savings.** Both men and women save for the same range of reasons, and both consider savings important. Women are more likely to say that they save to seize business opportunities. Some women perceive that men can save more because they have control over the money and manage greater amounts, while the women are responsible for spending for the family. Many couples save together, and balances are higher in such families, because they join forces to save for far-reaching objectives such as housing, which requires the commitment of the entire family.

**Group savings.** Groups are savings channels as well as an opportunity to socialize. Two kinds of group savings were observed, used particularly by women. The first kind are those savings-loan groups such as self-help groups where a group fund is increased through activities such as raffles and loans to members or even nonmembers. This category includes village banking groups with compulsory savings. The second kind are the rotating savings groups, which respondents called “*the best existing form of savings*” (i.e., at each meeting one member takes a turn to collect deposits from each other member). Respondents liked group savings because the amounts are appropriate for their ability to save, the process is convenient, they enjoy the social aspect of the group, and they perceive savings to be safe because they know each other.

**Group versus formal savings.** While group savings can be seen as a competitor to formal savings accounts, formal providers can attract these savings if they offer the same or better benefits. Alternatively, they may seek to complement these group savings, for example, by offering channels for payment, management for group funds (internal accounts), complementary credit, bookkeeping/accounting services, or a main savings account that keeps the lump sum of the rotating savings.

## Savings in Financial Institutions

**Savings availability.** Savings in cash are easy to spend quickly. “*If you have it at home, you can spend it.*” Strategies for not spending include forgetting that you have savings, distancing the cash

from reach (for example, asking a relative to hold it), converting cash to a foreign currency, saving in animals, and avoiding using ATM cards. Savers have a preference for savings accounts with built-in features that help them not to spend, such as making the debit card optional, restricting the number of withdrawals, or increasing the ratio of deposit channels to withdrawal channels. However, micro-enterprises often need transactional accounts that offer high availability of funds, particularly if those accounts can offer convenience and safety in moving money and allowing easy access.

**Barriers to cash savings.** Three main barriers were observed: 1) priority given to the payment of debts, 2) perception that emergency needs will be handled by family (rather than savings), and 3) possession of semiliquid assets that can be sold in case of emergency such as livestock (noted among 30 percent of farming households).

**Views on the formal financial system.** Respondents mentioned fear of losing savings in the formal system, although they use informal cooperatives and save at home, both of which carry even more risk. They also mentioned the perception that the interest rate paid by banks is too low, although saving at home provides no interest. On the other hand, one main reason they would approach a financial institution is to build or maintain a relationship through a savings account that may lead to future loans.

**Summary of barriers and opportunities for savings in the formal financial system.** The findings on attitudes toward formal financial institutions should assist marketers and product designers to overcome barriers, real and perceived, and take advantage of the opportunities to capture client savings in rural areas (Table 16).

**Debit cards.** Debit cards are known but not widely used because of low ATM coverage in rural areas, transaction costs and lack of knowledge of how to use them (Table 17). Designers of debit card products should keep in mind that they are more relevant for transactional savings than for accumulating or back-up savings.



**Table 16. Barriers and opportunities to formal savings**

Barriers	Opportunities
<ul style="list-style-type: none"><li>• Belief that savings in banks erode in value because of maintenance fees and low interest payments</li><li>• Perception that it is not worth it to travel to bank branches to save a very small amount</li><li>• Unpleasant experience at branches; feeling discriminated against or having to wait in long lines</li></ul>	<ul style="list-style-type: none"><li>• Perception that banks are the safest place to deposit money when the amount is “significant”</li><li>• For small amounts, an easy or automatic savings process</li><li>• Turning existing loan customers into savings account holders or offering the prospect of a future loan</li><li>• Assisting clients with a self-discipline strategy to remove the temptation to spend</li><li>• Connecting savings accounts with other services such as remittances</li></ul>

**Table 17. Advantages and disadvantages perceived in the use of debit cards**

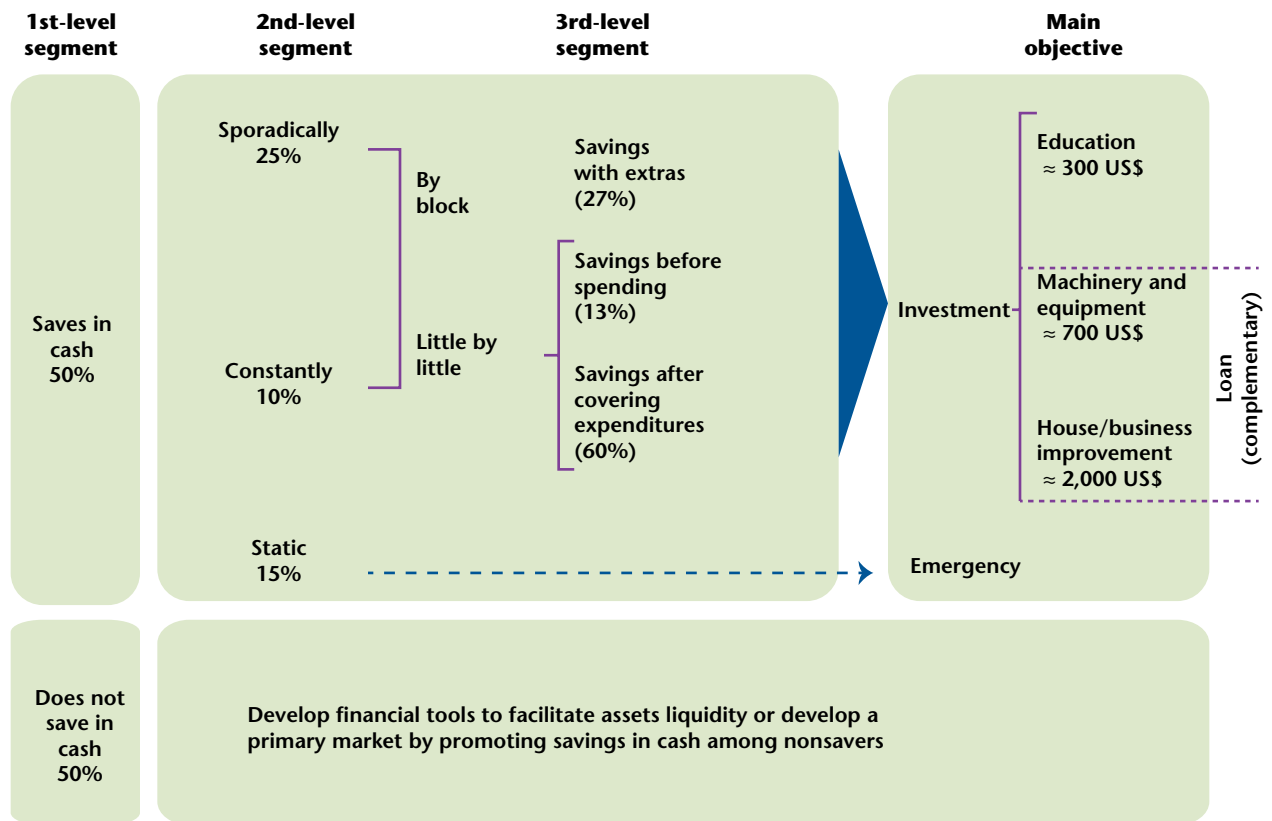
Advantages	Disadvantages
<ul style="list-style-type: none"><li>• Expedited transactions at bank branches through ATMs</li><li>• Access to a network that enables operations outside the home location (for both family members and buyers and suppliers)</li></ul>	<ul style="list-style-type: none"><li>• High transaction costs</li><li>• Many who once had a debit card cancelled it, especially those with nontransactional savings</li><li>• Lack of knowledge about how to use debit cards</li><li>• Fear of losing the card or having it stolen</li><li>• It makes spending tempting</li></ul>

### Defining Value Offer for Savings

The rural residents surveyed here showed the different facets of savings behavior that have to be considered by marketers and product designers in order to develop a sound savings offer. A closer look must be taken at specific segments such as women’s savings vs. couples’ savings, microentrepreneurs vs. farmers, savers vs. investors, static vs. growing savings, commitment vs. noncommitment savings, etc. This research answered questions such as: Where

will “formal” savings clients come from? What are their motives? How likely would they be to change specific behaviors? What is the size of a specific segment? What would be the best channel by type of saving? What are the relationships between savings and credit and insurance? The percentages also help to forecast the demand and set up baselines to measure savings evolution at specific markets. Figure O gives an overview of savings market segmentation.

**Figure O. Overview of savings market segmentation**



# CHAPTER V

## Credit



The need for credit or capital is a recurring theme among rural residents, particularly as a principal factor for growth. Although both supply and demand are considerable in some areas, there are barriers, real and perceived, particularly for farmers.

### Attitudes Toward Credit

**Credit as an opportunity and risk factor.** The term “credit” connotes growth, as in the following comments: *“Helps to expand the business,”* and *“It’s good; they believe in my project.”* At the same time, rural residents are wary of credit: *“How will one repay? A loan must be paid back!”*

**Reasons to borrow.** Among the reasons people say they need to borrow are the following:

- Fixed-asset purchases
- Home improvement
- Working capital
- To face emergencies
- To pay laborers in the harvest

### Use of Debt and Credit Providers

**Prevalence of debt.** About 60 percent of those interviewed have an existing debt, including formal and informal sources. The greatest use of debt is in the Dominican Republic, where 70 percent of people have a debt to pay back. Three segments can be distinguished: non-borrowers, those with one debt, and those with multiple debts (Table 18).

The credit in greatest use is individual loans from financial institution (Table 19). The use of group loans varied widely by country, with 22 percent of responses in Nicaragua but none in Colombia. Loans from moneylenders or relatives do not appear to have a high level of penetration.

**Table 18. Number of existing debts (formal and informal, percentage of all respondents)**

Number of loans <sup>a</sup>	Ecuador	Colombia	Peru	Dominican Republic	Nicaragua
None	39	41	44	31	48
1 debt	43	50	45	48	44
2 or more debts	18	9	11	21	8
	100	100	100	100	100

a. n = 3,270.

**Table 19. Levels of credit penetration by source and country (percentage of all respondents)**

Type of loan	Ecuador <sup>a</sup>	Colombia <sup>b</sup>	Peru <sup>c</sup>	Dominican Republic <sup>d</sup>	Nicaragua <sup>e</sup>
Individual loan from MFI, cooperative, or bank	37	50	38	29	21
Group loan (solidarity or village banking)	12	0	11	9	22
Government development bank loan	12	6	5	1	2
Provider	7	3	1	15	3
Family or friend	7	7	8	11	4
Appliance or furniture retailer	5	1	4	10	6
Moneylender	4	1	1	12	1
Clothes, shoes, cosmetics retailer	1	1	2	3	2
Future buyer	1	0	0	5	0

Note: Multiple answers were permitted.

a. n = 725; b. n = 600; c. n = 700; d. n = 600; e. n = 600.

## Credit Collaterals

**Guarantees.** Physical collateral and, for group loans, peer solidarity are the most common forms of collaterals. We did not observe the use of personal guarantees. Collateral guarantees for individual loans often involve property titles on land or business premises.

Individual loans with a collateral guarantee were generally preferred, but a lack of assets forces many to use a solidarity guarantee with group lending. However, this type of credit presents two disadvantages: the loans are small, and borrowers must pay for insolvent debtors. Use of land title is common among farmers, but is a source of fear and dissatisfaction because the value of the land is often many times greater than the loan.

**Solidarity guarantees in group loans.** These loans are widely known, except in Colombia, and are positioned as loans for those without property: *“Those who go there are those with no possessions.”* Village banking methodology is accompanied by extra activities unrelated to credit. Some respondents perceive a paternalistic attitude on the part of MFIs that force them into activities or products

they are not interested in or do not need. Women are more willing than men to obtain a solidarity loan but prefer individual loans, if available. Men can accept a village bank loan, but claim that they do not have time to participate in group meetings. Men also feel that collecting from those who do not make their payments is easier among women. Women show a greater acceptance of the solidarity and village banking methodology. This could be because in many cases their incomes are marginal to the household’s income so they are more accepting of the small loans and often consider these meetings part of their social experience.

## Satisfaction with Credit Offer

Rural residents had the following complaints about the credit on offer from formal sources in their areas:

- Lack of differentiation. The same type of credit is offered for all clients whether farmers or microenterprises, except for loans from agricultural banks for medium and large farms.
- The term and frequency do not correspond to the cycles and needs of the farmers.
- The interest rates are considered inconvenient because they are not proportional to their rev-

enues. For the farmer segment, the interest rate is perceived as risky, given low farm profit margins or product price uncertainty: *“You end up working just to pay the bank.”*

- Loans too small, and insufficient to cover needs, especially for fixed assets requiring larger amounts and long terms (e.g., between \$5,000 and \$20,000). For this reason, the consumer combines savings and credit to acquire the good: *“There is no place where we could borrow more than a thousand dollars.”*
- In certain areas, pressure by credit promoters was identified together with a lack of transparency: *“They tell us pretty stories.”*

The level of satisfaction varies by country. In Colombia and Ecuador, there is greater dissatisfaction because of complicated requirements. In Peru and the Dominican Republic, the dissatisfaction is because of interest rates, while in Nicaragua, responses mentioned the length of time required to qualify for a loan (Figure P).

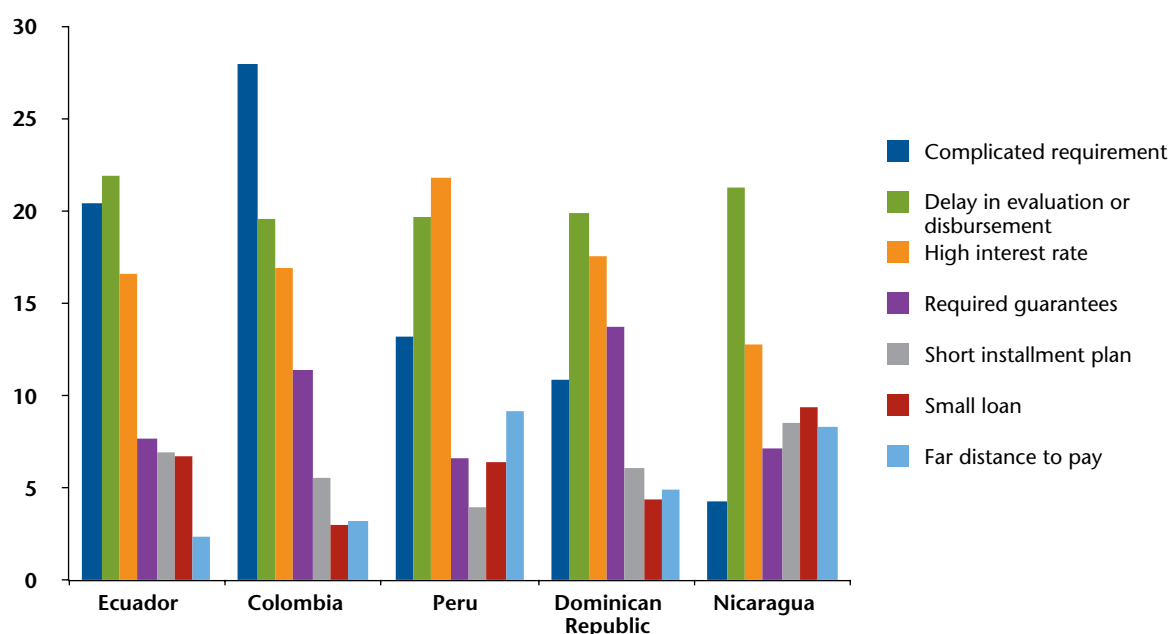
**Provider differentiation.** The various categories of providers of loans occupy specific market niches and are perceived to have specific advantages and disadvantages (Table 20). Providers find themselves in competition first within their own category and second with competitors in other categories.

**Barriers to formal credit among farmers.**

Farmers identified both real and perceived barriers to formal credit, which include:

- Lack of guarantees because property is not registered.
- Fear of putting their guarantees (property) at risk: *“I would ask the bank, but maybe I cannot meet the payments, and they have my land deed.”*
- Lack of knowledge about how to obtain and use loans, including the perception that they would not qualify.
- Fear of suffering events beyond their control that would make them unable to repay: *“The bank does not help in that case.”*
- Previous negative experiences with debt, or acquaintances’ negative experiences, such as having to sell assets to repay.
- Perception that the interest rate will absorb crop profits: *“Part of what I have left will stay with me as profit, but half is going to the financial institution.”*
- Feeling of powerlessness in relation to a bank or an MFI: *“The problem is that there is no one to protect us.”* Inability to negotiate with financial providers: *“When you take out a loan you are in fear.”*
- Loans offered are too small and short term for what they need.

**Figure P. Sources of dissatisfaction with offer of credit**



n = 3,170 mentions.

- Some women also noted an unwillingness to deal with credit promoters: *“They paint everything rosy, and then the reality is something else.”* Others fear being cheated by a loan agent.

**Implications for the offer of credit.** Credit providers must address these perceptions and concerns as they design their comprehensive strategy. They

can reduce fear through clear communication, simple products, and a brand image that does not show “power” but proximity to the customer. Products tied to insurance that protects guarantees would reduce a significant fear. Products that are tied to previous savings allow smaller loans with less risk. Fixed-asset financing must address the limited collateral available through options such as microleasing.

**Table 20. Competitive matrix: supply of credit in rural areas**

Category	Positioning in the consumer’s mind	Users (%)	Accessi- bility	Speed	Interest rate	Amount of credit	Term of credit (approx.)	Services
Development banks	For large farmers	11	Low	Very slow	Low (sometimes subsidized)	High	Short, medium, or long term	Credit and savings
MFIs	For business owners	35	Medium	Slow	High (≈ 4% month)	Low-medium	1 year	Credit (some savings)
Cooperatives	Nearby, local, and flexible		Medium	Slow	n/a	Low-medium	1 year	Credit and savings
Moneylenders	Get out of financial trouble; quick aid	5	High	Fast	High (≈ 10% month)	Low	6 months	Credit
Suppliers and providers	Their clients	5	High to clients	Fast	Perceived null but included in the price	Very low	15 days	Credit
Loans from buyers	For crop sales	3	High for those with crops	Fast	Low or null	Low-medium	Growing season	Credit

## CHAPTER VI

# Managing Risk and Force Majeure Events



This chapter analyzes the perceived and real risks that rural residents experience. It examines the severity of concern about different kinds of risks, responses to actual shocks, and the knowledge of formal insurance. There is also an analysis of the frequency of “insurable” events.

### Frequency of Shocks

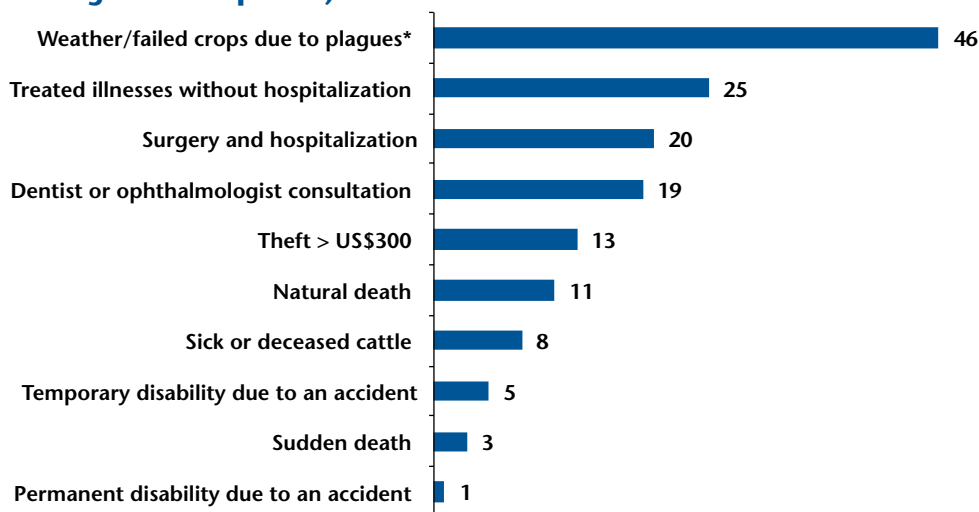
According to the study, in the past three years, 70 percent of the sample had at least one event that had a negative impact on the economic well-being of the family (Figure Q). The most frequent shocks were agricultural (for farmers) and health-related. Insurable events are likely those that occur infrequently but with a high economic impact on the family, such as permanent disability.

### Agricultural Risks

The risks associated with agriculture (Table 21) are a major reason for the lack of credit availability to rural residents, and thus much is to be gained if they can be managed or insured against.

**Weather and climate risks.** The biggest risks relate to the availability of water (too much rain, drought) and to extremes of temperature. Farm-

**Figure Q. Incidence of shocks in the targeted market in the last three years (percentage of all responses)**



Note: Multiple answers were permitted. n = 3,270.

\*Farmers only.



**Table 21. Incidence of farming risks events in the last three years (percentage of farmers<sup>a</sup>)**

	Ecuador	Colombia	Peru	Dominican Republic	Nicaragua	All countries
Weather/failed crops due to plagues	44	30	42	70	46	46
Sick and dead cattle	7	3	18	6	6	8

Note: Multiple answers were permitted.  
a. n = 1,573.

ers assume that these risks are beyond their control and they have to live with the results. However, some, especially younger farmers, expressed concerns about climate change and the need to face it proactively. Some, for example, have plans to invest in irrigation or construction of greenhouses. However, these investments require larger amounts of capital than offered by MFIs. Protected crops could be insured more easily.

**Price risks.** Farmers face price risks because they make planting decisions without knowing what supply and demand conditions will be when they sell. Proposals to guarantee minimum prices, as well as more local market and price information, would be beneficial to manage this risk.

**Pest and disease risk.** Farmers manage pests through attentive care of their crops. When farm households have diversified income, including nonfarm income, this risk is diversified. Approximately 30 percent of farmers in the sample raise animals for commercial purposes, with an average of three cows. Animal sickness and death affect these farmers. Livestock insurance would be relevant when the number of cattle is significant and is the main activity of the family unit.

## Risk Management

There is little prevention culture, pointing to the need for financial education. Solutions are sought when the event occurs. Generally, men are in charge of getting funds and addressing the emergency. Because of the limited use of insurance, risk events are handled mainly by liquidating assets or acquiring liabilities, starting with the most liquid (Figure R). Savings are used first (level 1), then assets are sold (level 2), and finally loans are taken

from formal financial institutions (level 3). Clearly, it is better for families to stay at level 1 so that they do not impair their income-earning abilities. It is important to note that intangible assets—social capital—plays a role during emergencies. Families with deep family networks or reputations as reliable loan repayers are more likely to be able to access informal sources of support. Loans from formal sources are infrequent means of dealing with emergencies, with MFI loans cited by only 10 percent of respondents (Figure S).

## Demand for Formal Insurance

Formal insurance as a distinct product is recognized, but not actively sought. Demand is latent, but the concepts are not well understood. The little insurance available to the people surveyed is obtained passively as an add-on to other products and services. Rural residents generally preferred the idea of a comprehensive insurance package to specific risk insurance, but they also commented on each type of insurance, showing main barriers and opportunities affecting demand.

**Catastrophe (acts of God).** It was observed that the possibility of purchasing insurance is only considered by people who have suffered natural disasters or climate events.

**Health.** Illness is frequent (affecting a quarter of the sample) and often has a major impact on family economies, because it involves both expenditures for medical care and loss of income from inability to work. It is difficult to keep up with loan repayments when ill. *“Right now I’m broke. I received a loan and I got sick and could not get up for work. I did not meet the deadline and had no means to pay. I had to restructure my credit.”* Serious health



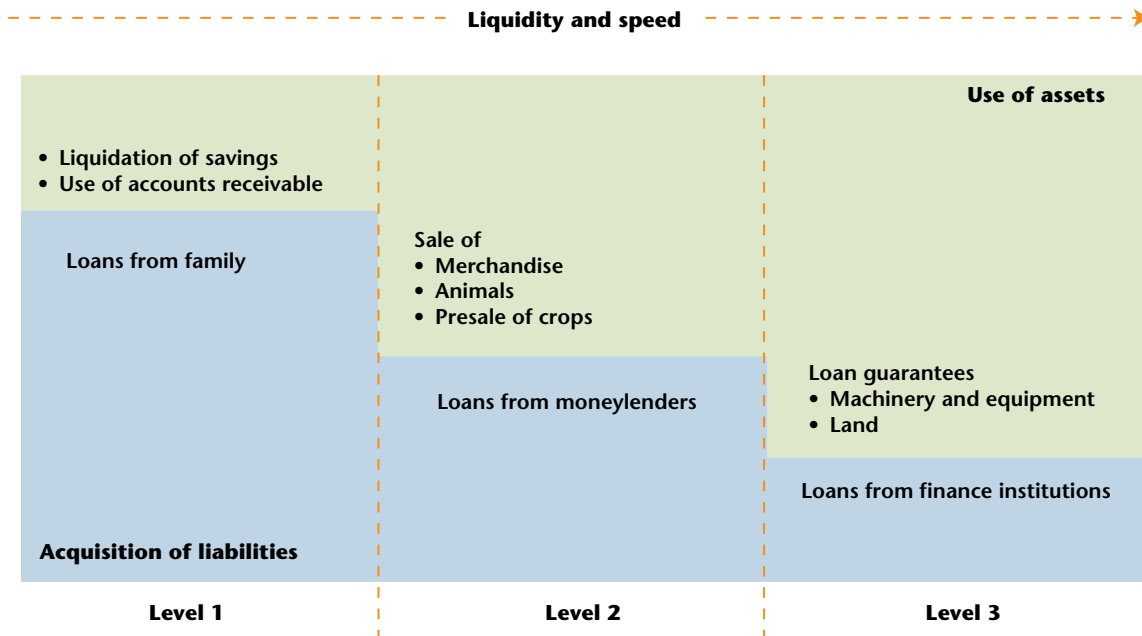
problems quickly exhaust savings. Government health insurance is viewed as marginal because of limited service coverage and poor-quality care at government health clinics.

**Life.** Deaths of income earners raise concerns because of the expenses related to funerals and burial, rather than concerns about surviving children or

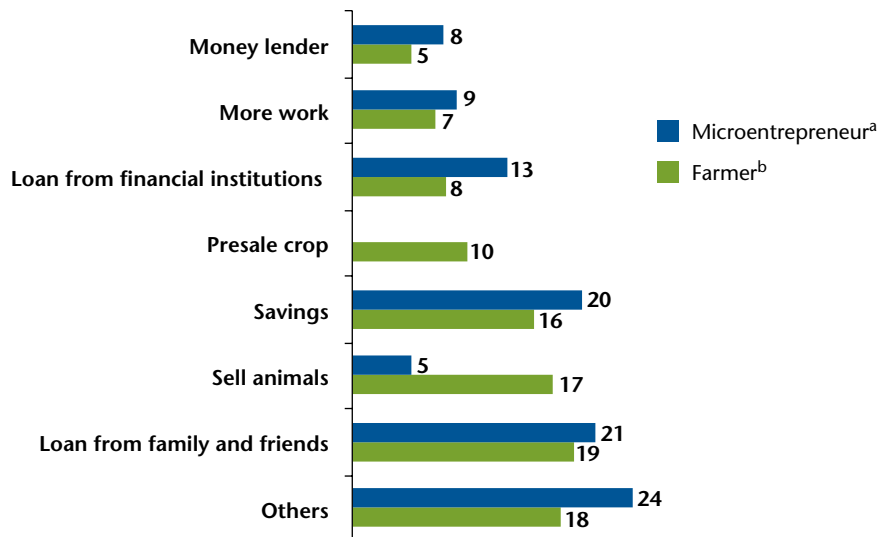
other family members. It is assumed that grandparents or other relatives will step in to care for children. Respondents stated a preference for insurance that helps them while alive, over life insurance.

**Property.** The high cost of property insurance relative to directly avoiding fire and theft was a reason for a relative lack of interest in this type

**Figure R. Use of financial solutions in case of shocks and emergencies**



**Figure S. Funding source for emergency management in events valued over US\$700 (percentage of mentions)**



a. n = 2,970 mentions.  
b. n = 3,054 mentions.

of insurance. The consequences of a theft or fire were also seen as manageable. We note, however, that when such events actually occur they are not always as easy to manage as supposed.

**Expectations vs. reality in insurance.** Those using formal insurance were often observed to have unrealistically high expectations because they were not well informed about the details of the insurance coverage; this could lead to dissatisfaction with insurance coverage when the event occurs and could erode credibility in institutions providing insurance. The study reveals the necessity to work on developing an insurance culture through financial education.

**Mandatory or tag-along insurance.** The rural market is not currently disposed toward voluntary uptake of insurance as a stand-alone product. It appears that, at present, opportunities for health, property, and life insurance involve coverage tied to other financial services. However, if voluntary insurance were promoted, potential customers might consider getting insurance based on the successful experience of acquaintances. The opinions of leaders and first-adopters would be very important, as would be timing the promotion just before or after relevant events.

## CHAPTER VII

# Training and Financial Education in Rural Areas



This chapter describes the training needs and experience of rural residents, including their attitudes toward financial education.

### Experiences with Training

No residents reported taking part in long-term or comprehensive training, but many had received short-term training or participated in workshops, all at no cost. Farmers mentioned training as a complement to other goods or services, such as instructions on the use of chemicals purchased. Women mentioned training sessions on rights, nutrition, gender issues, and, in some cases, investing money. Respondents also mentioned Bible workshops delivered by their religious groups.

**Training providers.** Among the providers of training are the following:

- NGOs, mainly on gender and health
- Cooperatives (for members), on crop improvement and money management
- Government programs: to implement development policies, for example, on crops prioritized for export
- Suppliers and other agricultural players: instructions for the correct use of their products; issues that might disrupt the production chain such as pests or improper crop care
- MFIs: promoting their financial products, for example, insurance tied to credit
- Missionaries: religious education

**Demand for training.** Those wishing to provide training will need to overcome lack of interest or the view that training competes with other, more important activities; therefore, it is important that training be seen as assisting participants with their daily work. Among farmers, for example, there is a view that the only relevant training confers technical agricultural knowledge. Among older people there is a view that training is only for the young. Farmers may have more time available for training, but are less willing to participate in classroom training. Microentrepreneurs and women have less time to spend away from their business premises or homes. In general, women show greater enthusiasm for training than men.

### Potential Areas for Training and Financial Education

Both microentrepreneurs and farmers know their businesses but lack knowledge in finance, marketing, and operations. Such areas are relevant for the optimal development of their activities. Among the opportunities are:

- Guidance on how to formalize in order to access bigger contracts (for service or production microenterprises)
- Specialized occupational knowledge, such as electronics or industrial mechanics (for service and production microenterprises)

- Marketing (all)
- Accounting for costs (especially farmers)
- Productivity improvement (farmers)
- Steps to access a loan (farmers and women)
- Financial management and basic accounting (microenterprises)
- Customer service (especially women)

**Barriers to financial education.** Training for financial decision making is seen generally, and especially by men, as basic and already known. It can be seen as paternalistic. *“What financial institutions can do are suggestions, not so much training,”* and, *“I know how to save; there always has to be savings; for me it [training] would not be necessary.”* *“It would be interesting for the young people, for our children, but not for us.”* Demand is around issues of more complexity such as credit management, interest rates, formalization, etc.

In some cases, traditional instruments such as a financial planning booklet did not work in the context of a farmer. *“They gave me a notebook to record the expenses, but ultimately I don’t use it.”* Also, a particular fear was expressed about training deliv-

ered through computers. Therefore, special educational tools tailored to the rural consumer profile should be developed.

**Summary of topics for financial education programs.** Throughout this research, it was observed that specific topics are needed. For farmers, topics include forecasting, planning, and making financial decisions that depend on profitability of the harvest. For microentrepreneurs, the requirement is for financial management topics that are more advanced than basic financial education, such as financial management for business, basic accounting, marketing, and logistics.

**Approach for financial education.** Based on the profile of surveyed population, it is necessary to segment participants by occupation, gender, and possibly age, and develop curricula targeted to specific financial education levels. Programs must be connected to daily needs using educational tools tailored to client profiles. Care must be taken to avoid paternalism, including teaching people what they already know. Mixed channels are required, including the classroom and direct and mass media.

# CHAPTER VIII

## Current Use of Formal Financial Services and Opportunities for Development



This chapter addresses the current level of market development for each financial product and explores what is needed to design a strategy to penetrate new markets or deepen existing ones.

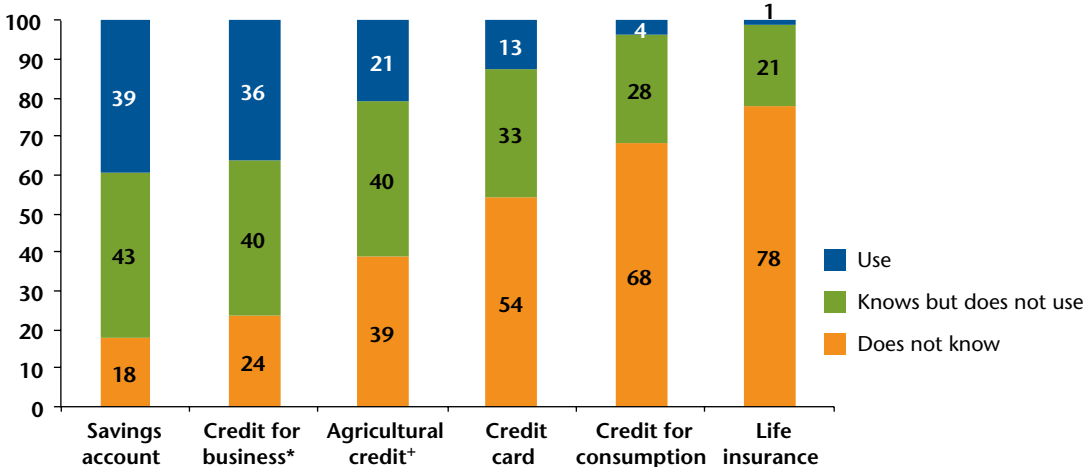
### Knowledge vs. Usage

Savings accounts and business loans are the most used and best-known formal financial services, with 80 percent of rural residents knowing about them and nearly 40 percent using them (Figure T). The gap between knowledge about the product and usage may indicate that the current supply does not suit the needs of respondents. This may be even truer for agricultural credit, which is

known to 61 percent of farmers, but used by only 21 percent. Therefore, one should consider a strategy to increase usage, not only to promote knowledge or awareness.

**Country variation.** The high use of debit cards in Colombia may be because of the significant coverage of ATMs in the country and to sampling

**Figure T. Level of knowledge and use of financial formal services**



\* Includes only microentrepreneurs; n = 1,697.  
 + Includes only farmers; n = 1,573.

**Table 22. Use of financial services per country (percentage of respondents)**

Product	Ecuador	Colombia	Peru	Dominican Republic	Nicaragua
Savings account	56	53	15	49	22
Credit for business*	30	40	48	35	30
Credit for farmers <sup>+</sup>	19	31	28	18	10
Consumer credit	0	6	7	11	4
Life insurance	1	5	1	no data available	no data available
Debit card	8	27	11	no data available	no data available

\* Includes only microentrepreneurs; n = 1,697.

+ Includes only farmers; n = 1,573.

in areas less than two or three hours drive from Bogota (Table 22). The high use of credit in Peru relative to savings accounts may be explained by the supply of microcredit offered without savings accounts offer. The high use of saving accounts in Ecuador may reflect the high penetration of credit unions.

### Opportunities for Future Development

The findings of this research show the targeted markets needs and behaviors, pointing to opportunities to develop financial offerings.

**Family priorities.** The financial offer for the target market studied should be developed based on the most important goals of the families: 1) growing the business/activity, 2) education for the children, and 3) housing.

### Opportunities to Provide Loans to Farmers

**General challenges.** Demand for credit in rural areas is high, and the supply is vast in some countries. However, supply must address the main dissatisfaction points, such as complicated requirements and high interest rates. Moreover, there is still a lack of knowledge about how formal credit works, especially among women and farmers.

**Farmers and illiquidity.** Because farmers have few liquid assets, financial services must develop innovative instruments to increase the liquidity of such assets. In addition, providers must tailor their services to the context of a low liquidity market. Alternatives such as adaptations of “factoring” or

microleasing could be explored. Providers may wish to support the process of titling farmers’ assets.

**Farm products pricing risk.** The fact that the sales price of agricultural products is uncertain limits the growth of credit market. Options or partnerships with actors in public and private sectors to stabilize prices could be explored, for example, insuring the price of the crop or establishing a base or “refuge” price.

**Smallholdings.** The subdivision of land results in small productive units, which makes it harder to lend to individuals and favors group approaches, including farmers who participate in cooperatives or productive value chains. MFIs should consider their own capacity to coordinate, organize, and cope with the funding needed for each group.

**Opportunity for fixed-asset funding.** Fixed-asset purchase may best be supported through the use of combined credit and savings to reach the amount needed while reducing the cost of funding. In addition, as mentioned, microleasing addresses the absence of guarantee. Longer terms are needed for fixed-asset loans. Fixed-asset finance can also support farm mechanization. As this goes beyond the capacity of many microfinance institutions, other financial institutions should also play in this area.

**Working capital loans that reflect growing cycles.** Credit lines during the growing season could involve modular disbursements by phases of cultivation or a credit line for one cultivation season. This would also compete with supplier credit, which is a source of competition during cultivation.

**Harvest-time opportunities.** Crop insurance kicks in at harvest time, short-term financing as well as safe and efficient payment systems, for example, to facilitate paying farm laborers. This is also the time to offer farmers the possibility to save a portion of harvest proceeds for future use.

**Other opportunities to add value.** Areas to accompany financial services could include support in land titling, links to an information system on crops and prices, and financial education.

**Perceptual barriers.** It is necessary to develop better communication with farmers to overcome perceptions that inhibit their use of credit, such as the sense of inaccessibility, the sense of having little bargaining power, the risk of losing their guarantees of land or property, and the lack of knowledge about the credit offer.

## Loans and Other Services for Microentrepreneurs

**Adjust urban lending models.** Concentrated mostly in the commercial sector, rural microentrepreneurs have higher operating costs and lower turnover of merchandise than microentrepreneurs in urban areas. Therefore, the return from a credit is not comparable to urban areas unless the microentrepreneurs raise their product prices. It is advisable to check the parameters of evaluation of a rural microcredit as well as the benchmarks instead of using the same parameters used in urban areas.

**Liquidity for assets.** There would be room to develop forms of factoring to give liquidity to a market where no cash assets are used, especially with commercial microentrepreneurs.

**Service microenterprises.** These businesses require more fixed-asset loans and facilitation for saving to anticipate the need for replacement of their depreciated assets. A depreciation fund could be a product development line for the service sector.

**Production microenterprises.** These small businesses are partly funded by their buyers. Financial needs include payment systems or transac-

tion accounts that enable more efficient cash operations with their buyers.

## Opportunities in the Savings Market

**Saving for a goal.** Rural residents prefer to move their money around or to invest it instead of having inactive funds. However, they do save when they have a goal that needs to be reached, such as a large fixed-asset purchase. A mix of savings and credit is likely to be needed for the highest-cost purchases, where credit is supported by the initial savings.

**Savings dependent on purpose, not income.** Market segments with specific reasons to save, such as housing, can be approached with savings products designed with specific parameters and functionalities referring to its purpose. The amount saved is significant, beyond “microsavings.”

**Equal division between those who save and those who don't.** This segmentation points to a need for 1) financial education on savings for nonsavers and 2) promotion of the use of formal financial institutions and increased balances for existing savers.

**Three strategies to capture savings flows.** For those who save after spending: capture savings when clients make payments (such accounts generally have small balances). For those that set aside savings before spending: capture savings when they receive payments (such accounts have larger balances and higher commitment). For those who save extra income, an asset-building pattern observed in rural areas, it makes sense to capture savings at the time of payment (such savings have larger amounts, but occur rarely). For capturing savings from the last group, providers offering efficient payments services, specifically money transportation, will be well positioned.

**Motivating the move from informal to formal savings.** Rural residents are motivated to save in financial institutions when: 1) the amount is significant and they value safety; 2) they wish to establish relations with the financial institution for future access to credit; 3) they wish to put their



money away from themselves to avoid temptation to spend it; and/or 4) when there are convenient locations to make efficient cash transactions.

**Compulsory savings.** Although the amounts of savings in these cases are marginal and often are used to cover delinquent payments, these are also starting points for launching a future savings strategy with current credit customers.

**Transactional vs. emergency savings accounts.** Savings for transactional purposes and savings for emergencies (backup savings) require separate accounts because the cash flows are opposite. While one is for spending, the other is for savings. Both accounts are essentially different and should be offered separately, although ideally linked to each other.

## Opportunities for Insurance

**Latent demand and need for education.** Rural residents rely on the support of their families and social networks. Insurance is a latent need, but poorly understood; hence a need for financial education (which should include both prevention and mitigation of risk as well as insurance). People are more likely to be interested in insurance if they have experienced a relevant shock. This observation suggests that promotion of insurance be timed to “moments of learning.”

**Types of insurance.** Poor health is the most important risk factor, as illness can significantly affect the household economy. The target market would benefit from health insurance, complementary to the government insurance some already have. The less frequent but high-impact events of death and disability may be covered by mainstream insurance companies. Weather risks are difficult to insure and have a significant cost. Preventive measures are called for, such as investments in irrigation systems.

## Other Opportunities

**The ideal combination of basic financial services.** The cornerstone of an ideal financial package would be insurance to cover emergencies, especially health, so that people would not have to sell assets or become indebted to address shocks and could apply savings to investment needs. In addition, a loan could supplement previous savings. For certain segments, a transactional savings account linked to a backup savings account would be the ideal combination. Also, a financial education program should be aligned, at the end, with the integral and appropriate use of formal financial services.

**Communication and financial education—market segmentation and diverse media.** Financial education needs to differentiate between microentrepreneurs, who move money frequently, and others who don’t work with money every day. Microentrepreneurs, especially men, prefer more advanced training and may be more interested in business training than personal finance. Rural residents are best reached through their own communication systems such as fairs, association meetings, and other social events. Opinion leaders and shop owners are among the most important channels of information.

**The use of technology beyond financial services.** Technology can make financial transactions more efficient, but also would enable farmers to receive timely market information, link them more easily to final markets, integrate trade networks and value chains, and allow financial education as well as technical assistance at a distance, breaking rural market isolation and promoting innovation. Approaches to technology in rural areas should keep the comprehensive array of possible uses in mind. A great opportunity is in the offing: imagine the revolution if the Internet gave rural residents in these five countries access to the global market.



# ANNEX

## Sampling Zones

Ecuador				
Province	Municipality		Province	Municipality
Imbabura	Antonio Ante Otavalo		Azuay	Paute Gualaceo Cuenca
Pichincha	Cayambe		Manabi	Chone Jipijapa
Carchi	Tulcan Montufar		Guayas	Balzar
Tungurahua	Ambato Pelileo		Los Rios	Babahoyo Vinces
Chimborazo	Riobamba		Esmeraldas	La Concordia Quinde
Cotopaxi	Latacunga Salcedo		Los Rios	Quevedo Ventanas
Cañar	Cañar Azogues		Santo Domingo	Santo Domingo

Colombia	
Department	Municipality
Cundinamarca	Cachipay Anapoima El Colegio La Mesa Quipile Tena Viota Anolaima
Boyaca	Moniquira San Jose de Pare Togui Santana
Santander	Barbosa Guepsa Puente Nacional

Nicaragua	
Department	Municipality
Chinandega	Chichigalpa Chinandega Corinto El Realejo El Viejo Posoltega
Leon	El Jicaral Leon Telica

Nicaragua (continued)	
Department	Municipality
Rivas	Belen Rivas Tola

Peru			
Province	Municipality	Province	Municipality
Lambayeque	Illimo Jayanca Lambayeque Mochumi Morrope Tucume	Puno	Acora Atuncolla Capachica Chucuito Coata Huata Paucarcolla Plateria
Arequipa	Cerro Colorado Characato La Joya Mollebaya San Juan de Sigwas Santa Isabel de Sigwas Tiabaya Uchumayo Vitor	Loreto	Belen Fernando Lores Iquitos Punchana San Juan Bautista
Junin	Chilca El Tambo Hualhuas Huancayo Huayucachi San Agustin Sapallanga		

Dominican Republic			
Province	Municipality	Province	Municipality
La Vega	La Concepcion de la Vega Constanza Jarabacoa	San Jose de Ocoa	San Jose de Ocoa Rancho Arriba Sabana Larga
Puerto Plata	Altamira Luperon	Santiago	Santiago Bisono Janico Licey al Medio Sabana Iglesia Tamboril Villa Gonzalez San Jose de las Matas
	Puerto Plata Imbert Los Hidalgos Sosua Villa Isabela Villa Montellano	La Romana	La Romana Guaymate Villa Hermosa

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