

MICROFINANCE IN BOGOTA, COLOMBIA, AS A DEVELOPMENT STRATEGY

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Abstract: This paper aims to describe and analyze a financial strategy designed and implemented in Bogota, Colombia, in 2002, which considers microcredit as an important tool to provide poorer people credit services. Microcredit is just one of the different components of a broad concept, microfinance, which was developed as an answer to the lack of financial services for the poorer people from formal financial system.

Microfinance includes the provision of financial services, such as deposits, loans and insurance to poor families who do not have access to resources of the formal financial institutions. The loans are used to invest in micro-enterprises, as well as for investing in health and education, improve housing or deal with family emergencies. However, the strategy of microfinance is not limited to provide financial services only, but also provides training in management of money and strengthens aspects like leadership, confidence, self-esteem, education and micro-management.

Regarding the kind of enterprises that are the target of microfinance in Bogota, Colombia, it is important to mention that micro, small and medium sized enterprises (Mipymes thereafter) involve a big number of workers in the city. According to the Business Chamber of Bogota, there were 202,966 formally constituted enterprises in 2004, from which 201,146 were Mipymes (99%) and concentrated approximately 70% of total formal employment. Particularly regarding Mipymes, 86% were micro, 11% small and 3% medium sized businesses. Mipymes are engaged mainly in trading and the repair of all kinds of motor vehicles (35.4%),

followed by real estate activities (13.2%), manufacturing (12.3%); transport, storage and communications (11.6%); and hotels and restaurants (11.3%).

Behavior of firms in Bogota evidences the importance of micro-enterprises and small enterprises in employment generation. However, these types of enterprises face various problems regarding their creation and their operation; among them, the main ones are associated with their financing and management. Faced with this situation, the Treasury Secretary of Bogota implemented a strategy of financial lines in April 2002 to help them, which is based on a scheme of credit throughout the financial system. The main objectives of the financial lines are: i) To facilitate access to credit to micro and small entrepreneurs, ii) to improve the levels of income and employment in the city, and iii) to improve the quality of life of the micro and small entrepreneurs in Bogotá.

The financial lines designed to help micro, small and medium-sized businesses managed by the Treasury Secretary of Bogota have meant a significant shift in attention to formal business of the city. This financing program for Mipymes was designed with the aim of solving the cyclical problem arisen by the banking crisis of 1999, which led financial institutions to be prepared to accept a lower risk and to raise the interest rates, which discriminated the Mipyme sector of bank financing in a recession and unemployment scenario.

Users of financial lines have registered a rapid growth from their creation. However, the importance

of microfinance in this financing program has been limited. Only a portion of the loans of one of them, Bogota Line, which is the one that has concentrated near the 90% of the total disbursements, corresponds to microcredit, as the maximum amounts that are granted by this line to both micro and small businesses, exceed the corresponding to the legally fixed one for microcredit (25 minimum monthly wages, i.e. \$10.2 million of Colombian pesos for 2006). In addition, despite the dramatic increase in the resources placed by the financial lines, the strategy has not produced the expected results as long as employment and income for populations living in poverty is concerned.

In this context, it is necessary to assess the possibility that Bogota makes an agreement with National authorities, which allows the Colombian Capital to participate with some economic resources and to make sure that the national strategy does not make more difficult the achievement of some specific objectives of the public policy of the city, such as, the ones that have to do with the reallocation of street sellers and the recovery of the public space.

The national strategy in this context makes it possible to expand the supply of financial services to the poorest people. However, one of its main limitations has to do with the high rate of interest for microcredit, considering the current conditions of the financial markets and the economy as a whole.

To face the problems described above, Bogota could, among other things, design financial products differentiated for non formal micro-entrepreneurs, with different financial conditions, group-based guarantees and technical support to them in the formalization and specialized assistance.

The main challenge in the short term is to consolidate the involvement of the commercial banks into microfinance. As long as they adopt appropriate technologies of microcredit, competition will reduce the cost of credit and would increase the volume of microcredit.

Keywords: Bogota, Financial lines, microcredit, microfinance, small businesses

INTRODUCTION

In 2008, the Bogota Treasury Secretariat (SDH for its Spanish initials) led the investment project financial lines for the support and strengthening of the micro and small enterprises (MSE) of the City, which was a component of the program "Productive Bogota" of the Development Plan. The main objective of this program was to foster a productive environment in terms of equal opportunities. Accordingly, the financial lines have aimed to encourage the development of productive sectors,

promoting access to credit at lower cost to micro and small entrepreneurs (Secretaria Distrital de Hacienda [24]). Credit is a source of growth and development of companies, enables a greater capacity for production and technical change in productive processes, and improves the margins of profitability and quality. In addition, macroeconomic impact of funding, as it boosts production and reduce its costs, it is reflected in higher occupation rates, lower prices of final products and, therefore, greater purchasing power and domestic demand.

Theoretically, financial sector leads resources of private savings towards the financing of productive activities, fostering economic growth. However, as said by Marulanda [22], Studard [25] and Gulli [20], it does not occur with all activities and sectors, since intermediation of the resources of financial sector happens depending on private profitability, and this does not necessarily match social profitability of activities that require financing. This particular characteristic corresponds to what is known as structural failures in financial markets, which explains the difficulty to allocate resources and formal financial instruments towards activities, sectors or groups of the population whose private profitability is low, even if they have a high social profitability (BID [2, 7, 9], Inter-American Development Bank [21]). The intervention of the State can contribute to correct these failures.

Following these guidelines, the Bogota Treasury Secretariat promotes access to credit at lower costs to micro and small entrepreneurs. As stated by the Secretaria Distrital de Hacienda [24] and the Direccion Distrital de Tesoreria [14], the Financial Lines Project lowers the cost of credit, subsidizing the present value of the differential between the preferential discount rate and ordinary discount rate of commercial banks. The increase observed during the period 2004-2006 in loans disbursed through the Financial Lines of the SDH throws an important balance in Bogota social policy, but, in turn, raises the need for complementary actions to generate employment and income opportunities in the excluded sectors of the economy of the City. In this regard, the joint work with other entities of the City that have as their mission to help productively marginalized people, process that requires credit as an instrument for development of entrepreneurship and consolidation of companies. From this, it arises a dilemma between to develop financial products more specialized, in the framework of the model adopted by the Financial Lines of the SDH, or to create an institutional framework in the City, which supports the demand of financing within the principles of economic inclusion and the use of innovative financial technologies, framed by the concept of microfinance.

Table 1: Net loans and number of microcredit clients in Latin America and the Caribbean, 2010

Country	Number of institutions	Microcredit loans (US\$)	Number of microcredit clients	Average loan (US\$)
Argentina	14	29,569,098	39,804	743
Bolivia	22	1,191,126,558	775,616	1,536
Brasil	184	1,592,299,606	1,887,564	844
Chile	6	1,128,529,658	278,673	4,050
Colombia	43	1,781,085,120	1,698,945	1,048
Costa Rica	16	601,830,496	59,566	10,104
Ecuador	49	1,337,333,732	734,293	1,821
El Salvador	91	210,143,441	221,315	950
Guatemala	37	374,086,917	448,990	833
Haití	5	56,899,637	88,858	640
Honduras	25	176,803,414	175,178	1,009
México	46	1,088,766,034	3,131,774	348
Nicaragua	26	186,115,270	279,761	665
Panamá	6	75,793,367	21,897	3,461
Paraguay	4	170,969,321	108,959	1,569
Perú	58	4,907,855,361	2,221,738	2,209
Republica Dominicana	11	166,611,777	252,464	660
Surinam	1	1,673,948	135	12,400
Uruguay	30	16,570,021	10,840	1,529
Venezuela	1	74,011,536	40,009	1,850
Total	675	15,168,074,311	12,476,379	1,216

Source: Pedroza, Paola [23]

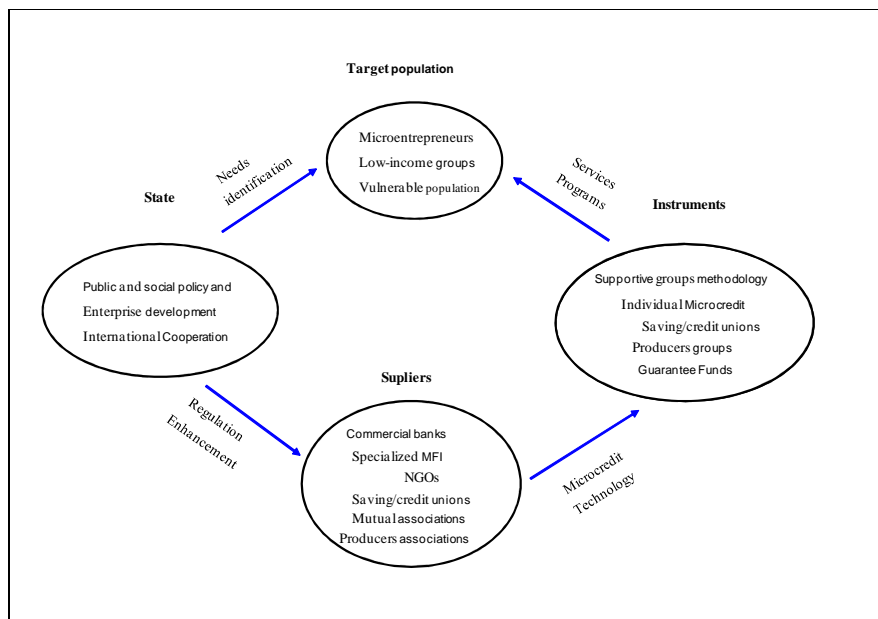


Figure 1: The Role of Public Policy in a Microfinance System

Source: Adapted from Giraldo [18]

MAIN CHARACTERISTICS OF MICROFINANCE

Microfinance was developed as a response to the absence of financial services for the population of lower income by the formal financial system. Population immersed in informal economy is not object of credit from commercial banks. As mentioned by Fedesarrollo [15], Fundacion WWB Colombia [17], Giraldo [18] and Yunus [28, 29], microfinance service consists in the provision of financial services, such as deposits, loans and insurance to poor families who do not have access to the resources of formal financial institutions. The loans are used to invest in micro-enterprises, as well as to invest in health and education, improve housing, or deal with family emergencies. However, microfinance strategy is not limited to only provide financial services, but also provides training in the management of money and strengthens some aspects such as leadership, confidence, self-esteem, education and management of micro-enterprises. As a fundamental premise, microfinance seeks to build social capital in its beneficiaries. This strategy recognizes in the poor capacity to undertake economic activities that will eventually increase their income. They are the so-called "poor entrepreneurs" and they differ from the poor who do not have capacity to carry out economic activities due to lack of personal skills or the degree of poverty where they are.

It is important to identify a target population order to create and maintain credit discipline, a necessary condition to support microcredit programs. Women constitute a common target group in this case. Commonly, microcredit works by giving a small loan, whose amount is determined by the payment capacity of the borrower, for a short period. Once the first loan is paid, the borrower can get a second one, which is higher if there is evidence that she (he) has learned to manage her (his) investments and that has proved to be good payer. If the borrower continues paying on time, she (he) can apply to higher loans. The maximum size of the next loan is determined by the performance of payments, declining in an amount previously established for each fee not paid on time, i.e. confidence prevails and is based on the reputation of the borrower (Año Internacional del Microcredito [1]).

The pay control mechanism is dynamic and it is used that way because the poor do not have assets that can be used as collateral, which represents one of the main obstacles to access to loans from the traditional banking system. On the other hand, the guarantee scheme used is supportive in nature, therefore, conditions are softer, more accessible, and with few formalities. Interest rates imposed on micro and small entrepreneurs are low and at variable horizons,

depending on the condition of the borrower and the project to finance.

Table 1 shows that performance of financial services associated with microfinance differs among countries of the region. Colombia has a very good performance in this regard in 2010 compared with the other countries. Peru, Colombia, Brasil, Ecuador and Bolivia are the countries with the highest shares in the total microcredit loans.

The conceptual map presented in Figure 1 describes the State actions required for articulating a system of microfinance, which is based on two principles: i) regulate and sort the rules of the game to encourage the market, and ii) to promote and design not only active social policy programs to give the most vulnerable a real option of access to financial services, but also the institutions which provide all sort of financial services. The purpose is to increase access to financial services to an increasing number of low income people (Giraldo [18]).

MICROCREDIT IN COLOMBIA

Microcredit in Colombia is regulated by law 590 of 2000, which refers to microcredit systems to micro-enterprise financing and to a ceiling for this type of credit (up to 25 monthly minimum wages: approximately ten million of Colombian pesos in 2006). This law authorizes financial intermediaries and microfinance institutions -MFIs- to charge just for once a fee in respect of fees and commissions, amounting to 7.5% of the loan.

The National Development Plan (2010-2014) gives great preponderance to the promotion of microenterprises as a tool to fight poverty and contribute to economic development. At the national level, credit institutions allocated 5.3 million of millions Colombian pesos in 2011 (to June) in microcredit (see table 2). The Agrarian Bank, the Megabank and the Caja Social (BCSC now) have been very important in the development of microcredit for years. The figure above is underestimated due to the Superintendence of Banks does not count, monitor or regulate non-profit entities, cooperatives and compensation funds, entities that promote microfinance in Colombia. The country has a large number of NGOs that develop microcredit programs, although most with limited coverage.

The experience of the Bank of Women, organizations affiliated to Emprender, among others, made the State and formal financial intermediaries aware of the need of credit by people with low incomes, which are possible to meet in a profitable way. Because of their social origin, offered financial services to segments of population that were not covered by formal financial intermediaries, and this allowed them to be

the first innovative agents in the mechanisms and instruments that currently constitute the so-called microfinance technology.

Some programs promoted by the State, either with national resources or with international cooperation, addressed to attention of the most vulnerable populations, are carried out by NGOs that have this activity as a mission. These institutions, given the proximity to the target population and the integrity of services that provide, reach a great knowledge about the needs of the users of their services, which constitutes to them a great potential to develop more appropriate and more effective instruments.

During recent years, microcredit has been the financial product with the highest growth rates within the portfolio of credit institutions (table 4.2). It had the highest rate of nominal growth (23%) from December 2010 to June 2011, followed by Mortgage loans, which increased by 18% in the same period. Performance of commercial, retail, mortgage credit and microcredit in the period 2005-2011 shows the important dynamics of the last one, as its share in the total of the portfolio of credit institutions grew from 1.7% in December 2005 to 2.7% in June 2011. This advance coincides with the implementation of the mechanisms of law 590 of 2000 and the promotion that National Government is giving to this financial instrument, particularly through banking of second floor.

The case studies presented at the first edition of the magazine *Microempresa Americas*, published by the BID [3], indicate that microfinance institutions evolve relatively well during recessions. This is confirmed in the case of the five Banks of Women and Finamerica, whose portfolio did not fall in 1999 (the year in which the Colombian economy began a recession period) and grew 26.8% in 2000, while the portfolio of commercial banks shrank in 1999 and only grew in 2004. The indicator of assets return is also superior in comparison with commercial banks despite difficult times.

THE "OPPORTUNITY BANKING"

In order to reduce poverty, promote social equality and foster economic development, the Colombian Government, through the Decree 3078 of September 8th, 2006, created the "Opportunity Banking" as a strategy of long-term policy aimed at achieving access to financial services for the entire population of the country, with emphasis on those of low income. The Banking of Opportunities seeks to facilitate and expand the access to the portfolio of financial products for microentrepreneurs and low-income families, as well as also to expand access and diversify financial products offered to SMEs. This strategy considers the following policy instruments:

Amendments to the regulatory framework

Major reforms include the creation and regulation of non-banking correspondents (CNB) and the creation of savings accounts of low amount, which will have particular characteristics that set apart it from others. The CNB are non-banking institutions providing banking services as collection and forwarding of requests for opening accounts or for credit, reception and payment of money to third parties, reception and payment of money against customer accounts. The CNB require an important technological support.

At the beginning of July 2006 is issued the Decree 2233, authorizing credit establishments to provide financial services through CNB. In August, the Financial Superintendency issued the 'Circular Externa' 26 of 2006, which gives instructions for the provision of services through CNB. The 11th August launches the first of these correspondents in Chipata (Santander). Bancolombia launched two CNB in Santander and Medellin, which followed two more of the Agrarian Bank in Medellin and Bogota. On the 19th December 2006, the Bank AV Villas opened its first four CNB in Barranquilla, Bucaramanga, Medellin, and Cali. This Bank signed these first four contracts with small businesses of bakery, drugstore and minimarket. In addition, it is scheduled to open another group of CNB in years to come in some locations which, although they are not very distant, are sites where there is no presence of banking.

The Fund of Opportunities

This is a fund administered by Bancoldex and works by mandate of the Ministry of Finance and Public Credit. It is formed by highly qualified personnel. Their functions are as follows: (a) To foster expansion of coverage and foray into new market segments. (b) To ease access to technical assistance to institutions interested in developing microfinance services. (c) To promote schemes or institutions that facilitate the granting of microcredit and credit of small amounts in an efficient way and at lower cost, using advanced technological solutions. (d) To promote the provision of enough and relevant information that builds trust and allows the approach between supply and demand.

The Network of the Banking of Opportunities

It is constituted by several entities extending their coverage and bringing financial services to unattended population, such as financial institutions (banks and finance companies), cooperatives, NGOs and compensation funds. All of them are linked through formal agreements, whose purpose is to promote greater access to financial services in the country. These agreements define the policy goals and commitments and provide a tracking system.

Table 2: Net Loans of Credit Institutions in Colombia, 2005-2011

Type of loan	Dic-05		Dic-06		Dic-07		Dic-08		Dic-09		Dic-10		Jun-11	
	\$ billion*	%	\$ billion	%	\$ billion	%	\$ billion	%	\$ billion	%	\$ billion	%	\$ billion	%
Commercial credit	47,8	63,4	62,4	62,3	77,5	61,1	93,2	62,4	94,2	61,6	112,2	62,8	121,2	61,5
Retail loans	18,0	23,9	26,8	26,8	36,4	28,7	40,8	27,3	41,5	27,1	48,2	27,0	54,0	27,4
Mortgage loans	8,3	11,0	9,2	9,2	10,9	8,6	12,3	8,2	13,6	8,9	14,1	7,9	16,6	8,4
Microcredit	1,3	1,7	1,7	1,7	2,0	1,6	3,1	2,1	3,8	2,5	4,3	2,4	5,3	2,7
Total	75,4	100,0	100,1	100,0	126,9	100,0	149,4	100,0	153,0	100,0	178,7	100,0	197,1	100,0

Source: Asobancaria, Superintendencia Financiera de Colombia

* One billion Colombian pesos corresponds to one million of millions Colombian pesos

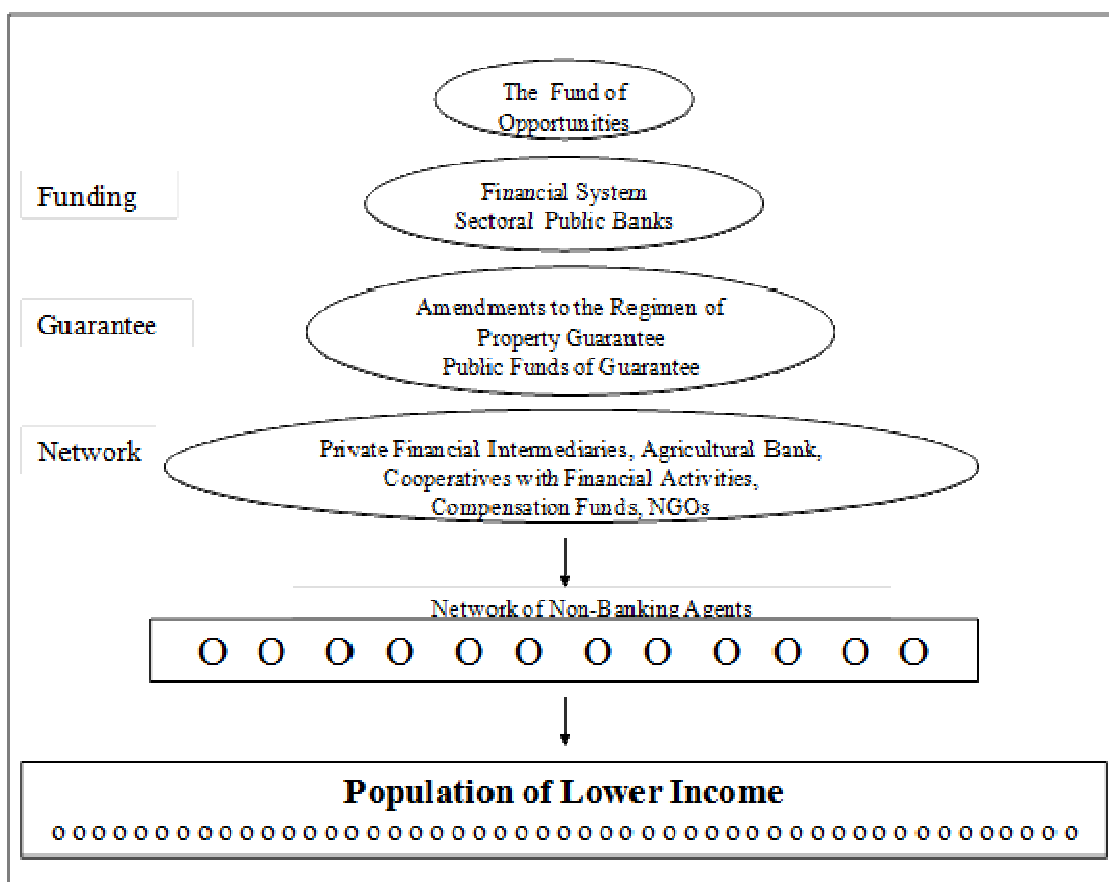


Figure 2: The Opportunity Banking Policy
Source: National Planning Department

To sum up, the Banking of Opportunities is a policy that coordinates and strengthens efforts of existing financial intermediaries (institutions of credit, cooperatives, NGOs, compensation funds). This policy offers incentives to expand the supply of financial services to the target population through the Fund of Opportunities. These features are presented in a synthetic form in figure 2

While this strategy enables an expansion of supply of financial services to the poorest population, there is a major drawback in what refers particularly to microcredit, which deals with its high interest rate (Table 3).

In this regard, the Financial Superintendence certified in January 2010 an annual rate of 32% for this type of credit. In addition, lenders entities legally have the possibility of charging a fee of 7.5%. Therefore, users of microcredit have to pay a very high interest rate taking into consideration their limited payment power.

FINANCIAL LINES OF SUPPORT TO MICRO AND SMALL ENTERPRISES

Micro- and small enterprises are critical in employment generation in Bogota. According to information from the Chamber of Commerce of Bogota, there were 247,949 companies formally constituted in 2009, of which 239,128 were micro- and small enterprises –MSE- (96.5%) that concentrated approximately 70% of total formal employment. 213,656 were microenterprises and just 25,472 were small enterprises. The most representative activities of Microenterprises are trade and repair of motor vehicles (38.9%), followed to a lesser extent by manufacturing (14.7%), real estate activities (13.9%), hotels and restaurants (8.6%) and transport, storage and communications (5.6%). The performance of Bogota's firms demonstrates the importance of micro- and small enterprises in employment generation. However, they face various problems regarding both their creation and their operation; among these, the main are associated with their financing and management (BID [4, 5, 6], Cifuentes, Bravo, Rodriguez and Fernandez [12]). Faced with this situation, the Treasury Secretariat of Bogota implemented a strategy of Financial Lines in April 2002 to help them, based on a scheme of credit throughout the financial system. The main objectives of the financial lines are: i) To facilitate access to credit to micro and small entrepreneurs, ii) to improve the levels of income and employment in the city, and iii) to improve the quality of life of the micro and small entrepreneurs in Bogotá. By 2008, there were four Financial Lines: Line of credit *Bogota*, Line Microcredit for business –strengthening-, Line Microcredit for business –enterprising-, and Agribusiness Line.

Performance of the Financial Lines of Bogota

Loans extended by the different Financial Lines (Microcredit for business, Bogotá and Agribusiness) benefited until December 2006 to 41,768 entrepreneurs. It is appropriate to mention that all of the disbursements of the first of these lines correspond to microcredit, since the maximum amount awarded was \$1 million in 2006. On the other hand, only a portion of the loans from the other lines corresponds to microcredit, since their maximum amounts exceed the corresponding to the legally specified for microcredit (10.2 million Colombian pesos or approximately 4,550 US dollars for 2006). These limits were \$20 million for the Agro-industrial Line, and for the Bogotá Line, \$30 million for microenterprises and \$60 million for small enterprises.

Disbursements through the Financial Lines have been increasing considerably, especially since 2004 (see Figures 3 and 4). Since the beginning of this project, the Bogotá Line has concentrated nearly 90% of total disbursements. Loans have focused mostly on formally established microenterprises and small enterprises, due to contract requirements by financial sector.

Financial Line Bogota

Since the project began in May 2002 to October 31st 2006, it has benefited 12,727 entrepreneurs, of whom 8,940 are micro entrepreneurs and 3,787 small entrepreneurs of the City (table 4). There was a displacement of micro-enterprises during this period, which went from 46% of credit disbursements in 2002 to 24% in 2006. Likewise, micro-entrepreneurs who benefited from credits have also reduced their share, going from 84% to 61% in the same years, respectively.

To December 2006, the Line Bogota disbursements amounted to \$109,061 million. However, this figure is lower than that of 2005. This behavior occurred because in the second half of 2006, high demand by entrepreneurs exhausted budgetary resources for the whole year, affecting over five months the placement of resources. Demand for resources was restarted only until the end of December when there was a new addition of resources.

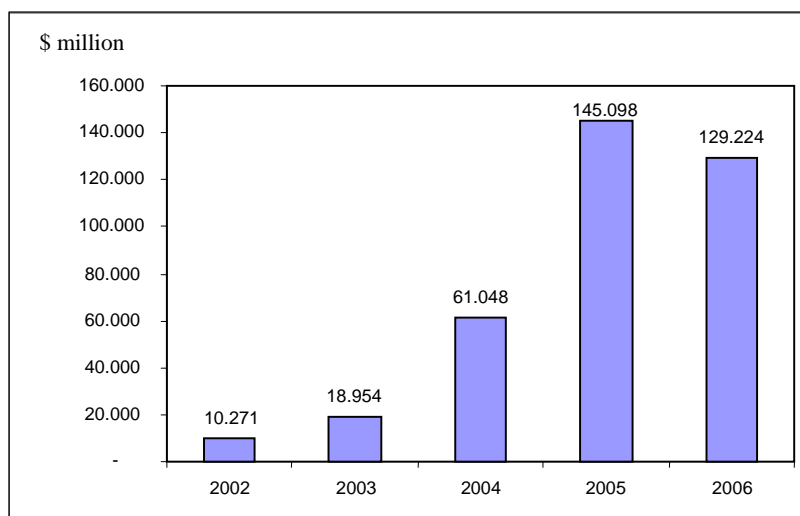
Financial Line Microcredit for Business – strengthening

From the start of the project until December 2006, this Line of Credit benefited 22,566 women and men heads of household in Bogotá, given that access to credit to those entrepreneurs who own very small businesses are not attractive to traditional banking.

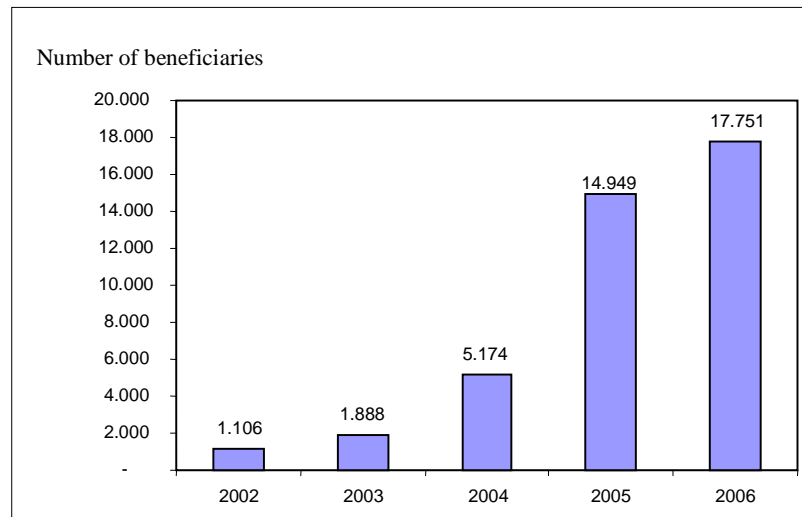
Table 3: Microfinance Institutions and Commercial Banks Interest Rates in Latin America and the Caribbean, 2010

Country	MFI interest rate (a)	Commercial Banks interest rate (b)	Difference (a-b)
Argentina	55.8	25.3	30.5
Bolivia	20.3	11.4	8.9
Brasil	24.9	15.3	9.6
Chile	43.8	8.7	35.1
Colombia	32.0	11.6	20.4
Costa Rica	24.0	12.9	11.1
Ecuador	16.5	12.4	4.1
El Salvador	27.9	11.2	16.7
Guatemala	31.4	19.2	12.2
Haití	41.8	n.a	n.a
Honduras	26.6	18.5	8.1
México	72.2	18.4	53.8
Nicaragua	25.6	17.0	8.6
Panamá	38.5	8.1	30.4
Paraguay	24.5	14.2	10.3
Perú	28.0	13.7	14.3
Republica Dominicana	32.1	17.4	14.7

Source: Pedroza, Paola [23]

**Figure 3:** Loans by the Financial Lines, 2002-2006

Source: SHD, Bogota.

Figure 4: Beneficiaries of the Financial Lines, 2002-2006

Source: SHD, Bogota.

Table 4: Loans by the Line Bogota, 2002–2006

Year	Micro enterprise		Small enterprise		Total	
	\$ Million	Number of beneficiaries	\$ Million	Number of beneficiaries	\$ Million	Number of beneficiaries
2002	4.749	925	5.522	181	10.271	1.106
2003	6.618	1211	10.993	254	17.611	1.465
2004	15.279	1974	37.275	710	52.554	2.684
2005	32.356	3191	97.843	1576	130.199	4.767
2006*	26.096	1639	82.849	1066	108.945	2.705
Share 2006*	24,0%	60,6%	76,0%	39,4%		

Source: SHD, Bogota

* To October 2006

In terms of resources, in 2006 were disbursed \$12,114 million, benefiting 14,154 micro-entrepreneurs, of whom 75% corresponds to women heads of households, while 25% remaining of the beneficiaries are men.

Financial Line Microcredit for Business – enterprising

In order to meet the needs of entrepreneurs with viable business ideas, this line of credit was designed. It seeks to provide loans to entrepreneurs in Bogota who are beginning their business life and have certain basic technical requirements. The Line is part of an agreement signed between the SDH and the Learning National Service (SENA).

Financial conditions of the program are as follows: (a) Maximum amount of credit: up to \$3 million (b) Time limit: up to 2 years (c) Grace period: up to 6 months (d) 80% automatic guarantee (National Guarantee Fund)

This program works through the joint formulation of entrepreneurs projects with the SENA, which is responsible for training and technically assisting in the design of business plans, which are target of financing. On the other hand, technical assistance for projects during the first six months of implementation of the business plan is outsourced. The first loans were made in July 2006 and 52 entrepreneurs with loans for a total amount of \$96.7 million had benefited until December 31st of that year. 45% of entrepreneurs play in the sector services, 33% in manufacturing and the remaining 22% in trade.

Financial Line Agribusiness

This specialized credit line is aimed at small and medium-sized producers and distributors of food. Bogota and FINAGRO signed an agreement of adhesion to the Agribusiness Line, to give support to the Master Plan of food supply and food security, through the integration of small producers, processors and distributors of food. This project is essentially a special line of credit for small producers and distributors of food of the Master Plan of food supply and food security. Therefore, the target population includes the 130,000 actors involved in the process of food supply in the City.

In order to strengthen the productive potential of agri-networks and nutri-networks and the fulfilment of the goals of food supply and employment generation in Bogota, this project seeks to provide to small farmers and shopkeepers real possibilities of access to credit for working capital, investment and specialized services.

Agribusiness credit line has benefited 2,236 small and medium producers by the end of 2006. In terms

of resources, during this year 553 producers were benefited with loans for \$8,049 million.

CONCLUSION

The financial lines designed to help micro, small and medium-sized businesses managed by the Treasury Secretariat of Bogota have meant a significant shift in attention to formal business in the city. This financing program for Mipymes was designed with the aim of solving the cyclical problem that arose with the banking crisis of 1999, which led financial institutions to be prepared to accept a lower risk and to raise interest rates, which discriminated the Mipyme sector of bank financing in a recession and unemployment scenario.

Users of financial lines have registered a rapid growth since their creation. However, the importance of microfinance in this financing program has been limited. Only a portion of loans of one of them, Bogota Line, which is the one that has concentrated nearly 90% of the total disbursements, corresponds to microcredit, as the maximum amounts that are granted by this line to both micro and small businesses, exceed the amount corresponding to the legally fixed one for microcredit (25 monthly minimum wages, i.e., 10.2 million Colombian pesos for 2006). In addition, despite the dramatic increase in the resources placed by the financial lines, the strategy has not produced the expected results as far as employment and income for populations living in poverty is concerned.

In this context, it is necessary to assess the possibility that Bogota make an agreement with national authorities, which allows the Colombian capital to participate with some economic resources and to make sure that the national strategy does not make the achievement of some specific objectives of the city's public policy more difficult, such as, the ones that have to do with the relocation of street vendors and the recovery of public space.

The national strategy in this context makes it possible to expand the supply of financial services to the poorest people. However, one of its main limitations has to do with the high interest rate for microcredit, considering the current conditions of the financial markets and the economy as a whole.

To face the problems described above, Bogota could, among other things, design differentiated financial products for non formal micro-entrepreneurs, with different financial conditions, group-based guarantees and technical support to them in formalization and specialized assistance.

The main challenge in the short term is to consolidate the involvement of the commercial banks into microfinance. As long as they adopt appropriate

technologies of microcredit, competition will reduce the cost of credit and would increase the volume of microcredit.

Besides, it is important to promote development of NGOs lenders, encouraging them to reach the same standards required to entities regulated in terms of efficiency, introduction of new technologies, manuals of operations, accounting, information systems and internal controls. In other words, they would have to behave as commercial banks in order to ensure their self-sustainability and profitability. On the other hand, it is necessary to improve the channels of promotion and dissemination of the Financial Lines of Bogota, with aggressive campaigns of advertising in strategic places, or propaganda in the mass media, such as newspapers and television.

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