Analysis of the Effects of Microfinance on Poverty Reduction

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Analysis of the Effects of Microfinance on Poverty Reduction: Overview

The poorest and poverty reduction have become the object of unprecedented attention at international summits in the 1990's. Canada, through the Canadian International Development Agency (CIDA), has committed to the targets set by both the OECD International Development Goals and, most recently, the Millennium Goals which focus on poverty reduction for those living on less than a dollar a day.

Microfinance has proven to be an effective and powerful tool for poverty reduction. Like many other development tools, however, it has insufficiently penetrated the poorer strata of society. The poorest form the vast majority of those without access to primary health care and basic education; similarly, they are the majority of those without access to microfinance.

While there is no question that the poorest can benefit from primary health care and from basic education, it is not as intuitive that they can also benefit from microfinance, or that microfinance is an appropriate tool by which to reach the Millennium goals.

Microfinance has been extensively examined over the past 10 to 15 years, and the resulting literature is now very large. A focused review of the literature was conducted to evaluate recent publications regarding the impact of microfinance on poverty reduction.[1]

The number of rigorous studies of client outreach and impact has grown considerably, especially in the past few years, spurred in part by the development of monitoring tools like CGAP's Poverty Assessment Tool, Cashpor Housing index, SEF's Participatory Wealth Ranking, and USAID's AIMS Tools. The resulting studies show that:

- The tools are relatively inexpensive and practical to use, and they yield useful data for both programs and donors.
- Average loan size is an easy indicator to collect but proves to be unreliable when measuring depth of outreach. Minimal extra effort in data collection can yield much richer information for marketing and evaluation.
- Microfinance institutions (MFIs) show considerable diversity in their ability to reach poor populations.
- Excellent financial performance does not imply excellence in outreach to poor households.
- At the same time, reaching the poor is not at odds with maintaining excellent financial performance and professional business practices.
- Programs that make poverty reduction an explicit goal and make it a part of their organizational culture are far more effective at reaching poor households than those that value finance above all else.
- These lessons point to natural evolutions in the microfinance sector. Many MFIs have tended to focus foremost on their own financial survival, and have generally been reluctant to invest substantially in evaluations (World Bank 1998). Currently, the majority of MFIs neither determines the composition of their clientele upon intake nor evaluates the effectiveness of their program in terms of poverty reduction. The development and use of the new tools for market analysis and evaluation suggests that failure to monitor

[1] See Appendix A for a list of the questions and terms of reference. Sources include the Consultative Group to Assist the Poorest (CGAP), Eldis index, USAID (AIMS project), ILO Social Finance Unit, UN Capital Development Fund (UNCDF), and the World Bank's Sustainable Banking with the Poor project.

and evaluate can cut costs in the short-run at the expense of achieving long-term social and economic goals.

Social and economic impacts

The review of the literature also points to several specific conclusions about the impact of microfinance on poverty reduction:

- Evidence shows the positive impact of microfinance on poverty reduction as it relates to the first six out of seven Millennium Goals.[2]
- While the quality of many studies could be improved[3], there is an overwhelming amount of evidence substantiating a beneficial affect on:
  - Increases in income (Wright 2000; UNICEF 1997; Khandker 2001, 1998)
  - Reductions in vulnerability (Wright 2000, Zaman 2000; McCulloch and Baulch 2000)
- There are fewer studies with evidence on health, nutritional status and primary schooling attendance, but the existing evidence is largely conclusive and positive (Wright 2000).

Reaching the poorest

Despite disagreement on specific definitions of levels of poverty, there is a general consensus that:

- Microfinance is not for everyone. Most importantly, entrepreneurial skills and ability are necessary to run a successful microenterprise and not all potential customers are equally able to take on debt. While these points will be true across all strata of poverty, it is assumed that they will have a greater effect on the very poorest.
- The sick, mentally ill, destitute etc. who form a minority of those living below the poverty line are typically not good candidates for microfinance. Most researchers agree that this group of people would be better candidates for direct basic assistance.[4]
- More optimistically, microfinance can be effective for a broad group of clients, including those who are living in the *bottom half* of those below a country's poverty line (to use a categorization proposed by CGAP). We will call this strata the "*poorest***"** and note that they constitute the group that generally intersects the various definitions of extreme poverty: landlessness, limited access to basic social services, average per capita income of less than $1 a day, and bottom third of a relative poverty ranking.
- Specifically, various studies show:
  - There is no evidence of an inverse relationship between a client's level of poverty and their entrepreneurial ability (Garson).
  - Borrowing patterns and the inclination to save have been found to be similar across clients at different levels of poverty (Zaman 2000)

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[2] Millennium Goals: #1—Reduce the proportion of people living in extreme poverty by half between 1990 and 2015 (defined as people living on less than $1/day). #2—Enroll all children in primary school by 2015. #3—Make progress towards gender equality and empowering women by eliminating gender disparities in primary and secondary education by 2005. #4—Reduce infant and child mortality rates by two-thirds between 1990 and 2015. #5—Reduce maternal mortality ratios by three-quarters between 1990 and 2015. #6—Provide access for all who need reproductive health services by 2015. #7—Implement national strategies for sustainable development by 2005 so as to reverse the loss of environmental resources by 2015.

[3] See Appendix B.

[4] However, it should be noted that this population is a difficult one to reach for any long-term intervention (such as basic education) and thus the problems of reaching this group with microfinance are not unique.

    - Financial performance of MFIs targeted to the poorest clients can be comparable to those of MFIs that do not reach the poorest (Khandker 1998; Gibbons and Meehan 2000; Churchill 2000)
- There is little evidence that clients with existing microenterprises or employment (often defined as "the economically active") are the only ones that can benefit from microfinance (Robinson 2001; Hulme and Mosley 1997; Zaman 2000), and the little evidence that exists here is subject to debate about methodology.

Targeting

While it has been demonstrated in a number of studies that the poorest can improve their socio-economic conditions, researchers have pointed to several general issues that make microfinance work for the poorest:

- Even a well-designed microfinance programme is unlikely to have a positive impact on the poorest unless it specifically seeks to reach them through appropriate product design and targeting (Wright 2000). Experience shows that unless there is a targeting tool, the poorest will either be missed or they will tend to exclude themselves because they do not see the programs as being for them, do not have the "correct" clothes, etc. (Navajas et al 2000; Simanowitz, FFH)
- Mission creep: There is a strong tendency to move to the top of the clientele group, and to give little attention to the needs of the poorest, with the end result that their proportion diminishes over time (Navajas et al 2000). Only MFIs that design programs around the needs of the poorest are likely to retain them as clients.

Savings vs. Credit

There is general consensus that facilitating savings is important, because there is a high demand for it among the poorest and because savings play a role in protecting against the seasonality of cash-flows and fulfilling an insurance function. In addition, building up deposits reinforces financial discipline for customers and can eventually yield collateral and serve as a source of funding for MFIs.

- Savings alone, however, have only a minor developmental impact: the protection against shocks might allow children to remain in school or income-earners to get medical treatment and minimize time away from work, but it is slow to create any significant wealth in itself unless credit is also available.
- MFIs that focus on savings more than credit tend to reach a smaller proportion of the poorest, have a lower and slower impact on poverty reduction, and are therefore less conducive to reaching the Millennium Goals by the target dates. While the savings-first institutions are easier to finance by donor agencies (far less start-up capital required), the few comparative studies available show that borrowers fare better than non-borrowers (Chen and Snodgrass 1999; Fruman 1998).

Synergies between microfinance and other programs

It is clear from the evidence that there are strong potential synergies between microfinance and the provision of basic social services for clients. The benefits derived from microfinance, basic education, and primary health are interconnected, and programs have found that the impact of each can increase when they are delivered together.

- The marginal cost of providing education or basic health information can be substantially reduced when the infrastructure for microfinance is already in place
- Services provided need to be relevant to the needs of the target group and not just an add-on that is of poor quality (UNICEF 1997; MkNelly and Dunford 1999, 1998; Marcus 1999)

Very few studies directly compare alternative interventions. Most researchers conclude that it is difficult to isolate the impact of a specific development tool as each contributes to the others. While the question of which development tool gives the "biggest bang for the buck" is legitimate in principle, in practice it is difficult to compare the benefits achieved by different interventions. With this in mind, it should be noted that:

- Microfinance has the potential to have an *immediate* impact on a wide range of poverty reduction targets: income, health, nutrition, and education.
- Basic health is likely the most crucial intervention, but should be combined with microfinance in order to strengthen the impact on the #1 Millennium Goal of reducing those living on less than $1/day.
- Expanding primary education for children has a wide-ranging impact on the poverty reduction targets (income, health, nutrition, fertility) but any benefits will be *delayed, (*thus reducing its effectiveness for reaching the targets by 2015).

Cost-effectiveness and financial sustainability

Microfinance compares favourably to other interventions particularly with regard to cost-effectiveness and prospects for sustainability:

- *Cost-effectiveness:* An advantage of microfinance is that donor investment is recycled and reused (Wright 2000). Direct comparisons done by Khandker (1998) show that microfinance can be a more cost-effective developmental tool than alternatives including formal rural financial intermediation, targeted food interventions, and rural infrastructure development projects. More over, unlike many other interventions, costs for microfinance tend to diminish with the scale of outreach (Rhyne 1997; Christen et al 1996)
- *Sustainability:* Few, if any, other development tools have the potential to become sustainable such that, after initial start-up grants, new inputs are not required for every future client.
    - There need not be a trade-off between reaching the poorest and attaining financial sustainability. Although there are no rigorous econometric models to substantiate it, there is ample evidence that MFIs targeting the poorest can fare as well financially as those that don't (Gibbons and Meehan 2000; Churchill 2000)
    - There is also ample anecdotal evidence that MFIs that target poorer clients can achieve substantially higher repayment rates than those that target richer clients (Pro Mujer vs. BancoSol; Grameen/BRAC vs. traditional banking system in Bangladesh)
    - It should be noted that emphasizing financial sustainability above all else can have the practical effect of excluding the poorest because of the widespread misperception that the poorest are a greater credit risk and the reality that the unit costs of small loans tend to exceed the unit costs of larger loans.

Conclusions:

There is ample evidence to support the positive impact of microfinance on poverty reduction as it relates to fully six out of seven of the Millennium Goals. In particular, there is overwhelming evidence substantiating a beneficial effect on income smoothing and increases to income. There is less evidence to support a positive impact on health, nutritional status and increases to primary schooling attendance. Nevertheless, the evidence that does exist is largely positive.

Microfinance is an instrument that, under the right conditions, fits the needs of a broad range of the population—including the poorest—those in the bottom half of people living below the poverty line. While there will be people in this group who will not be suited for microfinance because of mental illness, etc., the exclusion of this small percentage of the population will likely not be a limiting operational issue for MFIs.

Empirical indications are that the poorest can benefit from microfinance from both an economic and social well-being point-of-view, and that this can be done without jeopardizing the financial sustainability of the MFI. While there are many biases presented in the literature against extending microfinance to the poorest, there is little empirical evidence to support this position. However, if microfinance is to be used, specific targeting of the poorest will be necessary. Without this, MFIs are unlikely to create programs suitable for and focused on that group.

Recommendations:

1. A review of key existing microfinance programs, using recognized poverty assessment/wealth ranking tools[5], should be organized by CIDA to determine the current poverty levels of clients presently being served.

2. A percentage of CIDA's new and renewing microfinance program funding should be allocated directly to programs that target the poorest. This percentage should increase over the next five years until the poorest are receiving a percentage that is proportional to their representation in the population. Targeting should be done through the use of recognized poverty assessment/wealth ranking tools.

3. CIDA funding for new and renewing microfinance programs and projects should include resources for summary evaluations to be carried out regularly throughout implementation to provide information about the intake poverty level of clients as well as for the basic financial and social impact assessments.

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[5] For example: Cashpor House Index, SEF's Participatory Wealth Ranking and CGAP's Poverty Assessment Tool

1.1 Introduction

This section will focus on two specific questions:

- What is the evidence for the effects of microfinance on poverty reduction as defined by the Millennium Goals?
- Are the effects different depending on the degree of poverty?

There is extensive evidence that microfinance has a positive impact on the first Millennium Goal: that the number of people living in extreme poverty (defined as those living on less than $1 per day) will be reduced by half between 1990 and 2015.

There are fewer studies examining the effects of microfinance on the other Millennium Goals, but what evidence exists generally indicates a positive impact.

The literature confirms that most microfinace programs do not serve the poorest. However, there are some institutions that do, and the evidence indicates that the poorest can definitely benefit from microfinace in terms of increased incomes, and reduced vulnerability.

There is also evidence to support the premise that it is possible for a microfinance institution to serve the poorest and also achieve financial sustainability.

1.2 Evidence for a Reduction in Poverty

Khandker, Shahid. 2001. *Does Micro-finance Really Benefit the Poor? Evidence from Bangladesh*. Paper delivered at Asia and Pacific Forum on Poverty: Reforming Policies and Institutions for Poverty Reduction held by the Asian Development Bank. Manila.

A follow-up survey done in 1998/1999 included the households from the previous survey (1991/1992—on which the conclusions in the book Fighting Poverty with Microcredit: Experience in Bangladesh are based), new households from the same villages, new households from new villages in old thanas, and three more thanas are surveyed.

The drop-out rate increased from 5% to 10% from 91/92 to 98/99. (p. 8)

"**Microfinance participants do better than non-participants in both 91/92 and 98/99 in per capita income, per capita expenditure, and household net worth**. The incidence of poverty among participating households is lower in 98/99 than in 91/92, and lower than among non-participating households in both periods." (p. 11)

"The programs have spillover effects on the local economy, but the impacts are very small." (p. 13)

Pitt, Mark M., Shahidur R. Khandker, Omar Haider Chowdhury and Daniel Millimet. *Credit Programs for the Poor and the Health Status of Children in Rural Bangladesh.* International Economic Review, forthcoming.

"…we find that women's credit has a large and statistically significant impact on two of three measures of the health of both boy and girl children. Credit provided (to) men has no statistically significant impact…A 10% increase in (latent) credit provided to females increases the arm circumference of their daughters by 6.3%, twice the increase that would be expected from a similar proportionate increase in credit provided to men. Female credit also has a significant, positive but somewhat smaller effect on the arm circumference of sons. Female credit is estimated to have large, positive and statistically significant effects on the height-for-age of both boys and girls." No statistically significant effects were found for Body Mass Index (BMI).

Robinson, Marguerite. 2001. *The Microfinance Revolution: Sustainable Finance for the Poor*. World Bank. Washington.

"Among the economically active poor of the developing world, there is strong demand for small-scale commercial financial services—for both credit and savings. Where available, these and other financial services help low income people improve household and enterprise management, increase productivity, **smooth income flows** and consumption cost, enlarge and diversify their microbusiness and **increase their incomes**." (p. 6)

McCulloch, Neil and Bob Baulch. 2000. *Simulating the impact of Policy upon Chronic and Transitory Poverty in Rural Pakistan.* Journal of Development Studies. 36 (6)

Is poverty static? Anti-poverty programmes often assume so. Recent studies suggest, however, that poor households move in and out of poverty a great deal. Research from the UK Institute of Development Studies shows that poverty has two parts: a chronic part and a transitory part. The researchers therefore examined the impact of two different types of policy - those designed to smooth out incomes and those designed to promote income growth - on the extent of transitory and chronic poverty in rural Pakistan. The study suggests that policies which help households to smooth income can dramatically reduce transitory poverty. But in the long-term, only large and sustained growth in household incomes will reduce chronic poverty.

The results of applying different measures of transitory and chronic poverty to the income data suggest that 68 percent of total poverty is transitory, arising from variations in households' incomes.

Implications for anti-poverty policy include:

- Enhancing the ability to smooth out income fluctuations could lead to large reductions in overall poverty in the short-term.
- Possible interventions could include provision of micro-credit, seasonal public works, crop insurance and food price stabilization schemes.
- Reduction in chronic poverty will still require improvements in the human and physical capital of the poor. Improving education, particularly of the household head, reduces poverty since it can help people formulate effective strategies for income generation

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Remenyi, Joe and Quinones, Benjamin. 2000. *Microfinance and Poverty Alleviation: Case studies from Asia and the Pacific*. New York. 79. p. 131-134, 253-263.

Household income of families with access to credit is significantly higher than for comparable households without access to credit. In Indonesia a 12.9 per cent annual average rise in income from borrowers was observed while only 3 per cent rise was reported from non-borrowers (control group). Remenyi notes that, in Bangladesh, a 29.3 per cent annual average rise in income was recorded and 22 percent annual average rise in income from no-borrowers. Sri-Lanka indicated a 15.6 rise in income from borrowers and 9 per cent rise from non-borrowers. In the case of India, 46 per cent annual average rise in income was reported among borrowers with 24 per cent increase reported from non-borrowers. The effects were higher for those just below the poverty line while income improvement was lowest among the very poor.

Simanowitz, Anton. 2000. *Client Exit Surveys: A Tool for Understanding Client Drop-Out.* Journal of Microfinance. 2 (1)
http://spc.byu.edu/pages/microfinancevols/microfinancev2n1/client.html

The impact of microfinance on poverty alleviation has recently gained a prominent position on the microfinance agenda. Donors, practitioners, and academics are realizing that microfinance institutions (MFIs) must concern themselves with more than their ability to reach institutional self-sufficiency. The ability to reach and to demonstrate a positive impact on the poorest is now becoming a core principal in poverty-focused financial institutions. The 1999 Microfinance Summit Meeting of Council, for example, set out a hard-hitting agenda, with key note papers calling on MFIs to meet the challenge of targeting and reaching the poorest (Simanowitz, et al., 1999[1]) and to develop systems for measuring their impact on their clients (Reed & Cheston, 1999[2]).

The World Bank-sponsored Consultative Group to Assist the Poorest (CGAP), a leading donor and policy maker, shows signs of moving away from its former hard-line view on impact assessment. In 1997, Rich Rosenberg, a senior advisor to CGAP, expressed a view which mirrored the approach of CGAP: If your investee institutions [the MFIs] are pricing their services in a way which covers all of the costs of providing them . . . and if their clients continue to use these services, then you have strong evidence from the persons most likely to know that the clients are deriving benefits . . . . Do you really need to know a lot more than that?

This contrasts markedly with a recent CGAP initiative on "Deepening the Poverty Outreach of Microfinance" (CGAP, 1999[3]) which looked at improving knowledge on poverty outreach and the impact of microfinance on poor clients.

Wright, Graham A. N. 2000. *Microfinance Systems: Designing Quality Financial Services for the Poor*. Zed Books Ltd. London & New York, and The University Press Limited, Dhaka.

Wright provides a **comprehensive review of the research to date** looking at the case for providing appropriate, quality financial services for the poor, and outlining the principles and methods that could/should be followed to design quality Microfinance Systems.

Economic impact of Microcredit: (p. 14 to 16)

- Hossain (1988[4]) "Grameen Bank members had incomes about 43% higher than the target group in the control villages, and about 28% higher than the target group non-participants in the project villages"
- World Bank in collaboration with the Bangladesh Institute of Development Studies, and cited by Hashemi and Morshed (1997[5]) showed that the Grameen Bank not only "reduced poverty and improved welfare of participating households but also enhanced the household's capacity to sustain their gains over time."
- Kamal (1996[6]) "noted higher rates of per capita income among MicroCredit programme borrowers compared to those who did not borrow"
- Chowdhury et al. (1991[7]) "asserted that women (and men) participating in BRAC sponsored activities have more income (both in terms of amount and source), own more assets and are more often gainfully-employed than non-participants"
- Mustafa et al. (1996[8]) confirmed this (above for BRAC) and noted that "members have better coping capacities in lean seasons and that these increased with length of membership and amount of credit received"
- Mustafa et al. (1996[9]) also noted an increase in assets of 112% for those who had been members for 48 months or more and increase in household expenditure of 28%

"**Schuler and Hashemi** (1994[10]) concluded that Grameen Bank members were **statistically more likely to be using contraceptives** (59% of Grameen members as opposed to 43% of a matched control group). Rahman and de Vanzo reached similar conclusions as a result of their work in

Tangail (pending publication). Similarly, a recent **Asian Development Bank** report noted that, '**Contraceptive use goes up among members because they are better able to overcome the barriers to obtaining access to contraceptive services** (lack of mobility, cash, information, among others). Contraceptive use goes up among non members because of the **diffusion effect of changing fertility norms in the village as a whole**." (p. 31)

"Nutritional indicators also seem to improve where Microfinance institutions have been working. Hashemi and Morshed (1997[11]) cite a study conducted by the World Bank in collaboration with the Bangladesh Institute of Development Studies, which showed that the Grameen Bank not only 'reduced poverty and improved the welfare of participating households, but also enhanced the household's capacity to sustain their gains over time. **This was accompanied by an increased caloric intake and better nutritional status of children in households of Grameen Bank participants**.'" (p. 31-32)

"Todd and Gibbons worked with Grameen members who had been borrowing for a decade in Tangail. They concluded: 'Perhaps their most significant finding was that, **compared with 18% of non members, 58% of the Grameen borrowers had crossed over the extreme poverty line (defined by an annual income sufficient to provide each family member with a daily intake of 1,800 calories**.) Of the 42% of the Grameen borrowers who failed to cross the poverty line, fully 60% had experienced a serious illness in the family—most commonly tuberculosis, typhoid, jaundice, and gastric ulcer. **Grameen loans prevented these families from becoming destitute**, but they were insufficient to overcome their crises' (Bornstein, 1996[12])." (p. 32)

"One important initiative should indeed begin to help us to understand these issues better. In the Comilla District in Bangladesh, BRAC and ICDDR,B are working together to use ICDDR,B's unique Matlab research infrastructure to **examine the effects of different interventions on the population's well-being**. Nonetheless, since BRAC's RDP programme includes several interventions not commonly associated with 'minimalist' Microfinance programmes—for example adult functional education…the research design is still lacking a pure Microfinance intervention. (NP) Results to date (Chowdhury and Bhuiya, 1998[13]) **suggest a significant decrease in severe malnutrition closely associated with the length of BRAC membership**—though whether disentangling the contribution of the Microfinance services from the other BRAC interventions (particularly the functional education component) has not been attempted." (p. 32-33)

Nutritional Status of Children (6-72 months) by Length of BRAC Membership of Mothers

Length of BRAC Membership	% of severe PEM (MUAC < 125 mm)
1-12 months	Male: 16.4%, Female: 22.2%, All: 19.0%
12-24 months	Male: 7.4%, Female: 22.9%, All: 16.1%
25+ months	Male: 5.7%, Female: 13.0%, All: 9.4%

"**Research on the impact of Microfinance programmes on education is even more limited**…As a result of her work, Todd (1996[14]) notes that 'When we take the crudest measure—those children over six years who have ever been to school—**all of the girls in Grameen families have had at least some schooling, compared to 60% of the girls in the control group**. Most of the Grameen boys (81%) have had some schooling, compared to just half (54%) of the control group boys. (NP Once again, results from the BRAC-ICDDR,B studies (Chowdhury and Bhuiya, 1998[15]) give us an indication of positive trends. **The percentage distribution of children (11-14 years) achieving 'basic education' (pre-determined level of mastery in reading, writing and arithmetic, as well**

as 'life skills') rose from 12.4% in 1992 (before the BRAC programme began in the area) to 24.0% in 1995 among the children of BRAC members. By comparison, only 14.0% of the children of those who had not joined BRAC achieved 'basic education'." (p. 33)

"There is limited evidence for the impact of Microfinance programmes on health and education, but the conclusion seem to indicate that in the long run, the impact is indeed positive." (p. 39)

Zaman, Hassan. 2000. *Assessing the Poverty and Vulnerability Impact of Micro-Credit in Bangladesh: A case study of BRAC*. World Bank.
www.worldbank.org/html/dec/Publications/Workpapers/wps2000series/wps2145/wps2145.pdf

Zaman examines the extent to which micro-credit reduces poverty and vulnerability through a case study of BRAC, one of the largest providers of micro-credit to the poor in Bangladesh.

"The main argument in this paper is that micro-credit contributes to mitigating a number of factors that contribute to vulnerability whereas the **impact on income-poverty is a function of borrowing beyond a certain loan threshold and to a certain extent contingent on how poor the household is to start with**." (p. 1)

Household consumption data collected from 1,072 households is used to show that the largest effect on poverty arises when a moderate-poor BRAC loanee borrows more that 10,000 taka (US$200) in cumulative loans. Different control groups and estimation techniques are used to illustrate this point.

Zaman discusses several ways by which membership in micro-credit programs reduces vulnerability - by smoothing consumption, building assets, providing emergency assistance during natural disasters, and contributing to female empowerment.

"The existing evidence on the impact of micro-credit on poverty in Bangladesh is not clear-cut. There is work that suggests that access to credit has the potential to significantly reduce poverty (Khandker 1998[16]); on the other hand there is also research which argues that micro-credit has minimal impact on poverty reduction (Morduch 1998[17]).

The evidence on reducing vulnerability is somewhat clearer. The provision of micro-credit has been found to strengthen crisis coping mechanisms, diversify income-earning sources, build assets and improve the status of women (Hashemi et al 1996[18], Montgomery et al 1996[19], Morduch 1998[20], Husain et al 1998[21])." (p. 1)

"Khandker (1998) estimates that for every 100 taka lent to a woman, household consumption increases by 18 taka…Moderate poverty falls by around 15% and ultra-poverty by 25% for households who have been BRAC members for up to three years controlling for other factors according to the author….Morduch (1998[22]) points out a problem with this analysis. He notes that the assumption of perfect targeting which underlies Khandker's selectivity correction is flawed given the fact that in the data set 30% of households were above the eligibility threshold. Using an alternative approach to correct for selectivity, Morduch finds no evidence **of increases in consumption** (**and therefore reduction in poverty**) using the same data." (p. 3)

"There is other work in Bangladesh supporting the hypothesis that micro-credit impact is **more significant** for vulnerability than for income-poverty." (p. 4)

"This paper argues that whilst there are several channels by which micro-credit services can reduce vulnerability there are fewer ways by which it can 'single-handedly' reduce poverty. This is **partly due to the fact that the concept of vulnerability is a somewhat broader one** that that of income-poverty and as such there are more channels by which 'impact can be achieved." (p. 23)

"Hence the conclusions on RDP's impact on its members welfare depend on which econometric specification one considers to be more valid and which control group (non borrowing member or eligible non member) is considered more appropriate. In view of the fact that cumulative borrowing is largely a function of membership length (Mustafa et al 1995[23], Montgomery et al 1996[24]) and socio-economic differences between borrowers and non-borrowing members are minimal (Zaman 1998[25]) it can be argued that the **non-borrowing member control group is a better comparison group**." (p. 13-14)

Barnes, Carolyn and Erica Keogh. March 1999. *An Assessment of the Impact of Zambuko's Microenterprise Program in Zimbabwe: Baseline findings*. Working Paper. Management Systems International (MSI).
http://www.mip.org

In a Zimbabwe study, there are major differences in income distribution. For example, nearly half of the new client and non-client households had a monthly income of less than Z$2,000, compared with about one-fifth of the repeat client households. In contrast, half of the repeat clients had an estimated monthly household income of Z$4,000 or more.

Members of repeat borrower households have on average one year of education more than those of non-client households.

The average number of income sources was 2.5 for clients households compared with 2.1 for non-clients. Similar numbers in the Uganda study were 3.23 compared with 2.53.

Buss, Terry. 1999. *Microenterprise in International Perspective: An Overview of the Issues*. Journal of Economic Development. 1 (1) www.spaef.com/sample.html

A review of current issues in the microcredit field. :

Why do we need microcredit:

- Market structure—institutional size, organizational complexity, market share and branch bank location can negatively affect a formal bank's ability to lend to the poor
- Market concentration—banks may not be lending to the poor because the financial markets in developing countries are still underutilized so the they are not "forced" into small business lending
- Technology—screens out many poor borrowers or, alternatively, adds to transactions costs considerably
- Monetary and taxation policy--National government monetary policy can channel large amounts of capital away from credit into other investment instruments. This is especially a problem in developing countries where exchange rates and interest rates are highly politicized. Taxes levied by government make some lending profitable, forcing banks into

other investments. Importantly, poor monetary policies—especially inflation and instability—reduce savings among the poor and affect group-based microcredit programs adversely (see below).

- Regulation--Government bank regulation greatly reduces capital available for lending to small business, because banking system stability is valued over more widespread access. Even if banks wanted to lend to microenterprises, regulators in many countries would not allow much of it.
- Political intervention--Political interference in credit markets is rampant, especially in developing countries. Politicians direct funds into moribund state-owned firms, political cronies, or into the pockets of wealthy people, but rarely into the hands of poor people seeking credit. Poor people may need their own credit system.

"Reconciling these disparate positions is impossible without further study yet to be undertaken, but there seems to be a kernel of fact upon which all might agree. In developing countries, many microcredit programs require borrowers to open savings accounts or pledge their own capital as insurance against loan default. Even though microcredit programs are subsidized, some borrowers pay higher than market interest rates. Most borrowers must offer collateral in exchange for a loan. Business opportunities for which loans are sought are vetted either by peer groups of fellow borrowers or by technical assistance providers. And borrowers absorb a great deal of the transaction costs in lending. **So, many microcredit programs are not other forms of transfer in disguise. Therefore, some might argue that removing barriers to credit for these worthy borrowers to enhance efficiency is a legitimate role of government, donors or charities**."

"To address the but for question, evaluators must ask what happened with and without the program. Social scientists refer to this as establishing the counterfactual. Ideally, evaluators would select several locations that are comparable; then in some, microcredit programs would be established, and in others they would not. This creates treatment and control groups. **Few evaluations in the literature take this approach"** (Sebstad & Gregory, 1996[26]; Gaile and Foster, 1996[27]).

"Microcredit allows the poor household to take advantage of opportunities, that is, to assume risks it could not otherwise take, in order to obtain higher returns" (Dunn et al, 1996[28]).

"Research shows that no microcredit program has yet to achieve sustainability (OECD, 1996[29]), as measured by the widely used subsidy dependence index (SDI), that quantifies the extent to which the lending interest rate would have to be raised to cover all operating costs if public subsidies received by a program were stripped away; 100% means interest rate would have to double to make up for subsidies. Some programs have come close to achieving sustainability—Grameen Bank and BRI Unit Desa System of Indonesia (Boomgard & Angell, 1990[30]) for example, most others have a considerable way to go (OECD, 1996[31]). "

"Their (advocates) concern is this: microcredit programs, by definition, cannot be fully sustained because they require considerable capacity building among the poor, something not found when assessing the efficiency of formal lending institutions. As such, microcredit should be evaluated on the extent to which financial systems and their instruments reach the poor directly, increasing their participation in market processes and by this empowerment in political processes. In short, economic efficiency, or sustainability, must be balanced against outreach." "Advocates also argue that as microcredit programs without social intermediation become more sustainable or self-sufficient, they become more like formal lenders, again abandoning the poor they were chartered to serve. In economics, this is referred to as the principal-agent problem…" "Critics retort that failure to hold microcredit programs to the sustainable or self-sufficiency standard allows many weak organizations to persist when they should be terminated." "The issue (sustainability vs. outreach) has yet to be resolved."

Chen, Martha Alter and Donald Snodgrass. August 1999. *An Assessment of the Impact of SEWA Bank in India: Baseline Findings*. Harvard Institute for International Development. http://www.mip.org

In a SEWA BANK study, the proportion is about 40% compared with 50% and 62% of saver-only and non-client households, respectively.

The median income is 30% and 61% higher than for a saver-only and non-client household, respectively. Borrower and saver-only enrollment rates (both 58%) were both greater than the rate for non-client households (52%).

Average daily expenditure on food is 21% higher than in non-client households. In contrast, saver-only households enjoy only a small dietary margin over non-client households. Average daily expenditure on food is only 5% higher than in non-client households.

The average number of income sources was 2.7 for client households compared with 2.5 for both saver-only and non-client households. It is interesting to note that the net impact of the wide-spread closure of large textile mills in Ahmedebad City appears to be that the borrower households suffered greater setbacks (more jobs lost and less compensation paid) but were able to recover more quickly (more laid-off workers are currently economically active) than saver-only and non-client households. Interestingly, fewer other household members in borrower households (60%) than saver-only (73%) or non-client (74%) households took on additional work.

Cohen, Monique. October 1999. *Opening Up the Impact Assessment Agenda*. AIMS. Paper prepared for the Latin American Microfinance Meeting.

"Maintaining access to MFI program credit, in itself, is a protectional risk management strategy for many clients. They go to great lengths to ensure repayment, particularly when confronted with a crisis or shock. Informal sources of finance are mobilized to ensure repayment. Repayment means that one can gain access to a new loan, a new 'chunk' of money and then start on the road to recovery, restocking a microenterprise, rebuilding a house, or repaying school fees. (NP) Once a shock or stress even occurs, people use various strategies to cope: they modify consumption, raise additional income by mobilizing labour or selling assets, they draw on informal and formal savings, and draw down claims on informal group based insurance mechanisms. Microfinance clients seek to conserve productive assets and thus maintain their income earning potential if at all possible. Across the four countries there was a **reluctance to withdraw children from school**, cash in savings (particularly where savings are linked to loan size or earmarked for future investments), or sell productive assets. MFI services were only drawn upon when other options were exhausted or failed. **Overall the study found that MFIs play more of a role in helping clients protect against risks ahead of time than cope with shocks after they occur**." (p. 9)

Dunn, Elizabeth. June 1999. *Microfinance Clients in Lima, Peru: Baseline Report for AIMS Core Impact Assessment*. University of Missouri-Columbia. http://www.mip.org

In a Lima, Peru study, only 28 percent of clients live below the poverty line compared to 41% of non-clients.

The average income is over 50% higher. Borrower households spend 20% more on education than non-client households.

Marcus, Rachel. Beth Porter and Caroline Harper. 1999. *Money Matters: Understanding Microfinance*. Save the Children. London.

The book draws on a wide range of experience and examines Save the Children's microfinance projects in light of current trends and research, and concludes: "**Microfinance can clearly help reduce poverty and vulnerability**. Improvements to livelihood security are usually more incremental than the dramatic success stories sometimes quoted. However, for the people concerned, **small changes in livelihoods may be significant**." And that "Microfinance clearly contributes to improvements in children's welfare **through increased incomes** and thus: improved nutrition, housing, health and school attendance, and reductions in harmful child labour." (p. 9)

"The evidence of impact on children's well-being is particularly strong and should allay fears that microfinance has a negative impact on children." (p. 53)

"All programmes for which information is available, report improvements to participants incomes, assets and livelihood security…These changes are most notable among long-term participants who have invested their loans more profitably as they have become more familiar with handling finance (Theis, 1996[32])." (p. 42)

- Participants consistently report increased incomes. In Mali—women borrowers reported increases in income of 50%
- Vietnam—participants state that they are now short of rice for less than one month per year compared to three previously; participants have also diversified their productive activities and have acquired more assets than non-borrowers
- Honduras—availability of credit prevented some borrowers from having to sell their produce at below market rates to landowners and merchants to obtain an advance in the lean season, thus increasing their incomes

"Improvements in school attendance or in provision of educational materials are also widely reported. **Invariably this related to increased household income**. In Honduras, participants stated that participation in the credit and savings programme had enabled them to send several children to school at a time, and had reduced drop-out in the higher primary school grades (Arcon and Colindres, 1997[33]). ….Where taking credit was enabling people to develop agriculture or other enterprises close to home and reducing the need to migrate for seasonal work, children's chances of attending school were greatly increased." (p. 46)

"Microfinance is an increasingly popular component of programmes aiming to reduce the need for children to work." (p. 47)

MkNelly, Barbara and Christopher Dunford. 1999. *Impact of* Credit with Education *on Mothers and Their Young Children's Nutrition: CRECER* Credit with Education *Program in Bolivia*. Freedom from Hunger Research Paper No. 5. Freedom from Hunger. Davis, CA.

"The majority of 1997 participants (67%)(7 % reported a decrease and 23% said no change—p. 28) felt that their incomes had 'increased' or 'increased greatly' since they joined the *Credit with Education* program…There was no significant difference between the baseline and follow-up periods in participants' own nonfarm monthly profit when compared to nonparticipants and residents in control communities. However, when pooling women's own nonfarm income with general household nonfarm income, the 1997 participants' monthly estimated profit was significantly higher than the pooled nonfarm income earned by residents of control communities. In 1997, t**he media monthly nonfarm profit for the participant sample was 2.5 times more than the profit earned by the nonparticipants and more that 5 times the profit earned by the residents in the control communities**." (p. 2) Note: "The majority (57%) of loan-funded enterprises were categorized by women as being 'family' rather than 'primarily their own' income-generating activities." (p. 39)

"…clients' diversified loan-use strategies suggest the program allowed participants to augment household assets (chiefly animals) and smooth consumption needs by purchasing foods in bulk and meeting other basic needs." (p. 3)

"The impact evaluation research in Bolivia provides evidence that **credit and education services, when provided together to groups of women, can increase income and savings, improve health/nutrition knowledge and practice, and empower women**. Positive impact on the nutritional status of clients and clients' young children was not evident, except when deeper analysis of the client group alone revealed that children's weight-for-age was positively associated with the quality of education services provided. This finding supports one of the central assumptions underlying the design of the Credit with Education strategy—that **without important improvements in caregiver practices, income increases and even empowerment are unlikely to bring about marked improvement in children's nutritional status**." (p. 6)

"A significant and positive impact was also seen when comparing the baseline and follow-up periods in whether participants had discussed family planning with their spouses as compared to non participants in program communities. " (p. 4-5)

The partner organization is CRECER.
Base-line data collected in 1994-94 for 250 mother-child pairs. Follow-up in 1996 for 3 groups of 85 pairs as above, with correction for self-selection biases.

Results:
Income increased about 5-fold in CWE, assets (animals for family needs) and savings increased significantly also.
CWE participants offer more advice to other mothers extending the benefits to non-participants. They are more outspoken and "politically" active which can also benefit the community at large, but they don't have more power in the household (Helen Todd's study "Women at the Center" showed more power in the household for participants).

In health: better breastfeeding practices.
Gave more liquids to children with diarrhea (but not more food than non participants).
Higher level of DPT3 vaccination in CWE.

The quality of education wasn't equal. Positive changes were seen in 38 % of cases receiving better than average education, but only 8 % in groups receiving average or worse than average education. There was no improvement of nutritional level. Those receiving the worst education had poorer nutritional status. Nor was improvement found on BMI (Body mass index) in the mothers.

Panjaitan-Drioadisuryo. D. M. Rosintan and Kathleen Cloud. 1999. *Gender, Self-Employment and Microcredit Programs: An Indonesian Case Study*. Quarterly Review of Economics & Finance. 39

Conclusions are based on the results of a study that was conducted on the island of Lombok (Indonesia). Credit was given to women who were under the poverty line (then equivalent to $96 per capita per year) from BRI.

"On average, the income of sample members had increased by 112% (although a very few also became poorer), and the income of 90% of these families increased enough to move them above the poverty line." (p. 6)

"Overall the SFDP appears to have been very successful. The women who received the loans increased their income substantially, **improved their families' nutrition and faithfully repaid their loans. They also had higher aspirations for their children's education and were more likely to reduce fertility**.' (p. 8)

Seibel, Hans Dieter and Dolores Torres. 1999. *Are Grameen Replications Sustainable, and Do They Reach the Poor? The Case of CARD Rural Bank in the Philippines.* Journal of Microfinance. 1 (1)

The Grameen Bank in Bangladesh is known worldwide for its success in providing credit to the poor. However, subsequent replications of its methodology in other parts of the world have been less successful. Is there really an infallible solution that works everywhere, and is outreach to the poor compatible with sustainability? A Grameen replicator in the Philippines, the Center for Agriculture and Rural Development (CARD), has recently set itself firmly on the path to sustainability by becoming a formal sector, rural bank-the first credit NGO in the country to do so. During the period, from 1993 to June 1999, CARD's all-female outreach soared from 1,711 to 26,369. Its operational self-sufficiency ratio increased from 0.46 to 1.09. At the end of June 1999, CARD's loan portfolio stood at US$2.7 million, its repayment rate was 99.9%, and its financial self-sufficiency ratio was 0.85. The principal lesson to be learned from the CARD's success is that Grameen-type microfinance institutions (MFIs) can be sustainable and can substantially increase their outreach. CARD's social capital comprises (a) a core of good Grameen practices, such as high moral commitment on the part of the leaders, based on values instilled through training; peer control, to preclude adverse selection and moral hazard; and a strict credit discipline; (b) innovative adaptations to suit the Philippine context, such as the adoption of rural bank status under central bank supervision; vigorous mobilization of voluntary savings; the provision of differentiated, profit-making loan and insurance products; and a broadening of the clientele to include poor and nonpoor depositors, while adhering to its mission of lending to poor women only.

Versluysen, Eugene. 1999. *Defying the Odds: Banking for the Poor*. Kumarian Press. Connecticut. p. 41-44, 224-227.

Household income of families with access to credit is significantly higher than for comparable households without access to credit.

Poor households that have had access to microfinance services show significant increases in asset accumulation, providing them with both a safety net against misadventure as well as resources for self-help investments. Increased household income improves nutrition, and improves the probability that poor children from poor families will go to school.

Microfinance programmes have facilitated the graduation of poor households clients to a status where commercial sectors of developing countries, banks especially, are able to meet the needs of the poor for credit, savings services, insurance, money management advice and financial planning.

Versluysen states that some of the clients of, and BancoSol, BRI, PRIDE, whose clients belong to the moderate and upper poor, achieve astonishing upward social mobility for to the point that they rise above poverty and can offer work to others. In BrancoSol as a whole, branches were covering 107 percent of their operating and financial costs in 1995. This region had a staff of seventy-eight and had already made close to 67,000 loans, averaging $750 per loan. Arrears were around 2 percent.

Yunus, Muhammad. November 1999. *The Grameen Bank*. Scientific American. 281(5) p. 114-119.

“Microcredit views each person as a potential entrepreneur and turns on the tiny economic engines of a rejected portion of society.”

“Schuler’s study revealed that women use contraception more consistently after joining the bank.”

Barnes, Carolyn. Gayle Morris and Gary Gaile. 1998. *An Assessment of the Impact of Microfinance Services in Uganda: Baseline Findings.* AIMS Paper. Management Systems International. Washington, D.C.

In a Uganda study, although no findings were reported on the level of poverty between client and non-client households, total expenditures on education, business and household assets, remittances to rural households, and agricultural inputs were used a *proxy indicator* of the relative poverty or wealth level of client and non-client households. Client households on average spent 35% more than non-client households.

Borrower households spend 38% more on education than non-client households and have an average an extra year of education.

Clients in the FOCCAS microfinance program in Mbale receive instruction in breastfeeding, disease prevention (including AIDS, diarrhea, and malaria), and family planning practices. Of those who had learned about improved health and nutrition practices, 95% of clients compared to 72% of non-clients had tried a practice related to improved health or nutrition of their children. 32% of clients compared to 18% of non-clients had tried an AIDS-prevention practice.

Khandker, Shahidur R. 1998. *Fighting Poverty with Microcredit: Experience in Bangladesh.* Oxford University Press, Inc. New York.

Measures the varying effects of three microcredit programs (Grameen, BRAC and RD-12) on participants (male and female), as well as the impact on the local economy. Effects consider cumulative borrowing, thus reflecting both the impact of credit and the duration of program participation.

Microfinance reduces poverty by increasing per capital consumption among program participants and their families. **Poverty reduction estimates based on consumption impacts of credit show that about 5 percent of program participants can lift their families out of poverty each year by participating and borrowing from microfinance programs**. (p. 60)

Microcredit programs also **help smooth consumption**, as well as the seasonality of labor supply. Targeted credit also improves the **nutritional status** of children. The nutritional impact of credit is especially large for girls, and the impact is larger for loans made to women. Microcredit had a significant and positive impact on **schooling**, especially for boys." (p. 148)

At the participant level, borrowing had a positive impact on:

- **Per capita expenditure** for women (and for men in the RD-12 program)
- **Net worth** with the impact much stronger for women
- **Children's schooling**, especially for boys (for girls, the only statistically significant increase was found in the Grameen program)
- **Children's nutritional status**—women's credit had large and statistically significant impact on height and arm circumference, and men's credit had a positive impact on girl's body mass index (but not on boy's)

At the village level, borrowing had a positive impact on:

- Production—value of annual production of program villages was more than twice that of non-program villages
- Income—differences in income between program and non-program villages were due largely to differences in non-farm income (Grameen and BRAC increased average household income from different sources; RD-12 impact on aggregate income was not statistically significant, but it did increase farm income by 62% without a corresponding growth in rural non-farm income.)
- Employment—increased for Grameen Bank villages (because of large increases in self-employment in non-farm activities)
- Wages—"Among the three microcredit programs, only Grameen Bank (GB) had a positive and significant impact on rural wages…Given that GB operates in poorer villages, the wage increase is a clear sign that GB contributed to the growth of the village economy"(p. 54)
- School enrollment—BRAC increased village level school enrollment rates
- Fertility—net impact of Grameen was to lower recent fertility by 13%

The effect of microcredit programs on village-level poverty reduction is somewhat smaller. Overall only 1 percent of rural households can free themselves from poverty each year through microcredit. Moreover, some of this reduction may result from income redistribution rather than income growth

“The **village-level effects** of microcredit were also studied. All three programs had significant impacts on production**,** increasing average **household output** in villages by about 50%. Grameen Bank and BRAC also had positive impacts on average **household income**. Only Grameen Bank had a positive and significant impact on **rural wages**, increasing wages at the village level by about 21%.”

Contraceptive Use/Fertility—Borrowing by men appears to reduce fertility, while participation by women appears to increase fertility. (p. 49, 61)

- Men’s Credit—Only men’s credit from Grameen Bank had a statistically significant effect in increasing contraceptive use among 14-to 50-year-old women in participating households.
- Women’s Credit—from any of the three programs reduced the use of contraceptives among participants. Further statistical analysis suggests that this is because women who join microcredit programs have already been using contraceptives more than observationally equivalent women.

MkNelly, Barbara and Christopher Dunford. 1998. *Impact of* Credit with Education *on Mothers and Their Young Children’s Nutrition: Lower Pra Rural Bank* Credit with Education *Program in Ghana*. Freedom from Hunger Research Paper No. 4, Freedom from Hunger, Davis, CA.

The increase in net farm monthly income (revenue minus costs) was $36 for participants, $18 for non-participants (note: non-participants became participants after the initial 3 year study was complete thus negating the possibility of a self-selection bias as to the type of women who choose to participate in microcredit programs) and $17 for control group residents.

Participants tended to be engaged in a greater diversity of income-generating activities than non-participants. 80% of the participant sample had secondary work as compared to only 50% of the non-participants and 60% of the control group.

Despite involvement in their loan-financed activities, participants did not wean their children any earlier than did non-participants.

Children of participants also experienced significantly greater improvement in feeding frequency as compared to the children of the two non-participant groups.

The nutritional status of participants’ one-year-old children—both in terms of weight-for-age and height-for-age—was also significantly improved between the years relative to the children of residents of control communities.

Relative to non-participants or control community residents, participants reported significantly greater positive change in a variety of the health/nutrition practices promoted by the education component of the program. E.g. giving newborns colostrums; introducing liquids and first foods closer to the ideal age of about 6 months; rehydrating children who had diarrhea by giving them either ORS or home liquids etc.

“Women frequently mentioned that what influenced them most as to what income-generating activities they might undertake was whether they had working capital or could get the necessary inputs on a credit basis.” (p. 20)

Repayment rate: 98.7 %. Cost recovery within 3-5 years of start up.

Impact study on 370 mother-one-year-old-child pairs for baseline in 1993.

Follow-up 1996 for 300 mothers subdivided in 3 groups of 100:
- CWE for at least one year
- in CWE community but who hasn't joined
- in a non CWE community

Correction for self-selection bias.

Results:
- Diarrhea prevention: CWE mothers delayed very significantly in giving water to newborns, by almost 3 X.
- Women's income more than doubled.
- CWE mothers are 2,5 X more confident about counseling other mothers about health care for the children. This extends benefits of CWE to non-participants.
- Positive and significant impact on Height for Age in favor of CWE children.
- No improvement of BWI (body/weight index) in the women.
- Number and duration of periods with less food more than halved in CWE.

81 % cost recovery in 6 months.

Conclusion: "This combination of positive impact and financial sustainability make Credit With Education a strategy with exciting potential for widespread and sustainable impact on child survival"

Rodenbeck, M. 1998. An Emerging Agenda for Development in the Middle East and North Africa
http://www.idrc.ca/books/focus/930/12rodenb.html

Small- and micro-sized enterprises are a vital — even dominant — component of most MENA economies. In Egypt, for example, small- and micro-sized enterprises provide an estimated 80% of private-sector value-added, employ two-thirds of the entire labor force, and constitute 99.7% of the total number of non-agricultural private enterprises (Ministry of Economy [Egypt] 1998). Statistics on the small- and micro-sized enterprises sector in other countries are less reliable, but in Jordan the “informal” sector is believed to employ 35% of the work force, and in Yemen 45% of it (ERF 1998). Similar ratios are likely to hold true in Morocco and Lebanon, with slightly lower levels for Algeria, Syria, and Tunisia.

In spite of this obvious importance, small- and micro-sized enterprises confront a range of obstacles to growth, as well as numerous handicaps to improving competitiveness in the rapidly globalizing world marketplace. Access to credit is one problem. In Egypt, 94% of industrial credit is directed to the 2% of enterprises with over 50 employees. **And despite the existence of some 40 micro-credit programs in the country, 95% of potential beneficiaries have not been reached. Micro-credit experts in Morocco believe there are as many as 1.5 million potential clients for their services, which currently reach less than 20 000 customers**.

World Bank. *Poverty Reduction in Fiscal 1998. Strategy and Implementation*
http://www.worldbank.org/poverty/library/progr/

Pg. 16—good evaluations (assessing the outcomes of an intervention vs. the immediate, tangible outputs of a project e.g. the number of teachers trained –vs the effect of such outputs on the well being of individuals and households as measured by changes in expenditure, income, malnutrition rates etc.) are:

- hard to do and
- there are incentives for NOT evaluating impacts.

"The review of fiscal 1998 examined all 240 investment projects approved last year to see whether they included provisions for appropriate evaluation. Only 12 projects, or 5% included outcome or impact indicators, a baseline survey and control groups which make it possible to conduct a good evaluation."

Hulme, David and Paul Mosley. 1997. "Finance for the Poor or Poorest? Financial Innovation, Poverty and Vulnerability" In *Who Needs Credit? Poverty and Finance in Bangladesh*. (Eds.) Geoffrey D. Wood & Iffath A. Sharif. The University Press Ltd. Dhaka.

"The definition of what is meant by 'poverty', how it might be measured and who constitute 'the poor' are fiercely contested issues. At the heart of the debate about defining poverty stands the question of whether poverty is largely about material needs or whether it is about a much broader set of needs that permit well-being (or at least a reduction in ill-being). The former position concentrates on the **measurement of consumption, usually by using income as a surrogate**. Although this approach has been heavily criticized for its 'reductionism' and 'bias to the measurable' (Chambers 1995[34]) **it has considerable strengths** in terms of creating the potential quantitatively to compare and analyze changes in the access to different people to their most pressing material needs (Townsend 1993[35]). …The case is far from absolute, however, and even adherents acknowledge that 'there is a broad agreement that income is an inadequate measurement of welfare' (Greeley 1994)[36]…The failure of income measures to capture such deprivations can be illustrated at the macro level by the 'weakness in the correlations between income-poverty and some other deprivations' (Chambers, 1995[37])….**Although the debate about reductionist or holistic approaches is commonly presented as an 'either…or' argument, this need not be the case.**" (p. 98-99)

"Distinguishing between **promotional** (raising persistently low incomes, often exclusively through credit for income-generation through self-employment) and **protectional** (dampening of dramatic fluctuations in income through voluntary savings, emergency consumption loans and relatively low-risk income-generation activities that are unlikely to create indebtedness) approaches **does not require that they are seen as unrelated or as competing directly against each other**. Effective promotional strategies, that raise household incomes and create additional assets, can make the protection of a minimum standard of living much easier. Conversely, effective protectional strategies may permit households to undertake investments that they had previously regarded as being too risky." (p. 100)

"This study sheds little light on the ways in which innovative financial services may help or hinder households to cope with the stresses of demographic change in household structure. This is for two reasons. The first is lack of data…The second relates to the sheer complexity of such factors. This can be illustrated by **the findings of a recent study of the impacts of Grameen Bank and BRAC on contraceptive usage (Schuler and Hashemi 1994[38]). It found that participation in the**

Grameen Bank's credit programmes was associated with dramatic and statistically significant changes in contraceptive behaviour (59% usage form bank members compared to 43% usage for a matched control group in 1992). Such a situation is almost certainly likely to lead to Grameen Bank members having smaller families than non-members. In theory this should lead to Grameen Bank members having lower household dependency rations and thus having more resources for investment, income enhancement and asset growth. In the longer term, though—given the fact that the elderly in rural areas rely heavily on the support of their sons—these benefits may be outweighed by having few sons (or no sons) to provide support during old age. The possibility of greater 'child quality' in smaller families (better education etc.) might partially offset this if the children of smaller families ultimately derive higher incomes…" (p 118)

Johnson, Susan and Ben Rogaly. 1997. *Microfinance and Poverty Reduction*. Oxfam. UK and Ireland.

"If poverty is understood as low levels of annual income per household, reducing poverty is about raising average income levels. If a particular level of annual income per head is used as a poverty line, poverty reduction could be measured by counting the number or proportion of people who cross that line—who are promoted out of poverty….However, attention to annual income can obscure fluctuations in that income during any given year. Poverty can also be understood as vulnerability to downward fluctuations in income." (p. 10)

"While there are methodological difficulties involved in measuring increases in incomes brought about by the provision of credit, studies have demonstrated that the availability of credit for microenterprises can have positive effects. …The results demonstrated that credit provision can enable household incomes to rise." (p. 11)

"This anxiety to increase the number of users can undercut the very basis of the new model: the creation of sustainable financial institutions**. Studies of credit schemes have consistently demonstrated that unless borrowers and savers believed they would benefit from the long-term survival of the institution, and have a sense of ownership, repayment rates would decline** (Rogaly, 1991[39]; Copestake, 1996[40]). " (p. 15)

"The support given to micro-enterprises in terms of business and skills training is often referred to as 'non-financial services'. An argument is now being put forward that such services should be demand-led and self-sustaining (Tanburn, 1996[41]). The rationale behind this contention is that services provided in the past by NGOs (and other providers) have not been particularly useful or appropriate to those trying to set up in business. Therefore if users are not willing to pay for the service, this indicates it is of little real benefit to them." (p. 55)

"This shift in emphasis away from the provision of credit solely for income generation towards a range of financial services is consistent with an understanding of poverty which looks beyond low incomes to vulnerability and powerlessness. Providing microfinance can give poor people the means to protect their livelihoods against shocks as well as to build up and diversity—also a means of protecting—their livelihood activities buy investing loan capital." (p. 118)

Todd, Helen. 1996. *Women at the Center*. Westview Press, Inc. Colorado

A grassroots, in-depth study of 2 Grameen Bank groups, in 2 different and separate villages, were studied over the course of a year, and compared with a control group of women in the same villages. The Grameen women had been taking microcredit loans for a period of up to 10 years.

Using a per capita income that would support minimum daily intake of 1800 calories to establish a poverty line, Todd ranked her 40 Grameen Bank women and 22 control women. **Only 15.0% of the Grameen group was classified as 'Extremely Poor' compared to 54.5% of the control group**. Comparatively, 57.5% of the Grameen women and only 18.2% of the control group were ranked as 'Not Poor'. (The remaining women were classified as 'Moderately Poor'.) (p. 37-38)

Children of the Grameen women were found to be more healthy than the control group's children on all three indicators--measures of height and weight for age and weight for height. Height for age: Grameen children aged one to five years were ranked at 91% (short but not stunted) of the standard (when set against the NCHS) while the control group were ranked at 88% (stunted). Weight for height: Grameen children average 90% of the NCHS reference (normal) while the control group measure 85% (wasted). Weight for age: Grameen children were 76% of NCHS reference weights while control group measure 68% of NCHS.

UNICEF. 1997. *Give Us Credit*. Division of Evaluation, Policy and Planning.

"Experience with microcredit has shown that the poor can be disciplined borrowers and savers, able to repay loans on time and to save. If poor families are to pull themselves out of poverty, they need access to the successive loans that microcredit programmes provide."

"In Nepal, UNICEF has linked the delivery of social services to credit and other support provided under the Small Farmer Development Programme (SFDP) since 1982-1983. Implemented by the Government, the programme reached 123,000 families in 422 villages and 75 districts by 1992. In areas where credit has been combined with support for basic social services**, infant mortality is lower, school attendance for girls is higher and children's health, nutrition and education have shown greater improvement**, than in areas where credit alone is given or where no credit is provided." (p. 5)

In Egypt, "the conditions for the women's loans is that all the children should go to school. This scheme, in an area with adequate access to basic education, has proved that microcredit can reduce child labour and improve school attendance while at the same time **improving the income levels** of the participating families." (p. 12)

MkNelly, Barbara and Christopher Dunford. 1996. *Are Credit and Savings Services Effective Against Hunger and Malnutrition? A Literature Review and Analysis*. Freedom from Hunger Research Paper No. 1. Freedom from Hunger. Davis, CA.

"In the short term, program participants generally experience more income stability and moderate increases in income. " (p. 22)

"In her review of 102 USAID-supported women-in-development programs, Carloni (1987[42]) found that credit programs were more successful than income-generating projects in having a genuine impact on women's economic status. Specific income-generating projects face the much more difficult challenge of creating profitable employment, whereas 'untied' credit is a flexible input that people can use in ways that they know best to adopt any of several technologies available to them." (p. 22)

Nelson, Candace. Barbara MkNelly, Kathleen Stack and Lawrence Yanovitch. 1996. *Village Banking: The State of the Practice*. UNIFEM. New York.

The terms of the model are designed to attract participation from the poorest of the productive poor who are predominantly women.

"…the findings of evaluations have reinforced practitioners' belief that programme participation has positive economic impact….As expected, borrowers had been able to improve their economic returns either by expanding their existing activities, diversifying their strategies or decreasing costs." (p. 60)

In Thailand, the income generating strategies of 68 village bank members, who had participated for at leas one year, were found to be more diversified and of a higher return than those of 60 randomly selected non-participants. In the previous year, 61% of the borrowers had earned income from animal raising and 31% from microenterprises as compared to 22% and 5% respectively for non-participants. Women participating in the programme had invested $65 of money they controlled in agriculture as compared to only $16 for non-participants (MkNelly and Watetip, 1993[43]).

97% of members from the two oldest banks in the CRS programme in Thailand believed their income had increased by between $40 and $200 per year. The percentage of borrowers using moneylenders as a source of funding dropped from 51% to 11%.

FINCA/El Salvador programme interviews revealed that weekly income had increased on average by 145%.

"Each of the northern NGOs is questioning the extent to which village banking can and does act as a genuine ladder out of poverty. Since most of their village banking programmes are still young, it is only now becoming possible to examine programme impact over time. …A summary review of programme performance indicators in four CRS programmes which are one year or older, concur with original projections for village banking. All four programmes have registered increases in average savings per borrower and average loan size per borrower while registering 100% repayment rates on the external account." (p. 61-62)

Pitt, Mark M. and Shahidur R. Khandker. 1996. *Household and Intrahousehold Impact of the Grameen Bank and Similar Targeted Credit Programs in Bangladesh*. World Bank Discussion Papers 320. Washington, DC.

"Three important conclusions can be drawn from this exercise. First, targeted credit programs such as the Grameen Bank can 'empower' women by increasing their contribution to household consumption expenditure, their hours devoted to production for the market, and the value of their assets. Second, targeted credit programs can be seen as anti-poverty schemes. Poverty in rural Bangladesh largely means low levels of consumption, and our results clearly indicate that credit from all three programs increase the total per capita consumption of the poor and the asset holdings of women. Third, group-based credit provided to men can also have beneficial effects, particularly on the schooling of children, contraceptive use, fertility, and total household expenditure." (p.42-43)

Holcombe, Susan. 1994. *Managing to Empower: The Grameen Bank's Experience of Poverty Alleviation*. University Press Limited. Dhaka.

Holcombe cites Mahabub Hossain[44], economist, who collected information on target and non-target families in 5 Grameen villages and two control villages, including non-participating, target families in the Grameen villages. He found the following:

- Grameen members were less likely to take informal credit from local money lenders and more likely to use working capital from their business or to use their own savings to survive the disaster than was likely in the case of control group members. **The conclusion was that Grameen members were protected from impoverishing debt by the assets they had accumulated as a result of credit supported businesses**. (**versus debt argument)**

Impact on Rural Wage Structure

Holcombe cites Constantina Safilios-Rothschild and Simeen Mahmud[45] who supply anecdotal evidence that suggests average daily wage rates have increased by 30 to 60% in areas of high NGO activity. They suggest this occurs due to:

- Ability to Negotiate Wage Rates - As organized groups (like Grameen members) rather than individuals, the land-less have been able to negotiate better wage rates.

- Rising Wage Rates – occur in response to a decreased supply of agricultural labor because of the engagement of the rural poor in non-farm, credit financed, activities.

Stearns, Katherine. 1989. *Microenterprise Development Programs: Is Client Graduation a Myth?* Discussion Paper Series. Document No. 3. Accion International. http://www.accion.org/pubs/main.asp

The goals of graduation include: enterprise growth, increased income, job creation, legalization and access to bank credit. However, the study focuses only on the last goal and concludes based on 10 programs in Latin America that operated in the 1980s "The evidence presented here clearly indicates that client graduation is not a realistic goal for microenterprise programs" (p. 34). **The main reason for not graduating was the expense and effort required in order for a microenterprise owner to incorporate the business or to register it as a legally recognized entity—in order to gain access to bank credit**.

1.3 Concerns

Kabeer, N. 2001. *Conflicts over Credit: Re-evaluating the Empowerment Potential of Loans to Women in Rural Bangladesh*. World Development. 29 (1) p. 63-84.

From the summary of the paper (p.63): "This paper explores the reasons why recent evaluations of the empowerment potential of credit programs for rural women in Bangladesh have arrived at very conflicting conclusions. Although these evaluations use somewhat different methodologies and have been carried out at different points of time, the paper agues **that the primary source of the conflict lies in the very different understandings of intrahousehold power relations which these studies drawn on**."

Furthermore (p. 65), "These conflicting conclusions about the "empowerment" potential of credit for women are both apparent and real….Consequently some of the differences in findings relate to differences in the incidence of empirical outcomes, some findings referring to "average" and others to "nonaverage" outcomes. **Thus Hashemi et al's[46] finding that women's access to credit was associated with an overall reduction in the incidence of domestic violence** is perfectly compatible with the finding that it exacerbated violence in a number of individual households reported by both them (see Schuler et al., 1996[47]) as well as Goetz and Sen Gupta[48]."

Nteziyaremye, Anastase. Kathleen E. Stack and Barbara MkNelly. 2001. *Impact of* Credit with Education *on Recruitment of New Members to the Credit Unions of the Kafo Jiginew and Nyèsigiso Federations in Mali*. Freedom from Hunger Research Paper 7. Freedom from Hunger. Davis, CA.

Poor women (from poorest third in the community) "talked about how hard it was to make their repayments and few described real progression in their socioeconomic status….all had relatively weak local markets…the weekly repayment schedule is also more difficult for poor households because they lack alternative means or sources of income from which they can repay their CEE loan. For this same reason, the poorer members are also at particular risk if there is a sickness or death in the family." (p. 3)

Robinson, Marguerite. 2001. *The Microfinance Revolution: Sustainable Finance for the Poor*. World Bank. Washington.

Robinson states that there are two means for microcredit—"the 'poverty-lending approach' which promotes donor-funded credit for the poor, especially the poorest of the poor; and the 'financial systems approach' which advocates commercial microfinance for the economically active poor and other, subsidized and charitable nonfinancial methods of reducing poverty and creating jobs for the extremely poor." "…choice of means can limit the goals that can be reached. **Large scale sustainable microfinance can be achieved only with the financial systems approach**." (p. 2)

Robinson's criticism of the 'poverty-lending approach':

1. **"Institutions are not sustainable primarily because their interest rates on loans are too low for full cost recovery."**
2. **"This approach does not meet the demand among the poor for voluntary saving services."**

"The distinction between the extremely poor and the economically active poor is not precise. Households move from one category to the other over time." (p. 19)

"With the exception of peer group lending, imperfect information rural credit models do not incorporate most of the methods used by profitable microfinance institutions to minimize the problems of imperfect information." (p. 130)

Robinson quotes from Henry Mayhew re: people who live in extreme poverty (existing below minimum subsistence level) who are not suitable for microcredit are incapacitated from:

1. **Want of power**: too young/old/ill or insane or untaught
2. **Want of means**: no tools, clothes, materials, stock money or workplace
3. **Want of employment**: business glut or stagnation, change in fashion, introduction of machinery, seasonality of work

"…let's assume that the only objective we care about is maximizing benefit to poor people. From this perspective, the argument for high interest rates is straightforward. In most countries, donor funding is a limited quantity that will never be capable of reaching more than a tiny fraction of those poor households who could benefit from quality financial services. We can hope to reach most of those households only if MFIs can mobilize relative large amounts of commercial finance at market rates. They cannot do this unless they charge interest rates that cover the costs…" (p. 33)

Issue of linking credit with training: "The economically active poor tend to know their business and to understand their financial needs better than the institutional staff who train them. General training programs that can reach large numbers of people at low cost are typically inappropriate for the heterogeneous needs of microfinance clients." "While there are a few exceptions (BRAC is a notable example), institutions providing both social services and microfinance have typically shown themselves to be inept at financial management." (p. 73)

"…Grameen Bank would have to raise the nominal rate on general loans from 20% per year to 33% per year to get by without subsidies." (Morduch, 1998[49])

"Globally the problem remains that about 90% of the developing world's population does not have access to microfinance institutions—and Grameen does not yet offer a model that is widely affordable or that meets the needs of low-income savers." (p.95)

"But the two basic differences between Grameen on the one hand and BRI and BancoSol on the other are that BRI and BancoSol have emphasized full cost recovery and commercial funding, hallmarks of the microfinance revolution." (p. 95)

Wright, Graham A. N. 2000. *Microfinance Systems: Designing Quality Financial Services for the Poor*. Zed Books Ltd. London & New York, and The University Press Limited, Dhaka.

A recent Asian Development Bank (1997[50]) report notes that "In Bangladesh, between one quarter and on third of the loans were used fully or partly for purposes that were not directly related to production. In rural areas, these uses included (in descending order of frequency), subsistence household expenditures on food and clothing; housing improvements; loan repayments; tubewells for drinking water; purchases of homestead land; and the release of mortgaged land. In urban areas, these uses included (in descending order of frequency) payment for medical expenses, household expenses, and the purchase of furniture." (p. 36-37)

"As Grameen Bank and others have found out in remote areas like Ranpur and Pathuakali, Microcredit is more difficult to recover when the local economy offers few income generation opportunities."

"As noted by many authors including Christen et al (1996[51]), Hulme and Mosley (1997[52]) and Greeley (1997[53]), the economic environment within which a Microfinance programme operates is critical to its success. Without the infrastructure and access to markets to allow the households financed by the programme to sell the goods and services they produce and offer, there is little scope for microenterprise development, and thus poverty alleviation." (p. 38)

Marcus, Rachel. Beth Porter and Caroline Harper. 1999. *Money Matters: Understanding Microfinance*. Save the Children. London.

"…there are concerns that the recent international enthusiasm for microfinance is obscuring other, possibly more effective, means of poverty reduction, and that some of the best practices' which these initiatives promote may be undermining the wider potential of microfinance. (p. 13)

"…the effects of failed investments have received little attention. Hulme and Mosley's seven-country study, however, suggests that a significant proportion of enterprises financed by MFIs do fail—for example 10-15% of those supported by BancoSol in Bolivia and 25% of the early activities financed by the Malawi Mudzi Fund (Hulme and Mosley, 1996[54])" (p. 23-24)

"It is often observed that returns to labour in income-generating projects are very low (Johnson and Rogaly, 1997[55]) and that similar remuneration for the same hours worked in wage employment would be considered extremely exploitative. Whilst participants may view this as preferable to working for an employer, this is not always the case—many microenterpreneurs start businesses because they cannot get employment." (p. 24)

Peace and Hulme's (1993[56]) raises an important note of caution: one should not assume that children will automatically benefit from their parent's participation in microfinance programmes. However the evidence from studies reviewed for this paper **suggests that for school-age children, positive impacts almost always outweigh the negative**. Concerns about negative impacts on such children would be better focuses on the implications of failed projects…" (p. 30) Authors go on to state that the "evidence is more equivocal" for young children and suggest that specific measures may be needed to ensure that the quality of care young children receives does not suffer where women undertake income-generating activities. But they also point out that some participants have found that self-employment through microcredit has enabled them to work from home, thus allowing them to spend more time with their small children. Conclusion: "Thus the implications for childcare are mixed and context-specific." (p. 47)

"it is clear that where parents participate in credit and savings programmes**, children's workloads can increase**…In extreme cases, this **can** result in children working long hours, doing tasks that are too hard for them, endangering their health or dropping out of school. It **should be stressed, however, that this is uncommon**. In most cases, children view the benefits…as **outweighing the costs** (Marcus and Harper, 1996)[57] (p. 31)

"In some cases, individual children's **school attendance has suffered** as a result of parental participation in credit and savings projects. …**More often children's workloads have increased, as have those of other household members, without necessarily affecting their school attendance or being perceived as onerous**." (p. 46)

"Where market opportunities are constrained by low population density and limited purchasing power or are flooded with similar goods and services, training, technological development or assistance with marketing may have a greater impact than microfinance. Even where market opportunities are promising, basic services and infrastructure that improve the productivity of existing livelihood activities—such as agricultural extension or veterinary services, improved natural resource management, and irrigation—or health services which prevent sickness destroying livelihoods may be more appropriate than microfinance." (authors' footnote: "In the context of user fees and privatization of services, credit can enable poor people to generate the income to make use of such services. Whether they should be expected to do so, is a political question best resolved in context.) (p. 36)

Buss, Terry. 1999. *Microenterprise in International Perspective: An Overview of the Issues*. Journal of Economic Development. 1 (1) www.spaef.com/sample.html

A review of current issues in the microcredit field. Summarizes criticisms of microcredit:

- Governments may support microcredit because they fear implementing large-scale land reform[58]
- Microcredit may force poor people or groups of borrowers into debt they cannot repay, or into businesses where they can barely subsist[59]
- Heavily-subsidized microcredit distorts capital markets, crowding out private credit or channeling resources away from more productive investments and politicizing the process[60], [61]
- Even if microcredit programs succeed, they make little difference in economies, even in small developing economies. The poorest of the poor are rarely helped and often hurt[62]
- Those who receive subsidized credit in many cases likely do not need it[63]
- Most do not have positive impacts and many are highly inefficient (no source listed)
- Extending microcredit may be a bad investment for these reasons:
    - Profitability—returns on microloans are only marginally profitable or often loss making
    - Risk aversion—greater risk because business are highly prone to failure, they have little collateral and they are likely to use their loans for other purposes
    - Information opacity—borrowers are difficult to evaluate in loan screening
    - Transaction costs—high costs in screening, processing, servicing loans and recovering capital under loan default (reduce profitability)
- Group lending

- o Takes up too much of members' time
- o Obligates participants financially for the adverse behaviour of others
- o Potentially gives bad credit ratings for some because of the actions of a few
- o Can be coercive for some members over others

Buss lists the following issues in developing, implementing or monitoring programs. While a number of these issues deal with poverty impact and the efficacy of microcredit as a poverty intervention tool, many are focused on larger economic issues questions raised with respect to the latter can be equally asked of all poverty interventions. Questions relating to poverty include:

Sustainability. Most observers believe that for microcredit to be successful, they must be self-sustaining, rather than subsidized by government or donor organizations, at least until they mature. If not self-sustaining, they become like other social programs.

Performance. In an age of reinventing government, management wants to keep programs on course, while effectively responding to evolving markets and client needs. Yet, because they tend to operate on a shoestring, often with staff who may be inexperienced in finance, programs may run inefficiently and perhaps fail. Clearly, performance and efficiency of operations are issues of concern to all programs.

Impact Assessment. Because government, international donor organizations, and charitable foundations subsidize microcredit programs, holding them accountable has become mandatory. Funders want to know whether programs impacted poor participants, financial institutions and economies as expected.

Economic Environment. In many parts of the world, microcredit programs help participants faced not only with problems common to small business everywhere, but also additional worries--economic crisis, war, political instability or transition, and natural disasters.

High Transaction Costs (i.e. group formation, training etc), especially in rural areas that impacts on the self-sufficiency and sustainability of bank operations.

High Interest Rates for loans have been seen by some as increasing the likelihood of loan default. Other view high rates as one means to hasten self-sufficiency. Others, such as Buss (1999) observe that subsidized microcredit programs can offer lower-than-going rates.

Non-Business Use. Money is fungible, and there are resource allocation decisions (good and bad) that will divert money away from the business. The most common of these are loan substitution, where the loan replaces existing working capital from the business, and releases this for other expenditure, and loan recycling, where the initial rise in business value following the loan is gradually eroded away over time (unpublished report by SEF). In addition, Todd (1996) documents the use of microcredit loans for the purchase of land in Bangladesh. Rental of purchased land appears to derive improved economic benefits relative to marginal small business, which can be used for subsequent reinvestment or additional consumption. It also circumvents land reform issues.

Rahman, Aminur. 1999. *Micro-credit Initiatives for Equitable and Sustainable Development*: *Who Pays?* World Development. 27 (1) p. 67-82.

Rahman concludes his paper (p. 79) with: “In recent years the most important criterion for success of microcredit programs is determined by their ability to achieve financial sustainability which is a desirable concern. But, at the same time, the service-providing institutions must also consider whether the attainment of such sustainability involves too large a cost in terms of borrowers, socio-economic impoverishment. If the aspirations for financial sustainability and the objective of serving poor women are contradictory, it is likely the latter will be sacrificed, especially when the donor and international development community’s attitude and support reward the former.

The microcredit and microenterprise development projects are going to the “the” significant component of the 21st century’s development initiatives in both poor and industrialized countries.”

Nonetheless, Rahman points out a number of issues with relationships in the single village he studied which had Grameen Bank operations. For example:

- “Out of 120 women borrowers, 18% claim a decrease and 70% emphasize an increase in violence and aggressive behavior in the household because of their involvement with the Bank” (p. 74)

- “In all five loan centers in the study village, I discovered that one or two influential members had real control over the decision making process of the center … Perpetuation of such power relations in the loan centers is contradictory to Grameen Bank ideology” (p. 74)

- “The figure shows that men are users [persons who control and use the loan and arrange for installments] of more than 60% of women’s loans. The study also shows that approx. 78% of total loans approved in the village are actually used for different purposes than sanctioned by the project” (p. 75)

Rahman attributes these problems to a “gulf between the ideology and vision” but does not offer specific remedies for Bank practices in the village.

Gibbons, David S. 1999. *International Replication of Grameen Banking: What Can the Poultry Network Learn from It?* Proceedings of a Workshop - Poultry as a Tool in Poverty Eradication and Promotion of Gender Equality.
http://www.husdyr.kvl.dk/htm/php/tune99/6-Gibbons.htm

Gibbons also specifically addresses the work of Rahman: “There is of course a flip side to this miracle story. Aminur Rahman (1999) who suggests, from his village-level observations in Bangladesh, that the Grameen Bank prefers women more for strategic reasons in relation to investment and recovery of loans than for the benefit of the women themselves has described it most fully (p.69), because they are more compliant and easier to discipline than the men. Moreover as the honor of their wives (and themselves) is at stake in repayment the husbands also pressure their wives to repay as required. Thus poor women are pressured from both sides, and some describe this as intolerable.

“These observations are useful because these things do happen from time to time, in GB and probably most of its replications. Money lending, and fundamentally that is the core of the GB methodology for poverty-reduction, is not a pleasant business. Always some borrowers will "test the limits" and try not to repay. Others will experience disasters, e.g., serious illness of husband, wife or children, death of the cow or buffalo purchased with the loan, flood or drought, etc., that make it impossible for them to repay as scheduled. GBR field staff, being pressed by their management to increase collection and to lower the portfolio at risk, and who may be paid incentives for doing so, may not bother to distinguish willful from unwillful defaulters, and may unfairly pressure the latter to repay. Ambitious branch and area managers may pressure their subordinate staff to maintain unrealistically high repayment rates, so as to maximize their chances for promotion. In every large organization there will be some bullies who will resort even to physical pressure and violence against subordinate staff and clients to get what they want. But well managed GBRs, that encourage upward flow of information, have strong field supervision and effective disciplinary procedures, can keep such excesses to a minimum. For example, the Zonal Manager in Tangail, Bangladesh, where Aminur Rahman did his study, was recalled to Head Office for his excesses in 1995, and ultimately sacked for them. In the long run, however, it is the poor women themselves, who will decide whether it is in their interest to continue in the program or not.”

Khandker, Shahidur R. 1998. *Fighting Poverty with Microcredit: Experience in Bangladesh.* Oxford University Press, Inc. New York.

“Contrary to expectations, women’s credit from any of the three programs reduced the use of contraceptives among participants. The effect was greatest for RD-12, followed by Grameen Bank and BRAC. The correlation coefficient for women’s participation was positive and fairly large, implying that the women who join these microcredit programs have already been using contraceptives more than observationally equivalent women.”

At the village level, borrowing had a negative impact on:

- Employment—BRAC and RD-12 reduced employment in villages (reflecting the decline in farm employment; however, note overall positive impact on village level income)
- Wages—for Grameen and BRAC villages, farm income was reduced (but not self-employed income)

According to Kandker, the usefulness of microcredit as a tool for reducing poverty depends on local circumstances. Poverty is often the result of low economic growth or high population growth or very unequal distribution of wealth/resources. The immediate determinants of poverty are unemployment or under-employment (low productivity). When poverty results from unemployment, creating jobs is appropriate. When poverty results from low productivity or low income, increasing productivity through training, capital investment etc is key.

MkNelly, Barbara and Christopher Dunford. 1998. *Impact of* Credit with Education *on Mothers and Their Young Children's Nutrition: Lower Pra Rural Bank* Credit with Education *Program in Ghana*. Freedom from Hunger Research Paper No. 4, Freedom from Hunger, Davis, CA.

Few significant differences were found across the groups in change of household expenditures on food, clothing, medicine, school expenses, house repair or business assets. Also, no statistically significant difference was found in the following areas, indicating the need for greater education in these topics: other diarrhea prevention practices (such as hand washing, reheating cooked food etc.); limiting or withholding food from children with diarrhea; immunization coverage.

International Labour Organization. *Women in the informal sector and their access to microfinance.* Available: http://www.ilo.org/public/english/employment/ent/papers/women.htm

Negative

- increased work loads (Vengroff and Creevey, 1994[64])
- higher social pressure to ensure loan repayment
- women often employ daughters and daughters-in-law as unpaid employees thereby increasing their workload
- participation in credit schemes can lead to indebtedness that is unmanageable, simply because there are no sufficiently profitable income-earning activities in which to invest. In this situation, women may end up being even more dependant that they were before

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Garson, Jose. *Microfinance and Anti-Poverty Strategies. A Donor Perspective*. UNCDF. http://www.undp.org/uncdf/pubs/mf/mf-chap1.htm#a

"Two factors limit the use of credit as an instrument for poverty eradication: (a) credit cannot be easily targeted to reach the poor and (b) many poor people, especially (but not only) the poorest of the poor, cannot make use of credit because they are in no position to undertake an economic activity." (p. 7)

Targeted (or directed) credit, as it came to be known, has been considered counter-productive for three main reasons (p. 7):

- A financial intermediary assigned specific target populations for its credit operations does not feel accountable for repayment problems that the project may encounter. Targeting has deprived it of any decision-making power with regard to the extension of credit. Repayment problems are considered to be the problems of the institution that has ordered the targeting and not the financial intermediary
- Most often the categories of borrowers that the intermediary is instructed to accept cannot be defined with precision. Targeting therefore creates a situation where dishonest acts

(e.g., ineligible people pretend to be eligible in order to be allowed to borrow from the intermediary) are bound to occur
- Targeted lending goes against the basic principle of risk diversification, one of the elementary rules in banking. Targeting limits lending to a given set of beneficiaries, who have certain characteristics in common that make them covariant risks: they are located in the same area; they work in related businesses, etc. When the targeted population is small, covariance cannot be offset.

"The fact that the targeted categories of people in income-generating programmes are poor does not alter the value of these arguments: **credit cannot be targeted to the poor in these programmes or else the programmes will fail**." (p. 8)

"The non-entrepreneurial poor do not know how to use credit to generate income."…"The fact is that the vast majority of the most destitute and the "poorest of the poor" are likely to figure among the non-entrepreneurial poor although there is no conclusive evidence of a direct relationship between the level of poverty and the skills and willingness to run a business."…" Yet while all poor people need to own more assets to generate more income, not all of the poor can express a viable demand for credit to finance the acquisition of these assets. In fact, as mentioned above, the poorest are the least likely to be in a position to express such a demand." (p. 8)

"If the acquisition were to be made through credit, other variables would need to be checked, such as the skills and entrepreneurship qualities of the potential borrower, if only because the demand for credit is also a function of these variables. In this context, credit can hardly be called a person's "right."… Second, credit is not appropriate for all entrepreneurial poor. The other name for credit is debt and debt financing is not always the best way to run a business. The most pressing need of the entrepreneurial poor involved in a business is to maximize their cash flow. This implies delaying payments to suppliers and receiving early payments from clients as well as quasi-equity from family members. Although such conditions amount to obtaining implicit credit from the entrepreneur's partners and family, credit as such (i.e., as provided by specialized institutions) is not necessarily needed." (p. 8)

"Anti-poverty policies need therefore to propose ways and means to address two issues: **how to increase the revenue of the poor and how to meet more of their basic needs**. This, in turn, calls for a differentiation between two categories of the poor. Some are able to increase their income by themselves; others cannot." "Those in the first category have been called the "entrepreneurial poor." The entrepreneurial poor do not need assistance for themselves, but they do need help in setting up an activity that will eventually increase their income." (p. 3)

"The concept of entrepreneurial poor thus allows anti-poverty policies to move from purely direct assistance (e.g., subsidies) to mixes of direct and indirect assistance (e.g., subsidies for the non-entrepreneurial poor and financial assistance for the entrepreneurial poor). Governments and donors are more interested in indirect assistance because it targets the causes of poverty rather than the poor themselves, making anti-poverty policies more cost-effective." (p. 3)

"By contrast, the so-called new minimalist approach to the role of credit in poverty eradication holds that the provision of credit to any poor person able to repay a loan is in itself enough to fight poverty (Rogaly, 1996[65]). New minimalists think that controls on the way in which borrowers use the money they borrow are unnecessary. Borrowers should be left to do what they want to do with the borrowed money. Since money is fungible, new minimalists argue, the ultimate allocation of borrowed funds is never known by the lenders."…" The new minimalist approach is implicitly based on a law of large numbers: on average, credit extended to the poor is likely ultimately to increase income even if some of the poor use it for immediate consumption." …" The desired result in terms of poverty reduction is achieved when the institutions delivering credit are made sustainable. This will happen when the number of poor borrowers serviced by the institutions is quite large. The new minimalist approach, therefore, directs its attention to the institutions delivering financial services rather than to the poor benefiting from the services of the institutions."…" The value of the new minimalist approach relies on the validity of its underlying assumption, namely, that anti-poverty programmes involve a fairly large number of poor in a widely diversified economy." (p. 5)

1.4 Degree of Poverty

Barnes, Carolyn. Gary Gaile and Richard Kibombo et al. 2001. *The Impact of Three Microfinance Programs in Uganda.*
http://www.mip.org/componen/aims/pubs/english/mission1a.htm

FINCA, FOCCAS, and PRIDE, Uganda -- "The assessment found that the MFI program branches studied are primarily reaching low-income, moderately poor microentrepreneurs, who are their target group...The findings also indicate that a small proportion of the clients may belong to households that are not poor, but that are vulnerable to slipping into poverty."

Khandker, Shahid. 2001. *Does Micro-finance Really Benefit the Poor? Evidence from Bangladesh*. Paper delivered at Asia and Pacific Forum on Poverty: Reforming Policies and Institutions for Poverty Reduction held by the Asian Development Bank. Manila.

"The regression analysis of all types of households found that the households that were resource-poor, both in landholding and formal education did participate in micro-finance programs…. This information supports the notion that the poor do participate in the microfinance programs of Bangladesh. This finding is supported further by analyzing only those households with fewer than 50 decimals of land….**the ultra-poor do participate in micro-finance programs**. In fact, an overwhelming percentage (80%) of microfinance program participants in Bangladesh include households holding either zero or fewer than 20 decimals of land….Do these poor micro-finance participants really benefit from their participation?" (p. 9)

"**Microfinance participants do better than non-participants in both 91/92 and 98/99 in per capita income, per capita expenditure, and household net worth**. The incidence of poverty among participating households is lower in 98/99 than in 91/92, and lower than among non-participating households in both periods." (p. 11)

Net program participation among eligible households was 29% in 91/92 and 46% in 98/99. (p. 8)

The extent of mistargeting in microfinance programs of Bangladesh remains constant—23% of program borrowers came from the non-target households in 91/92, compared to 25% in 98/99. (p. 8)

Nteziyaremye, Anastase. Kathleen E. Stack and Barbara MkNelly. 2001*. Impact of* Credit with Education *on Recruitment of New Members to the Credit Unions of the Kafo Jiginew and Nyèsigiso Federations in Mali*. Freedom from Hunger Research Paper 7. Freedom from Hunger. Davis, CA.

"Applying the basic needs methodology for developing a poverty index, the CEE clients were the relatively poorest client category…" (p. 1) "**In fact, both programs were even reaching women living in households classified as among the poorest and most destitute in the community**." (p. 2)

"One of the most striking findings from the wealth-ranking exercise was how closely the wealth distribution of CEE members **mirrors the overall wealth distribution in the communities** in general." (p. 2)

Interviews were then conducted with the women in the poorest third as identified by the wealth ranking. Findings as follows (p. 2-3):

- Those who did not join: Little or no evidence that the poorest were being excluded by others; instead, they seemed to be **self-excluding** most often because of "the poverty of their household"; also due to "lack of experience or means for starting an income-generating activity; fear of tainting their reputation or the trust of others if they can't repay and pressure to meet immediate consumption needs such as food and clothing and other work responsibilities"
- For those who did join: "**Participation helped them meet their families' basic needs for food, clothing, medical expenses** and to prepare for the marriages of children.

Matin, Imran. David Hulme and Stuart Rutherford. *Financial Services for the Poor and Poorest: Deepening Understanding to Improve Provision.* Available: http://www.devinit.org/findev/Working%20Paper9.htm

Depth in outreach depends on program content, flexibility, terms and conditions; in other words, 'the degree to which the products offered meets poor people's special needs by tailoring the characteristics of the products to them'. The poorer strata might be better reached if a broader range of financial services is provided.

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van de Ruit, Catherine. Julian May and Benjamin Roberts. April 2001. *A Poverty Assessment of the Small Enterprise Foundation on Behalf of the Consultative Group to Assist the Poorest*. University of Natal.

This is a report of the findings of a poverty assessment conducted for the Consultative Group to Assist the Poorest (CGAP), an international service provider to micro-finance institutions, and the Small Enterprise Foundation (SEF), a micro-finance institution (MFI) operating in the Northern Province of South Africa. The poverty assessment is a simple, low-cost operational tool designed to assess the poverty status of clients supported by micro-loans compared to a representative sample of non-clients. (This approach is an assessment tool rather than a targeting tool.)

SEF has two programmes, the most established of which is the Micro-Credit Programme (MCP). In 1996, SEF introduced a poverty targeted micro-credit programme, the Tshomisano Credit Programme (TCP) that uses a participatory wealth ranking methodology (PWR) to facilitate targeting. As such, assessing the poverty targeting of SEF offers a unique opportunity to compare the depth of poverty outreach between these two programmes as well as the effectiveness of the two methodologies for identifying the poor.

The clients in the poverty targeted programme are overwhelmingly situated in the poorest category, while the majority of clients in the non poverty targeted scheme are found in the least poor category. The majority of TCP clients (52 %) are located in the poorest category, as opposed to 9% in the least poor category.

The TCP poverty profiles indicate that SEF is reaching the poorest people and point to the success of the targeting mechanism (PWR) in encouraging poorer people to join the programme.

The poverty scores derived from the participatory wealth ranking were compared with the CGAP instrument. Three quarters of those defined as poor by the poverty assessment were also defined as poor by the PWR.

The results of this study have been noteworthy on two counts. The first is that poverty alleviation programmes need to be accompanied by a targeting strategy and a programme structure appropriate to the needs of the very poor. A poverty targeting strategy appears to be a central component in ensuring that the most vulnerable people are drawn into a poverty alleviation programme. The second related point is that small loan sizes did not deter the non-poor from joining MCP.

TCP's Impact on Poverty (unpublished?)

"…the vast majority of TCP members do not have a functioning business when joining the programme. Most TCP members start businesses with which they are personally familiar, or where they know other people running that type of business."

"Analysis of the impact monitoring data base demonstrates an overwhelming positive impact for TCP members. There are a small number of people who experience negative impact, but there are very few who experience severe negative effects. This is partly a result of the low starting point of members, but there is a general movement towards increasing positive impact over time as members move on to higher loan cycles. Analysis of five impact indicators all show average increases for the programme over time, although the rate change decreases."

"Contrary to the arguments of many academics (for example Hulme and Mosley) quantitative data **suggest that TCP's poorest members perform at least as well as the average performance for the programme**. … What is also very clear from the case-studies is the high value of small initial livelihood changes. The securing of the business, for example, leads to a regular and reliable income. These changes would not be picked up by conventional income /expenditure surveys, but represent an important positive impact for the very poor. **Small income changes for the very poor have proportionately much greater impacts on livelihood, than those for the better off**. For example, the rapid and significant changes in food scores provides evidence that small income changes are having great impacts."

"A strong emphasis is therefore put on the productive use of loans, and loan utilization checks (LUCs), and the linkage of loan size to business value, in an attempt to ensure that loans are given on the basis of adequate productive return from the business. In the case of less poor people who have multiple income sources and can therefore pay the loan installments from existing income, this is not as important."

CGAP: May 2001. *Focus Note 21 - Linking Microfinance and Safety Net Programs to Include the Poorest: The Case of IGVGD in Bangladesh*. http://www.cgap.org/html/p_focus_note21.html

Income Generation for Vulnerable Groups Development (IGVGD) Program, Bangladesh -- The IGVGD is a collaborative food security intervention jointly led by the government of Bangladesh, the World Food Program (WFP) and the Bangladesh Rural Advancement Committee (BRAC). Targeted towards destitute rural Bangladeshi women who have little or no income earning opportunities, the IGVGD program has provided food grain assistance and savings and credit services to nearly a million participants over a ten-year period. Two-thirds of these women have “graduated” from absolute poverty to becoming microfinance clients, and have not slipped back into requiring governmental handouts. BRAC recognizes that IGVGDP is not financially sustainable but believes that cross-subsidy from the RCP will allow them to assist a large number of IGVGDP clients while retaining overall sustainability.

Dunford, Christopher and Vicki Denman. November 2000. *The Case for Credit With Education: A Promising Title II Microfinance Strategy for Cost Effective and sustainable Impact on Chronic Food Insecurity and Malnutrition.* Freedom From Hunger. www.fantaproject.org/downloads/pdfs/cwe.pdf

Credit with Education studies show that: "Microfinance programs face unusual challenges in making sure their services reach even the poorest of economically active households. A major obstacle is a set of assumptions of the community of academics, donors and practitioners supporting microfinance programming. They assume that the design of microfinance, especially poverty-oriented, group-based microfinance, creates a desirable bias toward the poor (or more accurately, against the not-so-poor). The small loan size, high interest rate, short loan duration (too short for many kinds of investment, especially for most types of production agriculture), the frequent repayments (initially weekly in most programs), and dependence on mutual guarantees are all factors assumed to make the program unattractive to people who have other sources of easier credit. It is assumed that the poor, with few, if any, other options (because they lack collateral and distinct businesses), will tolerate these unattractive features, while the not-so-poor, for whom easier options are available, will tap more attractive sources of credit. [paragraph] Firm belief in the effectiveness of a “self-selection” bias toward the poor explains why few practitioners attempt to verify that they are reaching relatively poor entrepreneurs. Formal intake surveys or selective screening out of the not-so-poor are considered unnecessary, costly and disruptive practices that are detrimental to the work of field agents. This is as true for Credit with Education as it is for most other group-based microfinance program strategies. However, when easier finance options are not available to the not-so-poor, the demand for credit may be so high that even they are willing to tolerate the unattractive features of group-based poverty lending. In such a case, self-selection may prove to be ineffective in focusing services on the poorer community members. At best, the participant profile may simply reflect the poverty profile of the whole community."

Churchill, Craig. September 2000. *Bulletin Highlights and Tables—Reaching the Poor: The Microbanking Bulletin*. Issue 5. http://www.calmeadow.com/mbb2_index.html

Summary p.2 “Craig Churchill analyses the characteristics of financially sustainable MFIs. He finds that there is NOT (original emphasis) a strong relationship between loan balances and self-sufficient, and that some of the most profitable MFIs serve the poorest clients” 114 MFIs were analysed. The result (p.10) : “Now to the crux of the matter: is there a trade-off between FSS and depth of outreach (average outstanding loan /GNP per capita) and average outstanding loan balance. The data suggest that it is possible to possible to provide very small loans and be financially self-sufficient.” “Low-end MFIs also target women more effectively than sustainable programs that provide larger loans. 83% of the clients of low-end FSS MFIs are women, compared to 50% for broad MFIs and 32 % for high-end institutions”.

"While it might be assumed that a decline in average loan balance will negatively affect self-sufficiency, this is not necessarily the case. Out of the 13 programs that fall within this category, 6 increased their FSS ratio from 1998 to 1999. This issues deserves further analysis, but it reinforces the idea that there is not necessarily a trade-off between depth of outreach and profitability."

Gibbons, David S. and Jennifer W. Meehan. 2000. *The Microcredit Summit Challenge: Working Towards Institutional Financial Self-Sufficiency while Maintaining a Commitment to Serving the Poorest Families*. www.microcreditsummit.org/papers/papers.htm.

"A few years ago an influential book that included case studies of 12 MFIs in Asia, Africa, and Latin America argued that MFIs working with the poorest would experience a trade-off with IFS. Specifically, it concluded that, "at a given point in time [MFIs] can either go for growth and put their resources into underpinning the success of established and rapidly growing institutions, or go for poverty impact…and put their resources into poverty-focused operations with a higher risk of failure and a lower expected return" (Hulme & Mosley, 1996, p.206[66])…. Despite the influence of Hulme and Mosley's study, it is now recognized among many that the alleged trade-off is not inevitable (Christen, 1997[67]; Christen and others, 1995[68]; and Gulli, 1998[69], p. 28). A study of 11 successful microfinance programs in three continents found that, "Among high-performing programs (current authors' emphasis), no clear trade-off exists between reaching the very poor and reaching large numbers of people" (Christen and others, 1995, p. viii[70]), and concluded that their results showed that, "…full self-sufficiency can be achieved by institutions serving the very poor…." (Christen and others, 1995, p. 27[71]) **Thus it is not the clientele served that determines an MFI's potential for IFS, but the degree to which its financial services program is well-designed and managed**." (p. 4)

This study examined 3 MFIs:

- The Center for Agriculture and Rural Development (CARD) a Grameen Bank replication/ adaptation based in the Philippines (Operating Self-sufficiency—OSS—of 102.2%; Financial Self-sufficiency—IFS—of 95.9%; sample found that 53% of those who joined before CARD became a bank and 63% of those who entered after the bank had been established lived in the poorest houses—used CASHPOR House Index.)
    - Average labour productivity in enterprises was 34% higher than the market wage rate
    - Rate of return on capital was 117% compared to 46% (effective) rate of interest charged by CARD
- Credito con Educacion Rural (CRECER) a Freedom from Hunger Credit with Education affiliate and village-banking program based in Bolivia (OSS—93.8%; IFS—85.0%--due to aggressive expansion plan; and approximately 49% of clients are 'extremely poor')
- The Foundation for International Community Assistance (FINCA Uganda), a village banking program based in Uganda (OSS—105.5%; IFS—79.7%--due to failure of Co-Operative Bank of Uganda with which they held 30% of cash and in which 80% of clients kept their savings; 67% of clients enter in 'severe poverty defined as a daily per capita income or DPCI of less than US$1 with an average of US$0.56. 22% were 'moderate poor' with an average DPCI of US$1.39)

"So it is clear that MFIs serving and benefiting substantial numbers of the poorest clients in their countries can be at or near operational self-sufficiency, not too far from IFS, and

making progress toward both. They need not experience a trade-off between working with the poorest and institutional financial sustainability." (p. 8)

"…the 'paradox of poverty-reduction through microfinance'; expansion of outreach is necessary for more poverty-reduction, but the expansion itself lowers IFS, which, in turn, makes commercial financing of the expansion more difficult, if not impossible. Strategic planning and financial modeling can help to break the paradox." (p. 21) Authors go on to examine how to set appropriate interest rates (with a note of caution, originally suggested by Huguette Labelle, that an impossible burden of interest rate charges should not be placed on the early clients), ensure that the loan portfolio and assets yield the expected rate of return, and develop a 5 year plan promoted as 'package financing'…"If social investors and donors can provide grants and soft loans, contingent upon the attainment of planned annual performance targets, to finance the operating deficits prior to IFS, then commercial banks should be willing to provide the required on lending funds at commercial rates. Thus the paradox can be broken." (p. 21)

Can the poor afford to pay appropriate interest rates? "It is now known that subsidized credit rarely gets into the hands of those for whom it was announced, yet politicians persist. In several countries governments still cap interest rat4es on small loans in the mistaken belief that it helps the poor and poorest. In fact, it has the opposite and unintended result of depriving them of access to credit at all, as the scarce, subsidized credit is taken by those at the local level with more influence and better connections than the poor and poorest." (p. 24) "The consistent, near perfect repayment rates, which are characteristic of MFIs around the world, are empirical evidence that the moderately poor and poorest can pay **appropriate interest rates charged by efficient microfinance institutions**. Working in an area of India where repayment of Integrated Rural Development Program (IRDP) loans is said to have been less than 10%, CASHPOR Financial & Technical Services Private Limited (CFTS) has been able to collect 97% of weekly repayments due, since it began operations 18 months ago, and SAHRE in Andra Pradesh, India has been recording perfect repayment performance since it started. CARD has maintained near perfect repayment for years, with about half of its clients coming from the poorest category…It is our impression that if anything the poorest clients have a higher repayment rate than the poor clients. Probable reasons are the strength of the desire of the poorest women to rise out of poverty and provide a better life for their children, as well as their relative lack of alternatives for earning cash income." (p. 25)

Navajas, Sergio. Mark Schreiner, Richard L. Meyer, Claudio Gonzalez-Vega, and Jorge Rodriguez-Meza. 2000. *Microcredit and the Poorest of the Poor: Theory and Evidence From Bolivia.* World Development. 28 (2)
http://www.microfinance.com/English/Papers/Bolivia_Poorest.pdf

Authors analyze the depth of outreach for 5 microfinance organizations in Bolivia. Level of poverty categorized using the 1992 national poverty assessment. The poverty line was set—below this were *poor* and the rest were *non-poor*; the poor were sub-classified as *moderate or poorest*.

"We find that the five microfinance organizations in Bolivia most often reached not the poorest of the poor but rather those just above and just below the poverty line." …"We find that group lenders (group loans) reached the poorest better than individual lenders." (p. 3)

"The empirical results sketch some of the limits of microcredit for the poorest of the poor. They highlight the need for more scrutiny of the flood of funds budgeted in the name of access to loans for the poorest." (p. 30)

"What matters is not whether the microfinance organizations reached the poorest of the poor, but whether they reached the poorest of those who demanded loans and who were creditworthy. " (p. 23)

"The five lenders reached about 4,500 of the poorest…" (p. 24) out of a portfolio of more than 52,000 borrowers (**8.65%)**

"In contrast (to the urban lenders), the lack of a large number of non-poor borrowers pushed the rural lenders to the poorest….The absolute number of rural non-poor households is small, however, and so the rural lenders turn sooner and more often the more difficult of all clienteles, the rural poorest. The greater depth of the rural lenders **suggests that the urban lenders may not yet reach all the urban poorest who are creditworthy and want loans**." (p. 28)

Adapted from Sebstad, Jennefer and Monique Cohen. 2000. *Synthesis Report on Microfinance, Risk Management and Poverty*. The report is based on field studies by Ronald T. Chua, Paul Mosley, Graham A.N. Wright, and Hassan Zaman. Paper submitted to USAID by AIMS. Management Systems International. Washington, D.C. http://www.cgap.org/html/p_focus_notes17.html

Wealth ranking by household poverty level shows that microfinance clients in the study programs are heterogeneous. Clients defined themselves relative to poverty categories that included destitute, extreme poor, moderate poor (roughly just below the poverty line), and vulnerable non-poor (just above the poverty line). As shown in Table 1, the WDR research, complemented with the findings from other impact studies, suggests that:

- Most clients come from moderate poor and vulnerable non-poor households;
- Clients from extreme-poor households participate in microfinance programs but are not in the majority. Programs that explicitly target poorer segments of the population generally have a greater percentage of clients from extreme-poor households
- Destitute households are outside the reach of microfinance programs.

Simanowitz, Anton. 2000. *Client Exit Surveys: A Tool for Understanding Client Drop-Out.* Journal of Microfinance. 2 (1) http://spc.byu.edu/pages/microfinancevols/microfinancev2n1/client.html

SEF is a nonprofit nongovernmental organization (NGO) working toward the alleviation of poverty and unemployment in South Africa's rural areas by providing sustainable financial services. It uses a group-based lending methodology patterned after that of the Grameen Bank. An evaluation in 1995 concluded that only 30% to 40% of people reached by SEF were very poor, i.e., living below one-half of the poverty line. Rather than change the structure of SEF, a new project, Tshomisano, was launched to specifically target the poorest sector. Although similar in philosophy and basic structure, the motivational techniques, loan utilization checks, ongoing follow-up, and other aspects of the program have been adjusted to address the needs of the poorer population. Currently 97% of SEF's 9,500 clients are female.

Simanowitz, Anton. Ben Nkuna, and Sukor Kasim with inputs from Robert Gailey, John Hatch and Laura Frederick. June 1999. Updated June 2000. *Overcoming the Obstacles of Identifying the Poorest Families: Using Participatory Wealth Ranking (PWR), The CASHPOR House Index*

***(CHI), and Other Measurements to Identify and Encourage the Participation of the Poorest Families, Especially the Women of Those Families*.**
http://www.microcreditsummit.org/papers/povertypaper.htm

"Pragmatism would tend to favor an approach that accepts that most MFIs [micro finance institutions] will reach a mixture of clients, including some of the poorest and the poor, but perhaps also the non-poor. In this case, poverty-targeting would be mostly a tool for understanding and reporting on who is being reached. Provided that the poorest can be effectively reached in a "mixed" program, increasing scale is likely to lead to significant outreach to the poorest. Programs serving several strata of clients, not just the poor and the poorest, may be able to expand faster and to reach larger numbers than programs exclusively targeted to one stratum. If they do, large numbers of the poor and the poorest are likely to benefit. Moreover, such programs have the possibility of cross-subsidizing their less profitable lending to the poorest from their more profitable lending to the non-poor, and thus potentially achieving IFS [institutional financial sustainability] more rapidly."

Small Enterprise Foundation (SEF), South Africa -- "Organizations, such as SEF, which have tried to work exclusively with the poorest, have found that, in their context, the poorest cannot be effectively reached in a mixed program. To meet the needs of the poorest, a culture of poverty-focus needs to be created. If there is a dominance of non-poor, or even poor over the poorest, then the stronger, more confident, more vocal people will make their voices heard. An innovative MFI striving for IFS or a loan officer responding to financial incentives for a good loan portfolio will listen to these voices. This will lead to a tendency to develop loan products more suited to the better-off clients. Poorer clients become increasingly marginalized both by the MFI, and in the case of group-based lending, by their fellow group and center members. The very poor, who take small loans, experience problems, are vulnerable and need much support, and are not popular with other clients, loan officers, or branches striving for profitability. At such a point, if the program is still attracting the very poor, it may well lead to negative impact for these clients, and in fact contribute to greater poverty."

Thys, Didier. 2000. *Depth of Outreach: Incidental Outcome or Conscious Policy Choice?* Invited editorial for the Microfinance Gateway. http://www.ids.ac.uk/cgap reprinted in Nexus (newsletter of the Small Enterprise Education and Promotion (SEEP) Network). Summer Issue. p. 7, 11. http://www.seepnetwork.org/news.html

Kafo Jiginew, Mali -- began with a client base of 31,888 in 1995 the majority of whom were relatively better off and mostly male cotton farmers. They added a poverty-focused product (Credit with Education) in 1996. By 1999, they were reaching 52,667 borrowers of whom 11,119 were receiving Credit with Education services 28% of whom could be classified as being very poor. This worked out to 3,113 borrowers or 6% of total borrowers. At the same time, they increased their operational self-sufficiency to 126% and reduced their subsidy dependence index to 3%.

Wright, Graham A. N. 2000. *Microfinance Systems: Designing Quality Financial Services for the Poor*. Zed Books Ltd. London & New York, and The University Press Limited, Dhaka.

"…there is increasing acceptance that traditional Microfinance programmes are not reaching the "poorest of the poor"—indeed they are rarely reaching the bottom 10-15% of the population. This is **largely driven by the nature of the financial services provided by the MFI's** which force the poorer members of the community to choose not to join, and those who are required to guarantee or follow-up their loans to chose to exclude the poorest. A MFI's ability to attract the poorest depends on the financial services it offers, and **whether they have been designed to be appropriate for the needs of the poorer** members of the community." (p. 262)

Hossain (1988[72]) "Grameen Bank members had incomes about 43% higher than the target group in the control villages, and about 28% higher than the target group non-participants in the project villages" **"…the positive income effect has been highest for the absolutely landless, followed by the marginal landowners…"** (p. 14)

"Several authors, including Hulme and Mosley (1997[73]) have noted that "Worryingly, both BRAC-RDP and Grameen Bank recently appear to be moving away from working with significant proportions of the hard core poor and focusing their activities on the middle income and upper poor, rather than the most desperate." This is generally attributed to the increasing emphasis on institutional sustainability which Hulme and Mosley (1996[74], 1997[75]) and Rogaly (1996[76]) see as incompatible with reaching the poorer of the poor." (p. 16)

"As Rutherford (1995[77]) and Wright et al (1997[78]) would argue, the exclusion of the poorest is also driven by the emphasis on credit delivery by many organizations. For the poorest households the opportunities for productive use of loans are limited, and the risk of taking loans that are repayable on a weekly basis are unacceptably high." (p. 17)

"In Rangpur, Grameen is experimenting with goat loans, and in what is generally viewed as the most successful approach, BRAC runs the Income Generation for the Vulnerable Group Development (IGVGD) programme explicitly to bring the poorer households into its Rural Development programme. By 1995, IGVGD …had reached 166,918 of the poorest (Chowdhury and Alam, 1997[79])."

As noted by an Asian Development Bank report (1997[80]), "Cases of loan use for current expenditure related mostly to the extreme poor." (p. 37)

Drop-outs (see Hulme and Mosley) "The increasing awareness of the importance of the number of drop-outs a programme experiences has prompted a series of studies in recent years…Khan and Chowdhury (1995[81]) collected information on the drop-outs' length of membership and concluded, 'The average years for which they had been members before leaving was 4.7 for males and 3.8 years for females'. This strongly suggests that BRAC was indeed losing many of its older, more experienced, and cost-effective clients, and that only a part of the drop-outs arose from villagers joining on a test basis before concluding that BRAC's system was not meeting their needs or expectations." (p. 44-45)

"…the reasons for drop-out are, in the words of Mustafa et al (1996[82]), '**multidinensional**'. Indeed, the unifying theme of the studies on the subject is that the reasons for drop-out are complex. Sixteen reasons for drop-out were catalogued by Hasan and Shahid (1995[83]). Of these, four related to social pressure, four to resource constraints, and four to the organization itself. The remaining four were migration, death, joining another NGO and no access (as hoped) to Vulnerable Group Development cards." (p. 45) "Mustafa et al. (1996[84]) noted in particular causes related to lack of easy access to savings, the excessive emphasis on credit discipline, the frequent policy changes and conflict among Village Organization members. ASA's (1996[85]) study noted**… low loan ceiling and 'absence of multiple credit' " in 74.75% of cases** and additional 23.27% of "members withdrew their membership as they disliked the savings rule." (p. 46)

Wright then comments directly on Hulme and Mosley's conclusions: "But although this (drop-out due to under reporting of credit-induced crisis) may well be important for a minority, **examination of the studies reveals a common dominate theme among the three quarters of drop-outs who leave voluntarily: dissatisfaction with the financial services being offered,** and a belief that other NGOs offer better facilities (including crucially, how the organization's staff behave with their clients)." (p. 46)

Destitute/core-poor: "The ASA (1997[86]) study of 626 respondents (drawn from a mixture of ASA staff and clients) revealed different perspectives, perhaps as a result of **focusing on the exclusion of the absolutely destitute.** Almost all (**98.8%) of respondents**, and all the clients, **said that lack of minimum clothing (to leave the bari and attend a public meeting) excludes the 'hardcore poor'**. 87.06% said that the local elite (moneylenders, religious leaders, union chairmen etc.) play an important role in the exclusion of the hardcore poor. 77.16% of respondents noted that ASA's age limits on membership (18-50) exclude the hardcore poor. Finally, analysis of the responses of the of the unit staff suggests that they themselves often screen out the hard core poor as too risky clients…" (p. 59) "Alamghir (1997[87]) …investigated why these poorer families (poorer than the members who had already joined the groups) did not join the groups…finding that of these **25.17% did not join because they would not be able to pay regular weekly savings**, 14.68% did not join because they would not be able to pay regular loan installments, 7.3% did not have any interest in receiving a loan, and 6.9% did not like to attend weekly meetings. It is interesting to note that none of the explanations for not joining by Alamghir involved MFI's staff screening out the poorer families. (NP) Thus while credit-oriented MFIs' staff may be screening out some of the poorest (for entirely pragmatic and legitimate reasons), it is the **MFIs' policies that seem to play a particularly important role in the exclusion of the poorest**. Not only are they unable to attend weekly meetings, and fear for their ability to make the weekly repayments, but also they even cite the weekly savings requirement as a mechanism that excludes them from risking taking membership in MFIs. Once again, **there seems to be an opportunity to examine still more flexible financial services** (for example entirely voluntary, open access savings accounts, without the weekly deposit requirements) to attract the poorest." (p. 59-60)

Zaman, Hassan. 2000. *Assessing the Poverty and Vulnerability Impact of Micro-Credit in Bangladesh: A case study of BRAC*. World Bank.
www.worldbank.org/html/dec/Publications/Workpapers/wps2000series/wps2145/wps2145.pdf

"Not only do the poorest join BRAC's credit program, but their borrowing pattern is similar to better-off members of their group (Zaman 1998[88], Halder and Husain 1999[89]). In other words the presence of wealthier households does not appear to affect the credit supply to poor households; however there is evidence to suggest that poorer households use a larger share of their loans for consumption purposes compared to better-off households (Halder and Husain 1999[90])….This feature of better-off households joining over time has also been noted as a general rule of thumb in many targeted anti-poverty programs worldwide (Lipton 1996[91])." (p. 1-2)

"There appears to be a growing consensus that moderate-poor micro-credit borrowers **benefit more** than extremely poor borrowers in terms of a reduction in income (consumption) poverty. The basic premise is that the poorest have a number of constraints (fewer income sources, worse health and education etc.) which prevent them from investing in a high-return activity or because of a long gestation period for the returns to accrue (Wood and Sharif 1997[92])." (p. 4)

"It would be tempting to conclude unequivocally that the ultra-poor benefit less than the moderate poor. However, given that the coefficients for the loan sizes which are smaller than 10000 taka are not significant at the 10% level for both households with more than ten decimals of land and those with less than ten decimals compared to non-borrowers, **it is difficult to be sure. One can only point to the MLOADUM3 result and conclude that whilst there is some evidence that credit has the potential to benefit the moderate poor, the Matlab data cannot argue the same for the ultra-poor**. However the coefficient on ULOADUM3 is only marginally not significant (p = 0.12) which could **suggest that the ultra-poor may benefit significantly at a higher loan threshold**." (p. 14)

CGAP: May 2000. *Focus Note No. 16. Those Who Leave and Those Who Don't Join: Insights from East African Microfinance Institutions.* http://www.cgap.org/html/p_focus_notes16.html

Micro-Save Africa's study of 13 microfinance institutions, East Africa -- "Most clients of the MFIs studied the MFIs studied appear to be non-poor, but not wealthy: they tend to come largely from households that can meet their daily needs, have access to primary education and basic health services, and have accumulated some assets. This group of clients are in the "comfort zone"; they enjoy a relatively stable income source and sufficient livelihood diversification, allowing them to service regular repayments even when faced with small crises."

Marcus, Rachel. Beth Porter and Caroline Harper. 1999. *Money Matters: Understanding Microfinance*. Save the Children. London.

"It is clear that most programmes exclude the poorest people—through aspects of programme design or because the services they offer are irrelevant to the poorest people. Some current trends, such as aiming too rapidly for full financial sustainability are exacerbating this exclusion." (p. 9)…However, authors later go on to say, when reviewing specific SCF programs, "It is not yet clear whether the increased emphasis on financial sustainability has resulted in the exclusion of poorer people or greater pressures on participants (anecdotal evidence from Bangladesh suggests not), but this is an important issue to monitor."

"Whilst some proponents of new wave microfinance recognize that the poorest people often do not benefit directly from microfinance, **they believe that focusing on the slightly better off is a more effective development strategy and the growth of small businesses will increase employment opportunities for the poorest** (Malhotra, 1992 cited in Ghate et al, 1996[93]). There is, however, **little evidence that benefits trickle-down in this manner**—a recent review of microenterprise development programmes in seven countries found that entrepreneurs very rarely hired non-family labour (Hulme and Mosley, 1996[94])" (p. 18)

If financial sustainability is a goal (low overheads and high repayment rates)…"this can mean that MFIs provide their services in areas which are easy and cheap to reach and to people they can be sure will repay. As a result, people living in isolated areas and poorer more vulnerable people who are seen as poorer credit risks may be unable to obtain financial services. A review of microfinance in West Africa concluded that the costs of reaching very poor people in remote rural areas of this region will always exceed possible revenues…subsidies will always be needed (Webster and Fidler, 1995 cited in Johnson and Rogaly, 1996[95]). Bennett et al, (1996[96]) reached similar conclusions for microfinance programmes in the mountains of Pakistan and Nepal. **Emphasizing financial sustainability above other concerns can thus result in the exclusion of the poorest, most vulnerable people, and those living in isolated areas from financial services**." (p. 19)

"Commercial MFIs have so far shown little interest in developing ways of reaching the poorest people (Hulme and Mosley, 1996[97]; Zaman, 1997[98])—this has been left to NGOs." (p. 19)…suggests that the **private provision only, of microfinance will likely exclude the poorest and most disadvantaged**.

"Whilst more analysis is needed, there is some evidence that programmes tackling some of the broader aspects of poverty and powerlessness, such as illiteracy or poor health, as well as providing financial services are **more effective in assisting the poorest people than minimalist programmes** (Glaser et al, 1992 cited in Peace and Hulme, 1993[99]). Equally, there is some indication that **minimalist programmes may be as or more effective than integrated programmes in assisting established small business and in raising the incomes of the 'better off poor'** (Hashemi et al, 1996[100])." (p. 20)

"It is clear from studies such as Hulme and Mosley's that…**incomes of the poorest participants generally increase much less than those of better off participants**…not surprising: better off people usually have more resources, both financial and in terms of knowledge and skills which they can use to develop or improve a business. They may also have better access to materials and markets, extra labour and informal support through their social networks as well as greater self-confidence (Kabeer and Murthy, 1996[101]; Robinson and Riddell, 1995[102]). The consequences of an investment failing are not as severe as they are for poorer, more vulnerable people. As a result, better off people are able to invest in riskier but more lucrative activities….Ironically, the design of microfinance programmes often serves to limit the horizons of poorer people and confine them to low-return (low-risk; my addition) activities." (p. 22)

"Microfinance is widely viewed as a means for poor people to develop small businesses. The significance to poorer people of 'consumption' loans—those not invested in specific enterprises—has been greatly underestimated. One study in India found that **'consumption credit' comprised two-thirds of the credit needs of households below the poverty line** (Mahajan and Ramola, 1996[103]). MFIs in Bangladesh and Sri Lanka that have introduced emergency consumption loans have extended their access and relevance to poor people (Hulme and Mosley, 1996[104]). The main **uses of consumption credit include: food, health car or housing improvements, all of which can protect or promote the health and labour power of household members, thus protecting livelihoods**. Another major use is to pay off other loans with higher rates of interest (Rutherford, 1993[105])." (p. 23)…"Where MFIs can provide an alternative to large loans at high rates of interest typically contracted in emergencies…they can reduce poorer people's dependence on moneylenders and employers. They may also enable people to free themselves from conditions imposed on them along with loans, such as bonded labour." (p. 25)

"**Programme conditions**, **designed to exclude richer people or to ensure financial sustainability often mean that credit and savings services do not meet poorer people's needs.** They may find frequent credit and savings group meetings too great a demand on their scarce time. Strictly enforced conditions on loan use—for example that they may only be used for 'productive' purposes—can diminish the potential of microfinance to address poorer people's immediate financial problems." (p. 25)

" Since group members are responsible for each other's loans in case of default, there is a strong incentive to exclude people who may be unable to pay…Poorer, socially marginalized people often exclude themselves from groups where they feel they would be unwelcome…Despite their popularity, groups are not the only way in which a loan can be guaranteed. Alternatives include personal guarantees, though it may be hard for poorer people to find a guarantor, and savings.

Acceptance of non-traditional items as collateral, such as plant pots, radios or bicycles has provided an alternative to group guarantees in Indonesia (Hulme and Mosley, 1996[106])." (p. 24)

Yunus, Muhammad. November 1999. *The Grameen Bank*. Scientific American. 281(5) p. 114-119.

"In a typical year 5% of Grameen borrowers—representing 125,000 families—rise above the poverty level. Khandker concluded that among these borrowers **extreme poverty (defined by consumption of less than 80% of the minimum requirement stipulated by the Food and Agriculture Organization of the United Nations) declined by more that 70% within five years of their joining the bank**."

"We try to ensure that the bank serves the poorest: only those living at less than half the poverty line are eligible for loans. Mixing poor participants with those who are better off would lead to the latter dominating the groups. In practice, however, it can be hard to include the most abjectly poor, who might be excluded by their peers when the borrowing groups are being formed." (p. 118)

Zeller, M. and M. Sharma. 1999. *IRPRI Discussion Paper No. 59.* Washington. http://nt1.ids.ac.uk/cgap/html/search.htm

Committee (BRAC) and Proshika, Bangladesh -- "Our analysis indicates that even though the placement of branches of NGO institutions were attentive to poverty considerations, branches were more likely to be established in locations that had better access to transport and communication infrastructure. Hence it appears that NGO services are geared more toward the poor who reside in relatively well-developed areas rather than toward the poor in more remote and less developed regions." That said, the study also found that NGO institutions do respond to general conditions of poverty better than commercial banks.

Khandker, Shahidur R. 1998. *Fighting Poverty with Microcredit: Experience in Bangladesh.* Oxford University Press, Inc. New York.

"Past research has shown that large farms are the principal beneficiaries of traditional financial institutions (Z. Ahmed 1989[107]; Hossain 1998[108]; Braverman and Guasch 1989[109]). Microfinance institutions largely benefit marginal farmers and landless households (Hossain 1998[110]). Thus a large group of small and medium-size farmers are likely to lack assess to institutional credit." (p. 111)

"In Bangladesh microcredit programs are supporting more landless households and women and financing more rural production than formal financial institutions. For example, in 199495, microcredit programs disbursed Tk 17,580 million, compared with Tk 14,800 million advanced by formal banks, including Bangladesh Krishi Bank. The landless poor and women received more than 80 percent of the loans disbursed by microfinance institutions." (p. 131)

Poverty Impact on Moderate & Extreme Poverty Levels: The Household-Level (p. 56-57)

"The calculation of the two measures of poverty – moderate and extreme – are based on per person expenditure for participants before and after program participation. About 83 percent of Grameen Bank participants were moderately poor and 33 percent were extremely poor before joining Grameen Bank. After participating in Grameen Bank only 62 percent were moderately poor and only 10 percent were extremely poor. Thus about 21 percent of Grameen Bank borrowers managed to lift their families out of poverty within 4.2 years of membership. This means that 5 percent of Grameen Bank household rose above poverty each year by borrowing from Grameen Bank. Similarly 3 percent of BRAC households and 6 percent of RD-12 households rose from poverty each year. Poverty reduction was highest for RD-12, followed by Grameen Bank and BRAC, although interprogram differences were not statistically significant.

Gains were smallest for RD-2 members who had participated in the program for more than 5 years. However, borrowers who recently joined a microcredit program were poorer than their predecessors, and the gains in poverty reduction were higher among Grameen and BRAC participants with at least 5 years of program experience than among those who recently joined wither program. This result suggests that program participation impacts on poverty reduction are likely to be sustainable with microcredit programs. Net worth increased for all programs regardless of program duration. However, only for Grameen Bank did it increase monotonically as participation duration increased."

The Village-Level (p. 57-58)

The incidence of moderate poverty among target households was 64 percent in Grameen Bank villages, 68 percent in BRAC villages, 67 percent in RD-12 villages, and 69 percent in nonprogram villages. Overall, 63 percent of rural households were moderately poor and 12 percent were extremely poor. In contrast, among the target households 66 percent were moderately poor and 14 percent were extremely poor. A study in 1998-89 found a higher incidence of both moderate poverty (71 percent) and extreme poverty (28 percent) among target households (Hossain and Sen 1992[111]). These figures imply that program interventions may have helped reduce aggregate poverty…

All three microcredit programs reduced both moderate and extreme poverty. Aggregate village-level moderate poverty was 14 percent lower in RD-12 villages, 12 percent lower in Grameen Bank villages and 10 percent lower in BRAC villages. Village-level poverty reduction associated with program placement was slightly lower than participant-level poverty reduction….. The direct impact may be higher than the total impact because program placement may be redistributing village income. The net contribution toward reducing rural poverty was positive, however."

The National-Level (p. 59-60)

Borrowing from a program is estimated to reduce moderate poverty among participants by as much as 20 percent and extreme poverty by as much as 11 percent. This means that as much as 5 percent of program participating households should be able to lift their families out of poverty every year by borrowing from a microcredit program.

What does this 5 percent annual poverty reduction for program participants mean at the national level? About half of the poor people in Bangladesh are eligible to participate in microcredit programs. Of those eligible about 45 percent participate. This means that microcredit programs effectively benefit only 20 percent of the population, and about 1 percent of the population (5 percent of 45 percent of 50 percent) can lift itself from poverty each year through such programs."

Chua, Ronald T. and Gilberto M. Llanto. 1997. Assessing the efficiency and outreach of micro-finance schemes, Enterprise and Cooperative Development Department, International Labour Office
http://www.ilo.org/public/english/employment/finance/papers/wpap15.htm

One of the keys to success in micro-lending is to keep overheads very low. The total cost per unit of loans for pawnshops is less than half of that for NGOs. (p. 42) Costs related to capacity building such as education and training operation of information centers, etc. may [could] be borne by government agencies. (p. 49) Cost efficiency is sometimes obscured by other development undertakings that do not lend themselves well to cost and output quantification. (p. 45)

"**Banking with the poor" can be a very profitable option. (p. 45) A survey of pawnshop respondents in metro Manila indicates that a majority (70%) come from the low-income groups.** (p. 40) Loans are as low as Ps.200 (p. 37), yet net income/loans outstanding is 29%. (p. 42)

Hashemi, Syed M. 1997. "Building up Capacity for Banking with the Poor: The Grameen Bank in Bangladesh". *Microfinance for the Poor?* (Ed.) Hartmut Schneider. Development Centre for the OECD. p. 109-128.

"Amongst the poor too, Grameen successfully targets women; 94 per cent of the membership are women. However, in rural Bangladesh, there is significant differentiation even within the ranks of the poor. About half of the poor constitute what is referred to as hard core poor, who are forced to subsist on per capita income that is less than half of the poverty line (Rahman, 1995[112]). Sadly, Grameen has failed to target this group effectively, since most of them remain outside the Grameen net. For the most part these people are so destitute that they consider themselves not creditworthy. They do not feel that they have enough resources to generate incomes to pay back loans. They therefore "self-select" themselves out of Grameen membership." (p. 111)

"Actually, what this is indicative of is not so much that Grameen is unable to bring all poor women into their fold but that micro credit is not necessarily the way out for all the poor. In fact successful microcredit operations are strongly dependent on this screening to ensure that money is borrowed can be repaid. Of course the weekly repayment schedule has been designed to specifically cater to this problem; it is easier to make small weekly payments rather than repaying all at one time. However, for the really destitute even this weekly repayment schedule may be too difficult. In other words for the destitute and for others with difficulty in making good use of the loan (investing rather than meeting immediate consumption needs), credit programs may not be the answer. Other targeted programs would be required to address their specific needs. (p. 112)

Hashemi goes on to suggest that other Grameen programs such as "Grameen Check, Agricultural Krishi Foundation, Fisheries (Motso) Foundation, Venture Capital Fund, Telecommunications Project involving cellular phones are such programs that are "ensuring increased rural incomes". He also suggests that "BRAC has been extremely successful with their Income Generation for Vulnerable Groups Development Programme in targeting the most destitute women and, over a two year period along with relief handouts creating a small asset base for them. This provides them with confidence and incomes to "graduate" into credit programs. (Hashemi, 1995[113])." (p. 113)

Hickson, Robert. 1997? *Reaching extreme poverty: financial services for the very poor.* Microfinance Services Pty Ltd. Office of Development Studies. Goondiwindi, Australia UNDP,

http://www.MicroSave-Africa.com/relateddownloads.asp?cat_id=17&title=Risks+and+Vulnerability+of+the+Poor

Safe*Save,* Bangladesh -- began in August 1996. As of February 2001, Safe*Save* had four branches serving the Dhaka slums with 5,172 client accounts. These branches become profitable after two or more years of operation. Safe*Save* is a self-funding experimental project. It attempts to tailor its financial services to the specific requirements of slum-dwelling households so that even the poorest of these households can be reached. SafeSave's premise is that all households, including extremely poor ones, can use some form of financial service effectively and that product structure and the delivery system determine participation and successful use of financial services. It believes that this is particularly true for extremely poor households.

Qinghai Community Development Project (QCDP), China -- provides microfinance services to extremely poor households. "The program now has over 50,000 members and is growing strongly with a delinquency rate of about 4%. Nearly everyone takes the most flexible option, i.e., a loan in which the principal does not have to be returned until the end of the loan term. Interestingly, most clients repay before their loans fall due."

Nisho Prakalpa (Grameen Bank), Bangladesh -- a model of financial service delivery that can reach very poor households. The program started in 1996 and by 1999 had 1000 women members. In many ways it turns the traditional Grameen Bank model upside down. Nisho Prakalpa management believe that the hard core rural poor are afraid of joining Grameen Bank groups. Targeting begins with the identification of vulnerable areas by Grameen Bank officials and within these villages, existing Grameen Bank members identify the poorest households.

Hulme, David and Paul Mosley. 1996. *Finance against Poverty*. Volume 2.

In general, the success rate for lifting people out of poverty is much higher for those living just under the poverty line than for the very poorest.

Hulme, David and Paul Mosley. 1997. "Finance for the Poor or Poorest? Financial Innovation, Poverty and Vulnerability" In *Who Needs Credit? Poverty and Finance in Bangladesh*. (Eds.) Geoffrey D. Wood & Iffath A. Sharif. The University Press Ltd. Dhaka.

"All our case study institutions (13 institutions were studied), with the exception of the Kenya Industrial Estates—Informal Sector Programme (KIE-ISP) make loans to some people with incomes below national poverty lines. **As one would anticipate, institutions that target the poor have much higher rates of participation by the poor than open-access schemes**." (p. 101)

"The income impacts recorded are only a snapshot of a constantly changing situation and evidently different schemes are achieving quite different results. Nevertheless, three general points can be drawn.

1. **Well-designed lending programmes can improve the incomes of poor people** and for a proportion of cases can move the incomes of poor households above the official poverty lines in large numbers.
2. There is clear evidence that **the impact of a loan on a borrower's income is related to the level of income**…This finding should not be unexpected given that those with higher incomes have a greater range of investment opportunities, more information about market conditions and can take on more risk than the poorest households without threatening their minimum needs for survival. Such data confirm the argument…that income-generating credits are not 'scale-neutral'…This is an important finding as it indicates that:
    - **a.** Credit schemes are **most likely to benefit the incomes of what may be termed the 'middle' and 'upper' poor**
    - b. The **poorest or 'core poor'** (see Rahman and Hossain, 1992[114]) **receive few direct benefits from income-generating credit initiatives** and so alternative assistance strategies (**in the finance and other sectors**) need to be developed
    - **c.** Institutions seeking to provide income generating credit to the poor while pursuing their own financial viability will have a **tendency to concentrate on the 'upper' and 'middle' poor**
3. (? No third point was numbered) …A significant **minority** of investments fail (leading to decreases in income) while many investments that increase income soon reach a plateau. For the latter, credit schemes give borrowers an important 'one-step-up' in income…" (p. 107)

"While **our study focused on new and continuing borrowers**, the findings point to the need for **further research examining why** borrowers leave innovative financial institutions and if such departures are associated with increased levels of debt or reduced asset levels. Given the scale of 'dropping out' (15% per annum for the Grameen Bank…10-15% per annum for BRAC in 1992 and 1993) there well **may** have been significant under-reporting of credit-induced crisis in most studies of finance for the poor. The virtuous circle of 'low income, credit, investment, more income, more credit, more investment, more income' is seductive: **unfortunately, it does not mirror the reality that the majority of very poor households face in sustaining a livelihood**." (p. 115)

When reviewing the 1994 Goetz and Gupta[115] study, the authors state, "From this perspective, credit schemes are doing relatively little to empower women, though one important exception must be noted. By contrast, the same study reports that 55% of widowed, separated or divorced women fully control their loans (compared with 18% for women in general) and that only 25% of such loans are fully appropriated by men. **Given that such women are usually regarded as the most vulnerable in Bangladeshi society this suggests a significant advancement in their capacity to engage in economic activity**." (p. 120-121)

"So **agencies need to pay much greater attention to their capacity to assist target groups** within the female population (particularly the assetless, widowed and divorced) rather than treating women as a homogenous group." (p. 122)

The 13 "…case study institutions…have been relatively ineffective in reaching the poorest" because of several factors:

- "First and foremost is the emphasis on credit delivery by many institutions: for the poorest people and households the opportunities for credit-financed self-employment are very limited and the risks are unreasonably high. As Rutherford (1993 and in this book[116]) argues from his research with the very poor in Bangladesh, the poorest commonly practice 'self-exclusion' from income-generating credit initiatives which they do not perceive as a solution to their livelihood problems.

- Second, for group schemes, processes of social exclusion are important: that is, group members (most often people below the poverty line) deciding that some prospective members are 'too poor' to be given group membership.

- Third, there is evidence that as credit programmes are expanded and management is professionalised, the incentive structures for staff (bonus payments and promotion prospects) favour a concentration on groups other than the core poor. *(Authors' footnote: Tapered interest rates—charging smaller borrowers high interest rates—may partially offset such tendencies.)* " (p. 123)

"None of our case study institutions was observed to provide services for people with significant disabilities (footnote: significant disability simply refers to observable physical attributes or behaviour that mean that the mobility and capacities of an individual are clearly well below those considered the norm in that specific setting) during the course of fieldwork. This should not come as a surprise, as the emphasis on self-employment in low-demand-high-competition markets for goods and services made many programmes irrelevant in terms of the opportunities available to the disabled. Removing the need for collateral makes little difference to the disabled who face many other obstacles. Interestingly, even BRAC's Income Generation for vulnerable Group Development (IGVGD) programme—targeted on the core poor—has a physical-fitness criterion for access which ensures that the physically disable d are screened out. The point of the above observation is not to argue that innovative financial institutions should service the needs of the **disabled, (aged) or infirm** (it would be unreasonable to expect the to meet all social welfare needs), rather, it is to point out that explicit and implicit claims that such programmes reach the 'poorest of the poor' need to be tempered. If we update Doyal's (1983[117]) estimate of around 350 million physically and mentally disabled people in developing countries, then, given population growth, the emergence of AIDS…there is clearly a vast army of disabled poor people who are presently beyond the reach of even the most innovative institutions." (p. 124) (see also Wright on this issue.)

"For analytical purposes it is appropriate, at least as a starting point, to conceptualize two main groups within the poor: the core poor who have not crossed a 'minimum economic threshold' and whose needs are essential for financial services that are protectional, and those above this threshold who may have a demand for promotional credit. This minimum economic threshold is defined by characteristics such as the existence of a reliable income, freedom from pressing debt, sufficient health to avoid incapacitating illness, freedom from imminent contingencies and sufficient resources (such as savings, non-essential convertible assets and social entitlements) to cope with problems when they arise….(NP) If the poor/core-poor categorization is accepted, then it indicates **the need for wider more comprehensive approaches to financial services than were offered by most of our case study institutions (that is, providing investment, consumption and contingency loans and offering high accessibility savings schemes) or for specialist institutions to operate to meet the differing needs of poor households and core poor households**. While the financial **viability of institutions genuinely targeted on the 'core poor'** remains to be tested, the profits generated by our Indonesian cases from savings schemes, by

SANASA's primary societies from 'high interest' contingency loans, and by official pawnbrokers…indicate that there are **substantial possibilities for operational recovery**." (p. 126)

Johnson, Susan and Ben Rogaly. 1997. *Microfinance and Poverty Reduction*. Oxfam. UK and Ireland.

Reaching the poorest (p. 12)

"Whether income promotion is based on loans for individual micro-enterprises or on group-based income generation projects, its appropriateness as a strategy for poverty reduction in the case of the poorest people is questionable. Other evidence suggests that self-selected groups for peer-monitoring have not been inclusive of the poorest people (Montgomery, 1996[118])….Even the low asset and land-holding ceiling which the big microfinance institutions in Bangladesh have successfully used to target loans away from better-off people has not necessarily meant that the poorest, who are often landless, are included (Osmani, 1989[119])."

"…Hulme and Mosley's study strongly suggests that providing credit for micro-enterprises is unlikely to help the poorest people to increase their incomes. However, detailed research with users has found that some design features of savings and credit schemes are able to meet the needs of very poor people. For example, it was found that easy access to savings and the provision of emergency loans by SANASA enabled poor people to cope better with seasonal income fluctuations (Montgomery, 1996[120])."

"Microfinance specialists increasingly, therefore, view improvements in economic security—income protection rather than promotion (Dreze and Sen, 1989[121])—as the first step in poverty reduction. '…from the perspective of *poverty reduction*, access to reliable, monetized savings facilities can help the poor smooth consumption over periods of cyclical or unexpected crises, thus greatly improving their economic security. It is only when people have some economic security that 'access to credit can help them move out of poverty by improving the productivity of their enterprises or creating new sources of livelihood' (Bennet and Cuevas, 1996[122] authors' emphasis)."

Holcombe, Susan. 1994. *Managing to Empower: The Grameen Bank's Experience of Poverty Alleviation*. University Press Limited. Dhaka.

Holcombe cites Mahabub Hossain[123], economist, who collected information on target and non-target families in 5 Grameen villages and two control villages, including non-participating, target families in the Grameen villages. He found the following:

- Income - Grameen households had incomes that were 43% higher than target group households in control villages and 28% higher than those of non-participants in Grameen villages. **The income increase was greatest for the absolutely land-less and marginal landowners**

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2.1 Introduction

This section will focus on one question:

- Are there higher impacts if the first step is credit rather than savings and insurance?

While there is a large body of literature on savings, and a huge amount of research on credit, there are very few studies that compare the impacts of the two. Also, it should be noted that there is very limited evidence of a developmental impact of savings alone.

One study (Fruman, 1998) that did examine the issue of savings-first as compared to credit-first, was looking at the impact of each on the microfinance institution, rather than on the client. A second study, (Chen and Snodgrass, 1999) did compare impact on clients, and the evidence suggested that borrowers had higher median incomes and spent more on food.

Beyond these studies, the remainder of the research discussed savings-first only in the context of microfinance institutions at which clients are required to save for a short period of time (for example, 3 months) before being allowed to take out a loan. This sense of savings-first contrasts markedly with Fruman's analysis of savings-first institutions in which the organization's lending capital must first be saved by the potential borrowers.

Most studies agree that there is a great demand for voluntary savings products. However, a number of studies also agree that there are still a number of unresolved regulatory and management concerns for the safety and security of savers' funds.

2.2 Savings-First vs. Credit-First

Fruman, Cécile and Julia Paxton. May 1998. *Outreach and Sustainability of Savings-First vs. Credit-First Financial Institutions: A Comparative Analysis of Eight Microfinance Institutions in Africa*.
http://www-esd.worldbank.org/sbp/may/compeng.htm

Background

In the 1950s, the first credit unions and savings and loan cooperatives were established in rural areas. In contrast to the development banks, the emphasis of these institutions was on **savings mobilization**. Those who promoted the credit unions - most often socially oriented missionary and other groups that were working with a low-income membership base - thought it necessary to "teach" the rural population to save and had little faith in the ability of the members to pay back loans. In the 1980's, when Grameen Bank replications began to be tested in Africa using primarily donor funds to **provide credit** to a wide number of solidarity group members, a heated debate was generated over the strengths and weaknesses of the **"savings-first approach"** and the **"credit-first approach"**. Guy Bédard from the International Alliance of Cooperatives introduced the terminology of "warm money" to qualify the savings generated by the communities themselves, over which they had greater responsibility than over "cold money", the funds provided by outside donors. Many believed that programs relying on cold money could not become sustainable and encouraged delinquency. Promoters of credit-first programs, on the other hand, believed that savings-first approaches were too conservative and were not reaching the bulk of the underserved population of microentrepreneurs.

After years of debate, it has become apparent that both methodologies have contributed valuable lessons and innovations for reaching a more diversified clientele. For instance, women who traditionally represented only a small fraction of the members in the cooperatives represent the main clientele of credit-first programs. In addition, savings-led programs have had success in reaching a largely rural clientele.

Practitioners from both "sides" have learned from one another and over the past few years many institutions have started blending together the two approaches. Numerous credit unions now provide loans to groups of clients, mostly women, without requiring savings. One such case is FECECAM in Benin. Credit-first programs, on the other hand, are now actively seeking the means to mobilize savings in order to be less dependent on donor funding. The division between savings-first and credit-first institutions is becoming increasingly blurred. However, for the purposes of this analysis, the delineation between savings-first and credit-first institutions will be preserved.

Contrasting Approaches: Savings-first vs. Credit-first

Advantages – Savings First

- Information advantages lead to effective screening/monitoring
- Internal source of funds creates repayment incentive
- No loan targeting

- Voluntary savings
- Bank/client relationship developed first as depositor

Advantages – Credit First

- Rapid set-up possible through use of donor funds and technical assistance
- Large initial outreach
- Rapid expansion
- Avoid high transaction costs associated with savings
- May use groups to overcome information asymmetries

Disadvantages – Savings First

- Only targets middle-income entrepreneurs and does not reach very poor people
- Requires much more time to establish because it is necessary to first establish trust, educate participants, and allow for adequate time to build savings
- Problems associated with the internal management of funds can arise such as liquidity management, voting inequities, physical security of funds, corruption
- Voluntary savings are costly to collect, especially when the transactions are small and frequent.

Disadvantages – Credit First

- Inefficient and unstable due to reliance on donor funding
- Not required to develop into formal financial intermediaries
- Governance structure is generally weak because leadership answers to donors rather than directly to clients, depositors and borrowers.

Several clear advantages of savings-first institutions can be identified. Often, savings-first programs operate in close-knit communities thus facilitating screening and monitoring of clients. Rather than granting loans ad hoc to everyone in a village, the savings-first programs are selective in deciding who is credit-worthy. The creditworthiness of potential borrowers is established through information advantages present in the community and also through the depositor relationship with the bank. Because funds are internally generated, a strong incentive exists to repay loans since ones' friends and neighbors will be upset if they lose their savings.

Perhaps the most important advantage of savings-first microfinance institutions is that they encourage voluntary savings. The use of internally generated funds results in a cautious approach to lending and attention to sustainability. These institutions are compelled to increase profitability through sound banking practices, reduction of operating costs, and appropriate loan screening and monitoring. Most importantly, by offering voluntary savings, these institutions are providing a much desired financial service to the poor who rarely have the possibility to earn a positive return on their savings in a safe and liquid account.

A common criticism of savings-first programs is that they only target middle-income entrepreneurs and do not reach very poor people. Also, much more time is generally required to establish a savings-first program since it is necessary to first establish trust, educate participants, and allow for adequate time to build savings. Some problems associated with the internal management of funds can arise such as liquidity management, voting inequities, physical security of funds, corruption, and issues relating to MIS. Another criticism of the savings-first approach is that voluntary savings are costly to collect, especially when the transactions are small and frequent.

The questions that arise from these criticisms are therefore: 1) is outreach of savings-first programs limited to middle-income clients? and 2) given the slow process of mobilizing savings and the costs involved, can savings-first programs reach economies of scale and financial self-sufficiency?

One of the principal advantages of the credit-first approach is its ability to reach a large number of clients in a relatively short period, due to its reliance on external funding and technical assistance. Rather than waiting for the internal mobilization of funds, credit-first programs are able to have a large initial outreach and rapid expansion through the use of external funding. Often, but not always, voluntary savings is not collected in the credit-first programs thereby reducing the transaction costs of mobilizing internal funds. Another common feature of credit-first programs is that they organize clients into solidarity groups. These groups can be instrumental in overcoming information asymmetries, thus leading to effective internal screening and monitoring of clients in well functioning solidarity groups.

Critiques of credit-first institutions emphasize the fact that their reliance on donor funding makes them inefficient and unstable, and they are not required to develop into formal financial intermediaries. Their governance structure is generally weak because leadership answers to donors rather than directly to clients, depositors and borrowers.

However, it is widely recognized that depth of outreach tends to be high in these institutions because loans can be targeted to very poor people and disbursed quickly. In comparing these institutions to savings-first institutions or programs, two questions can be set forth: 1) does the perceived ability of these institutions to reach the poorest translate into a higher depth of outreach than in savings-first institutions? and 2) does the charitable/donor-driven character of these institutions prevent them or delay them from becoming financially sustainable institutions?

In all of the savings-led institutions, lack of savings seems to be a constraining factor for growth. Demand for credit is higher than the supply of savings.

One of the most striking differences between the savings-first and credit-first programs is their scale. The credit unions tend to be much larger than some of their NGO counterparts. The average number of clients for these savings-first institutions was 64,000 compared to only 10,000 for the credit-first institutions. This is an interesting finding given that credit-first programs have an initially wide outreach. These savings-led institutions have been able to reach large numbers of clients despite their reliance on internally generated funds.

The more favorable sustainability measures of some savings-first institutions is in part a function of the attention to cost. While real effective interest rates are similar on average between the two methodologies, the savings-first institutions have lower labor costs than do the credit-first institutions. The average starting salary of a loan officer in a savings-first program is 1.7 times the GNP per capita, a stark contrast to the credit-first programs which offer starting salaries averaging 7.8 times the GNP per capita. Most importantly, the savings-first programs rely on member deposits to support their lending activities rather than on donor funds. The volume of savings to volume of loans outstanding ratio for savings-first institutions averages 132 percent compared to only 15 percent for credit-first programs. In order to fund their credit activities, credit-first programs rely principally on donor funds which in turn results in high SDI measures.

Experience proves that neither the credit-first approach nor the savings-first approach is a fail-safe method of providing sustainable financial services to the poor. Indeed, programs of each type have collapsed in Africa while others have enjoyed considerable success. Experience demonstrates that there are beneficial ways of mixing "warm money" and "cold money" and that the introduction of "cold money," if done well, does not discourage savings mobilization systematically.

Other Factors

- Deposit sizes: are much larger among savings-first institutions. This is not a surprising result given that the savings-led institutions offer voluntary savings instruments while the average deposit size of the credit-led institutions is a reflection of the mandatory savings requirement.

- Scale: Credit unions tend to be much larger than some of their NGO counterparts. The average number of clients for these savings-first institutions was 64,000 compared to only 10,000 for the credit-first institutions. This is an interesting finding given that credit-first programs have an initially wide outreach. These savings-led institutions have been able to reach large numbers of clients despite their reliance on internally generated funds.

- Term and Conditions of Loans: Average loans are somewhat larger among savings-first institutions ($222 compared to $159 for credit-first institutions). The average loan terms and the growth rate of the loan portfolios were comparable in both types of institutions. The rapid growth of loan portfolios across the board in these African institutions raises some concern as the programs attempt to manage rapid growth with sound financial practices and sustainability.

- Market: Among the savings-first institutions, the average clients tend to be more literate and male than the country average. In addition, credit unions have been active in literacy training in Africa. Many credit unions have a predominantly male membership, although more female members have joined African credit unions in recent years. On average, savings-first membership is slightly poorer and much more rural than the country averages. In contrast, credit-first institutions have an entirely different clientele. On average, the credit-first programs target a more urban, female, illiterate clientele than the country average. Urban market women represent a large percentage of credit-first clients. The incomes of these clients are nearly one half the average income per economically active worker in the country. In this respect, it is clear that the credit-first programs have a significant outreach to underserved portions of the community.

- Program Measures: Operational and financial self-sufficiency measures tend to be much higher for the savings-first programs. The more favorable sustainability measures of some savings-first institutions is in part a function of the attention to cost. While real effective interest rates are similar on average between the two methodologies, the savings-first institutions have lower labor costs than do the credit-first institutions. The average starting salary of a loan officer in a savings-first program is 1.7 times the GNP per capita, a stark contrast to the credit-first programs which offer starting salaries averaging 7.8 times the GNP per capita. Most importantly, the savings-first programs rely on member deposits to support their lending activities rather than on donor funds. The volume of savings to volume of loans outstanding ratio for savings-first institutions averages 132 percent compared to only 15 percent for credit-first programs. In order to fund their credit activities, credit-first programs rely principally on donor funds which in turn results in high SDI measures.

- Outreach: Through an analysis of client characteristics, it is evident that the credit-led institutions have a deeper outreach. Credit-first programs have a more female, illiterate, and impoverished clientele than the average population of the country. In contrast, the savings-first clients are more rural and only slightly poorer than the country averages. However, their clients tend to have a greater concentration of educated males than the country average.

Conclusions

Through an analysis of client characteristics, it is evident that the credit-led institutions have a deeper outreach. Credit-first programs have a more female, illiterate, and impoverished clientele than the average population of the country. In contrast, the savings-first clients are more rural and only slightly poorer than the country averages. However, their clients tend to have a greater concentration of educated males than the country average.

A positive correlation between dependence on subsidies and sustainability was documented using seven of the case studies. Nevertheless, this finding does not support the notion that institutions with deep outreach cannot be sustainable or that sustainable institutions can not have a deep outreach. First, each of the institutions studied have made progress over time in improving their institutional sustainability. In addition, some financially viable institutions have a large enough scale that the poorest part of their clientele has similar socio-economic characteristics to those institutions that specifically target those outside of formal finance. In sum, the most important lesson is that a wide variety of market niches exists in the field of microfinance. While institutional viability is critical, the exact composition of clients can vary from one methodology to another. An institution that successfully is reaching a wide number of depositors and borrowers in a sustainable fashion is contributing greatly to the development process.

Robinson, Marguerite. 2001. *The Microfinance Revolution: Sustainable Finance for the Poor*. World Bank. Washington.

Robinson's criticism of the 'poverty-lending approach':

1. "Institutions are not sustainable primarily because their interest rates on loans are too low for full cost recovery."
2. "This approach **does not meet the demand among the poor for voluntary saving services**."

"Compulsory savings as a condition for obtaining a loan and the collection of voluntary savings reflect two completely different philosophies. The former assumes that the poor must be taught to save and that they need to learn financial discipline. The latter assumes that the economically active poor already save in a variety of forms; what is required for effective savings mobilization is that the institution learns how to provide instruments and services that are appropriate for local demand. **BRI's 6:1 ratio of savings accounts to loans, compared with Grameen's 1:1 ratio**, **highlights the difference between requiring compulsory savings from members and mobilizing voluntary savings from the public**." (p. 93-94)

Comparison of Grameen and BRI for the year 1995 (with Grameen using compulsory savings and BRI offering voluntary):

	Grameen	**BRI**
Start date for institution	mid-1980's	mid-1980's
# of borrowers	$2.1 million	$2.3 million
Value of o/s loans	$289 million	$1.4 billion
Average loan balance	$140	$601
Per capita GNP	$240	$990
Loan balance as % GNP	58%	61%
Savings balances	$133 million	$2.6 billion

Assumptions about the poor on which the **old paradigm** was built (p. 86-87):

- The poor generally cannot afford to save
- Those who save prefer nonfinancial forms
- The poor do not trust banks and formal institutions

Assumptions on which the **new paradigm** is based:

- Massive demand exists for institutional voluntary savings among the poor
- The poor do not need to be taught to save; they already save in a variety of forms
- In a stable economy with adequate infrastructure, other forms of savings will often be inferior to financial savings
- The institution needs to learn in what forms and for what purposes the poor save, and to design instruments that meet the demand **better than the savers can do by themselves**
- A mature, sustainable microfinance intermediary is likely to have more savings accounts that loans

"In developing countries the large-scale mobilization of voluntary savings and the operation of subsidized microcredit programs can both be found, but not together. **Under the subsidized credit model, financial institutions, whether savings-driven or credit-driven, have not and cannot provide microfinance—credit and savings services—on a large scale**. (NP) Even the best of the institutions that operate with subsidized loan portfolios are effective either in capturing savings or in providing microloans with wide outreach. They cannot afford to be effective in both because their lending interest rates are too low to cover the costs and risks involved in the practice of large-scale sustainable microfinance. Microfinance can attain wide outreach sustainably only outside the subsidized credit model—in self-sufficient commercial institutions." (p. 72)

Vonderlack, Rebecca M. and Mark Schreiner. May 2001. *Women, Microfinance and Savings: Lessons and Proposals*. Working Paper. Center for Social Development. Washington University in St. Louis.

"Interest in savings—beyond just microcredit—has grown just as microfinance practitioners have come to understand that small loans are not always appropriate for poor women (Kabeer, 2001[1]; Rahman 1999[2]). After all, a loan becomes debt, and the poor are exposed to crisis if an expected source of funds for repayment evaporates.

Thus, borrowing is often riskier than saving. For example, a woman could save or borrow to buy a sewing machine. If a child falls ill, savings could be tapped to pay for medicine; debt repayments might preclude medical treatment. Furthermore, although not all people are creditworthy or want debt, all people are depositworthy and want assets. Of course, savings require current sacrifice, and with savings--unlike borrowing--the sacrifice precedes the reward. On the other hand, savings offers flexibility and while borrowers *pay* interest, savers *earn* interest. Also the choice to save is voluntary; once indebted, payment is mandatory. As stated by Johnson and Kidder (1999[3]) not all poor people are “budding entrepreneurs….for people living in poverty, perhaps it is access to a savings account…that needs to be the core service on offer.”

Wright, Graham A. N. 2000. *Microfinance Systems: Designing Quality Financial Services for the Poor*. Zed Books Ltd. London & New York, and The University Press Limited, Dhaka.

“Savings have risen to the top of the Microfinance community’s agenda…There is a clear preference amongst the poor for **voluntary, open-access savings**, although compulsory minimum weekly deposits (particularly when they **are client-defined**) are also often welcomed since they provide savings discipline and an opportunity to safeguard savings from ‘trivial’ spending….However, the larger, longer established MFIs in Bangladesh have resisted introducing voluntary, open-access savings facilities since they have used compulsory, locked-in savings as loan collateral and a source of capital. Nonetheless, **voluntary open-access savings schemes can generate much more net savings per client per year than compulsory, locked-in savings schemes**…” (p. 69)

“**MFIs should promote saving before they issue loans**—it promotes discipline and provides some of the capital necessary to finance the loan portfolio. Open-access savings facilities also provide an important service to risk-averse poor and will result in the MFI attracting a larger number of better-satisfied clients.” (p. 130) *(And yet, regarding the discipline comment, he says several times that: “Evidence from the remotest of Bangladeshi villages and indeed from all over the world suggests that the poor want to save and indeed are saving in a wide variety of ways.)*

ASA’s (1996) study noted reasons fro drop-out as… low loan ceiling and ‘absence of multiple credit’ “ in 74.75% of cases and an additional **23.27% of “members withdrew their membership as they disliked the savings rule**.” (p. 46)

Remenyi, Joe and Quinones, Benjamin. 2000. *Microfinance and Poverty Alleviation: Case studies from Asia and the Pacific*. New York. 79. p. 131-134, 253-263.

The practice of providing subsidized credit, whether by government, the agents of government or microfinance providers, has hurt the poor by depriving them of access to savings deposit facilities. It is only recently that many development banks, the major providers of subsidized credit, have recognized the importance of savings facilities for the poor and begun to make them available.

Remenyi notes that most donor-supported credit programmes do include a savings component, but these have typically involved compulsory savings as in the case for SEWA bank, to the exclusion of a vigorous promotion of a range of savings products designed to meet the unique needs of poor households. He further argues that compulsory savings component of the typical microfinance provider was little more than a form of loan guarantee insurance. It was not uncommon for providers to handle these savings as though they were ‘equity capital’, and to deny the borrower any access to their contributions to compulsory savings, even when repayment default was imminent. In these circumstances, which until quite recently prevailed at

Grameen Bank and still do with most smaller programmes in the Asia Pacific, compulsory savings were an added cost of capital to borrowers, hidden from scrutiny because of the way they were described and handled within the accounting systems of providers (also Versluysen 1999).

In credit programmes with a compulsory savings component there is invariably a much closer match of the number of savers and borrowers than in institutions that offer unbiased savings and credit services. In the latter, the number of savers exceeds the number of borrowers by a wide margin.

BRI is a bank for the near-poor and not-poor while the BPD was set up with church funds as a commercial bank for the poor. The contrast in saver-to-borrower ratios for these two 'banks' is indicative of the fact that both the poor and the not poor have savings and will use deposit facilities when they are offered (261). According to figures reported in 1995, BRI had 10.92 savers per borrower while BPD had 9.0 savers per borrower.

A large number of providers have found it very useful to tie savings collection procedures to loan installment collection. In some of the poorest communities in Bangladesh, for example, poor women have been prepared to pay a fee for these collection services (Rutherford, 1996). In other instances, the offer of insurance products to protect against the death of a key member of the household, provide for health services, or simply save to prepare against the occurrence of a specific but unscheduled future event (such as a funeral, multiple birth, school costs, major equipment repairs, a wedding, etc.) have proved to be effective vehicles for grassroots resource mobilization (also Rutherford, 1996).

Richardson, David C. February 2000. *Unorthodox Microfinance: The Seven Doctrines of Success*. MicroBanking Bulletin.

"One of the great imponderables of the term 'microfinance' is that many people use it to describe small-scale financial intermediation (i.e. savings and credit), yet the majority of traditional MFIs are not savings-based institutions. Their funding comes from external sources in the form of loans and grants, partly because in many countries it is illegal to capture savings unless you are a bank or a credit union. Even more curious is the fact that the few MFIs that are authorized to capture savings **do not typically capture micro savings**. **Hence, the literature on successful MFIs is almost void of any commentary on micro savings**.

One of the most misunderstood concepts of poverty alleviation is the relationship between income, wealth and savings. The focus of many traditional microfinance programs has been credit-oriented: loans will provide poor people with a means to generate more income. Very little mention is made of wealth, or the difference between what you earn and what you save…It is both heretical and hypocritical to talk of poverty eradication without incorporating savings accumulation into the poverty alleviation strategy…Furthermore…as verified by the credit union experience, …savings products are in much higher demand by poor people than lending services. (p. 2-3) (*i.e. voluntary savings)*

"The final piece of these doctrinal reforms is probably the most important. We must assimilate poor people into the mainstream economy by providing them with access to *comparable* financial products and services." (p. 5) (e.g. give clients the option of depositing and withdrawing savings freely; give clients the choice of either an individual or group loan; do training programs need to be a mandatory condition of the loan etc.)

Gibbons, David S. and Jennifer W. Meehan. 2000. *The Microcredit Summit Challenge: Working Towards Institutional Financial Self-Sufficiency while Maintaining a Commitment to Serving the Poorest Families*. www.microcreditsummit.org/papers/papers.htm.

"Major differences exist among MFIs, however, on the relative emphasis to be given to savings as compared to credit as tools for poverty-reduction, and on the timing of the emphasis. These differences are illustrated by the three case studies in this paper. CARD, being a Grameen Bank replication/adaptation, gives primary emphasis to credit and only secondary attention to savings. Only small amounts of compulsory savings are required for the Group Fund for a few weeks to make clients eligible for much larger loans to finance income generation, the amount of which is not related to the amount saved. As its clients progress, however, CARD increases the amount of compulsory group savings and promotes individual, voluntary savings. FINCA Uganda and CRECER, utilizing the village banking approach on the other hand, put primary emphasis on savings first. Only after saving regularly for several months does a poor household become eligible for a loan and the maximum that can be borrowed is restricted, at least in the case of FINCA Uganda, by the amount saved (five times).

The three case studies differ, as expected, in their average client savings balance, with CRECER having the lowest at US$29, followed by CARD at US 4=$43 and FINCA Uganda at US $65. Notice that the ranking of the MFIs in terms of average loan outstanding is the reverse, with CRECER having the highest at US $163, followed by CARD at US $83.3 and FINCA Uganda at only US $54. FINCA Uganda's strict linking of loan amounts to savings may have limited the amounts that could be borrowed by the poor. It follows that we find CRECER has the lowest savings to outstanding loans ration at 20% compared to CARD at 47% and FINCA Uganda at 119%.

In addition to these differences among MFIs in terms of relative emphasis on credit and savings as instruments for poverty-reduction and their timing, there are major moral and legal issues involved with savings. The moral issue has to do with the need for adequate protection of the savings of the poor, and the legal issue revolves around the responsibility that governments usually take, through their central banks or other regulatory agencies, for providing this protection…For this reason, the amount of savings MFIs can mobilize will, and should be restricted. **So, if NGO-MFIs want to offer progressive lending to large numbers of poor households, savings cannot be expected to be the major source of funds, nor of institutional financial self-sufficiency, for these MFIs. It could still be an important source of funds, however, and should not be neglected.** (authors' emphasis) Once an MFI becomes financially self-sufficient and builds up its equity through retained earnings, mobilizing deposits from the public could become its major source of funds for further poverty-reduction." (p. 26)

Bass, Jacqueline. Katrena Henderson, and Weidemann Associates, Inc. 2000. *The Microfinance Experience With Savings Mobilization*. Innovations in Microfinance. Technical Note No. 3. Microenterprises Best Practices Project. www.mip.org/pubs/mbp/word/tech_note_3.doc

Based on a seminar by Oumou Sidibe Van Hoorebeke, Nyesigiso; Zibo Hamani, Caisse Populaire d'Epargne et de Crédit Taimako; Mamadou Toure, PAMECAS; Koukoupnou Gabin FECECAM; Alou Sidibé, Kafo Jiginew; and Kwame Addei Agyei, Ghana Cooperative Susu Collectors' Association, Ltd., at the February 2000 conference on "Advancing Microfinance in Rural West Africa" in Mali.

"Research has found that, for microfinance clients, savings products are as popular as working capital and credit for investments….there has been a gradual shift since 1990 from poverty lending and obligatory savings products to a financial systems approach that recognizes the importance of savings for the poor. The challenge for MFIs is to design cost-effective savings mobilization strategies that respond to different client needs." (p. 1)

From an institutional perspective, if deposit services are appropriately priced, mobilizing micro and small savings can help MFIs reach financial self-sufficiency….Well-designed and well-delivered deposit services can lead to the successful intermediation of financial services by MFIs' reducing their dependency on external funding and generating a stable stream of capital to support financial operations. (p. 3)

In designing savings products, "many MFIs, such as Taimako in Niger and Caisses Villageoises d'Epargne et de Credit Autogerees (CVECA) du Pays Dogon and Kafo Jigenew in Mali, used market studies to examine their existing client base, then analyzed the information collected on service usage, needs, and demographic trends to develop client-tailored products". (p. 5)

Chen, Martha Alter and Donald Snodgrass. August 1999. *An Assessment of the Impact of SEWA Bank in India: Baseline Findings*. Harvard Institute for International Development.

In a SEWA BANK study, the proportion is about 40% compared with 50% and 62% of saver-only and non-client households, respectively.

The median income is 30% and 61% higher than for a saver-only and non-client household, respectively. Borrower and saver-only enrollment rates (both 58%) were both greater than the rate for non-client households (52%).

Average daily expenditure on food is 21% higher than in non-client households. In contrast, saver-only households enjoy only a small dietary margin over non-client households. Average daily expenditure on food is only 5% higher than in non-client households.

The average number of income sources was 2.7 for client households compared with 2.5 for both saver-only and non-client households. It is interesting to note that the net impact of the wide-spread closure of large textile mills in Ahmedebad City appears to be that the borrower households suffered greater setbacks (more jobs lost and less compensation paid) but were able to recover more quickly (more laid-off workers are currently economically active) than saver-only and non-client households. Interestingly, fewer other household members in borrower households (60%) than saver-only (73%) or non-client (74%) households took on additional work.

Marcus, Rachel. Beth Porter and Caroline Harper. 1999. *Money Matters*. Save the Children. London.

"Several principles of traditional credit policies continue to inform both microfinance and mainstream services today. Firstly, the focus is primarily credit, ignoring the need for savings services. Secondly, where savings are an important component of programmes, the focus is often teaching the poor to save and manage their money wisely, **rather than providing instant access to savings services which are the priority of most poor people**." (p. 16)

"There is considerable evidence that poor people greatly value flexible savings services, where they can save unrestricted and often very small amounts at convenient intervals, and which they can access rapidly (Otero and Rhyne, 1994[4]). " (p. 23)

"**Savings services, which require compulsory regular deposits of a certain sum can exclude the poorest people who cannot save on a regular basis; services which do not allow members to withdraw deposits at short notice may be irrelevant to poorer people for who flexibility to cope with their fluctuating circumstances is a priority**." (p. 25)

"Opportunities to save can also play an important role in helping women build up assets they control (White, 1991[5]; Kabeer and Murthy, 1996[6]), in addition to their importance in poverty reduction more generally, reinforcing the case that they should be an important element of any microfinance programme." (p. 28)

"Increasingly, SCF-supported microfinance programmes are seeking to encourage savings…Most of the village groups supported by Thardeep in Pakistan have saved considerably more than the suggested minimum…Others have been able to use the extra income generated by their businesses in order to save, indicating like the IES programme in Bangladesh, that **credit to very poor people can actually facilitate saving**. (p. 43)

"Participants' access to savings varies. As programmes become more aware of the importance of savings to participants, many **have loosened their regulations for withdrawing mone**y." (p. 43)

Conditions which favor the promotion of savings include:

- An enabling macro environment with low and stable levels of inflation
- An appropriate legal and regulatory environment
- Political stability
- Suitable demographic conditions

"It is nevertheless possible to mobilize savings under less than ideal conditions. The real constraint to savings mobilization to date has been inappropriate institutions and mechanisms…In order to provide a useful service to potential depositors, the services should be demand led, sustainable, and well managed…Institutions should ensure that such services are not simply provided on a project basis, but are set up to be financially and institutionally sustainable." (p. 60)

"In order to attract savings, deposit mechanisms should provide convenience, security, liquidity and returns. To provide these features, institutions must carefully structure savings services **in conjunction with** credit services." (p. 60)

"A number of institutions have found, however, that **compulsory savings offer some advantages** in providing financial services to the poor." (p. 61)

- As a demonstration of the ability of the client to manage debt and repay loans
- As a form of collateral

"Depending on how compulsory savings is structured (for example, if clients are required to save beyond their means or if they do not have access to their savings), however, they might perceive compulsory savings as an additional cost of borrowing, rather than their own savings." (p. 61)

MkNelly, Barbara and Christopher Dunford. 1998. *Impact of* Credit with Education *on Mothers and Their Young Children's Nutrition: Lower Pra Rural Bank* Credit with Education *Program in Ghana*. Freedom from Hunger Research Paper No. 4, Freedom from Hunger, Davis, CA.

"There was also a significant difference in the percentage having savings and the value of cash savings between years for participants versus controls and participants versus non participants." (p. 2)

"While the majority (1,131) of the women were taking loans, **approximately one quarter (360) of the women were participating in the education sessions and depositing savings only**. The total amount of loans outstanding to these women was $88,173, and their saving son deposit with the Rural Bank was $10,471. The average loan size was the cedis equivalent of $78 for a four-month period." (p. 7)

"Although **liquidity constraints have greatly hindered the expansion of the program** to include new borrowers, the loan repayment performance of the existing clientele has been excellent—never falling below 92% for any quarter over the life of the program." (p. 7)

Cohen, Monique. October 1999. *Opening Up the Impact Assessment Agenda*. AIMS. Paper prepared for the Latin American Microfinance Meeting.

"There is also room for savings services that provide more *accessible and private savings* (author's emphasis)—de-linked from loans—that can be used to provide a back up for dealing with day to day economic stresses. (p. 10)

Panjaitan-Drioadisuryo. D. M. Rosintan and Kathleen Cloud. 1999. *Gender, Self-Employment and Microcredit Programs: An Indonesian Case Study*. Quarterly Review of Economics & Finance. 39

"Members were strongly encouraged to open savings accounts at the bank, and all the women in the sample did so." (p.6) (c*redit first then voluntary savings)*

MkNelly, Barbara and Christopher Dunford. 1999. *Impact of* Credit with Education *on Mothers and Their Young Children's Nutrition: CRECER* Credit with Education *Program in Bolivia*. Freedom from Hunger Research Paper No. 5. Freedom from Hunger. Davis, CA.

"Participants also demonstrated positive impact on personal savings. Participants were significantly more likely than non participants and residents in control communities to have personal savings and significantly more likely than non participants to have savings in excess of Bs. 200." (p. 3)

Buss, Terry. 1999. *Microenterprise in International Perspective: An Overview of the Issues*. Journal of Economic Development. 1 (1)
www.spaef.com/sample.html

Savings can be used as a kind of self insurance against default on repayment. In addition to leveraging capital and serving as a source of emergency funds (see section below on "economic environment"), groups often are required to meet regularly to monitor loan activity, collect repayment of interest and principle, and offer mutual support as in the case of programs in Uganda. This substantially lowers transaction costs, making microcredit programs viable.[7]

Savings requirements give groups a sense of ownership, commitment, and responsibility, not likely with government grants that may seem more like handouts.

Some analysts, the UN Capital Development Fund (UNCDF), argue that savings exposed to risk in lending are a necessary condition for successful group lending.

U.S. Agency for International Development, before the Congressional Human Rights Caucus. July 21, 1999. *New Economic Hope for Third World Countries: Microcredit as a Means to Economic Independence*.

Written Statement of Katharine McKee, Director, Office of Microenterprise Development

Beyond microcredit: Yet rarely is access to a microloan of hundreds or even thousands of dollars sufficient to help a poor entrepreneur escape poverty by building a successful business. A second critical lesson emerging from field experience is the critical role that access to other financial services (such as savings and insurance) can play in poor people's efforts to boost their incomes, assets, and economic security. Reliable access to safe and convenient savings, for example, appears to be more important in the eyes of the poor and very poor than loans. Historically, where poor communities have both options available, savings surpass loans by a wide margin. Our data from USAID-supported institutions increasingly reflects this, with savers beginning to outpace borrowers. Savings require different methods and mechanisms than credit, and many microfinance institutions are finding that successfully adding deposit services is a complex undertaking.

Wright, Graham. Mosharrof Hossain and Stuart Rutherford. 1997. "Savings: Flexible Financial Services for the Poor (And Not Just the Implementing Organization)". In *Who Needs Credit? Poverty and Finance in Bangladesh*. (Eds.) Geoffrey D. Wood & Iffath A. Sharif. The University Press Ltd. Dhaka.

"This paper suggests that the MFIs in Bangladesh have not yet fully understood just how 'bankable' the poor really are. While they have slowly expanded the range of credit facilities on offer, the major government and non government MFIs **have yet to offer high quality savings facilities for the poor**. The Bangladeshi large MFIs may be missing an opportunity to provide savings services that the poor want and need while simultaneously finding a valuable source of capital for their credit operations." (p. 311)

"**Only recently did the large MFIs in Bangladesh start to use members' savings as a source of financing**. Previously savings were simply deposited in formal bank accounts in preference to being lent back to the members. (NP) However the last five years have seen a marked shift. Not only are the larger more established MFIs on-lending their members' savings, but also increasing numbers of smaller NGOs are using members' saving s as a key source of capital. Indeed there is evidence that the NGOs **mushrooming using this method to start operations are posing a rapidly growing threat to members' savings.**" (p. 312-313)

"…there appears to be an increasingly clear consensus that savings are an extremely important issue and a much needed financial service for the poor in Bangladesh. Grameen, BRAC and ASA members have been increasingly vocal about their dissatisfaction with the denial of access to their savings, and many mature members are leaving the organization in order to realize their (often substantial) compulsory savings. For example in 1995 Khan and Chowdhury[8] noted that nearly **57% of membership discontinuation in BRAC's programme is attributed to the lack of access to group savings during emergencies**." (p. 313)

"It is interesting to note that although only about half of BURO, Tangail's members are taking loans at any one time, **nearly all of them have used the credit facilities at one stage or other**. " (p. 327)

Hulme, David and Paul Mosley. 1997. "Finance for the Poor or Poorest? Financial Innovation, Poverty and Vulnerability" In *Who Needs Credit? Poverty and Finance in Bangladesh*. (Eds.) Geoffrey D. Wood & Iffath A. Sharif. The University Press Ltd. Dhaka.

"The unit *desas* have proved that the main demand for financial services from low income Indonesians is for safe saving facilities. Similarly, in Sri Lanka, SANASA's experience illustrates that the highest priority of poorer households for financial services is for easy-withdrawal saving programmes." (p. 116)

Johnson, Susan and Ben Rogaly. 1997. *Microfinance and Poverty Reduction*. Oxfam. UK and Ireland.

The purposes of saving can be summarized as follows (p. 44):

- Daily financial management
- Consumption smoothing
- Accumulation (to undertake future large expenditures)
- Insurance (to deal with irregular events such as illness)

"By insisting on regular savings, microfinance institutions can screen out some potential defaulters, build up the financial security of individuals, increase funds available for lending, and develop among members a degree of identification with the financial health of the institution." (p. 8)

"The evidence that poor people can save in cash has opened up further debate. A distinction is made between schemes in which borrowers must save small and regular amounts in order to obtain loans (termed 'compulsory' saving) and those which offer flexible savings facilities. In the latter case people can deposit and withdraw cash in whatever amounts, and as often as they wish." (p. 9)

"When compulsory savings schemes are tied to borrowing, very poor people may decide not to participate, because they are reluctant to take on debts; or they may be excluded by existing members who fear such people will be unable to repay loans out of regular income. Rutherford (1995[9]) argues that savings facilities that are flexible and voluntary, and which allow people to build savings balances independently of debt, are an unmet demand of poor people in many of these schemes." (p. 45)

"Buro Tangail, for example, a financial services NGO in Bangladesh, is introducing a range of accounts allowing users to choose one which meets their needs. These include a fully flexible savings account and accounts which involve a fixed weekly deposit over a number of years." (p. 45)

Chua, Ronald T. and Gilberto M. Llanto. 1997. Assessing the efficiency and outreach of micro-finance schemes, Enterprise and Cooperative Development Department, International Labour Office
http://www.ilo.org/public/english/employment/finance/papers/wpap15.htm

It seems that the low-income groups regularly convert some of their savings into relatively high value goods that they use for pawning when the need arises. It would be useful to find out reasons for not saving in cash. (p. 40) The pawnshop owner indicated that the "default rate" in pawnshops is between 10-20 per cent. (p.45)

Experiences confirm that there is a huge potential for savings mobilization. (p. 45) The savings mobilization or capital build-up component is critical in order to develop the sustainability of the credit program and the borrowers. Savings accounts deposited with financial institutions may serve partial collateral for loans — i.e. specially in cooperatives where loans are multiple deposits. For the poor savings may also serve as a contingency fund to cover expenditures which are emergency in nature, e.g. calamities, sickness, deaths, etc. (p. 51)

However for many borrowers the amount of income generated is still barely enough to meet daily needs, which limits the ability of the informal sector to save. (p.13).

Recommendation 8: Savings mobilization. Strong arguments for mandatory savings

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Nelson, Candace. Barbara MkNelly, Kathleen Stack and Lawrence Yanovitch. 1996. *Village Banking: The State of the Practice*. UNIFEM. New York.

"Credit linked to savings remains a fundamental principle, and a standard, of village banking. In all programmes, village bank members must save in order to borrow. Beyond this common thread, as indicated earlier, agencies are beginning to diverge on the specifics of their savings policies. The original model's stipulation that savings must equal 20% of the loan value is giving way to more flexible approaches, many of which empower village banks to determine the amount and frequency of their savings deposits. In this sense, village banking is moving from 'forced' to voluntary savings. Programmes are also experimenting with alternative formulas for determining loan sizes. Some are de-linking loan size from accumulated savings altogether." (p. 69)

Otero, Maria. 1989. *A Handful of Rice: Savings Mobilization by Microenterprise Programs and Perspectives for the Future.* Accion Internationale. http://www.accion.org/pubs/main.asp

The study first reviewed rotating savings and credit unions in Bolivia as summarized in Adams and Canavesi (1998[10]). "The rotating credit and savings associations provide a learning laboratory for understanding what motivates poor people to save, and under what conditions they are likely to do so. The traits of the "pasanaku" - a simple and resilient savings and loan system grounded in the local culture, a flexible yet structured set of procedures agreed upon by all, high returns, easy access, trust in the mechanism, and peer pressure to meet one's obligations – recur in every informal credit system, regardless of culture or country". (p. 22)

Grameen

With respect to savings in the Grameen Bank, "Potential borrows first make weekly savings deposits, and their credit eligibility is based in part on their ability to maintain self-discipline in the savings activity." (p. 28). Each borrower must save 1 taka each week and in additional allow 5% of the loan capital to be set aside for reserve. Furthermore, 25% of all loan interest goes into an emergency fund. The study indicates (p. 31) that, "While some argue that imposing this [forced-saving] requirement on the poor, who are already at a subsistence level, is a questionable practice, the experience of the Grameen Bank suggests otherwise".

While savings may be re-loaned to bank members, according to Hossain (1988[11]), only 11% of members do so and only about half of the savings used for further loans are used for emergencies as originally intended, the rest is used by members for other entrepreneurial loans. In fact (p. 33), "the savings component contributes to the high repayment rate of the program. Through it, members participate in a fund that provides them with a vital resource that they can administer in a manner entirely independent of the Bank. This increased access to resources makes the program more attractive, and hence decreases the changes of late payment or default."

BKK/LPK/BKPD/LPN Indonesia

In BKK, "all borrowers were required to save according to an established scale and this amount was incorporated into loan repayments". (p. 35). BKK does not provide training for borrowers or organize them into groups, and "perceives its role strictly as an intermediary that reaches a population seldom touched by other financial institutions". (p.37)

"When liquidity problems made it a common practice to restrict withdrawals, thereby eliminating depositors access to their money, it is likely that borrowers lost some confidence in the program and diverted potential savings to other purposes". .."The success of the recent experiment in voluntary savings in nine village units, which assures unlimited access to deposits, and good return, tends to confirm the relationship between a depositors willingness to save and the access he or she has to his or her savings". (p. 38)

ACCION (several Latin American countries)

Savings "in all cases is considered a required activity for program participants" (p. 41). In ACCION programs, savings are either added as part of loan repayment or taken off the amount loaned. In early programs with more liberal savings deposits, they were often made frequently in small amounts that made bookkeeping cumbersome and expensive.

"Savings is an alternative way of responding to an immediate need for cash without diverting funds from the business. Additionally, the savings component represents an opportunity to introduce the borrower to the formal banking sector" (p. 42)

Credit Unions (WOCCU – World Council of Credit Unions): Example – Cameroon CamCCUL

All loans require collateral in form of savings or co-signing. "the organization has developed a financial viability and sustainability based primarily on its capacity to mobilize savings among its members." (p. 48)

The study also identifies SEWA and FINCA as examples of successful savings mobilization microcredit organizations.

Reasons to include saving mobilization include policy considerations relative to borrowers

- In the formal banking structure or national economy, the poor are not encouraged to save
- Encourages people to channel resources into productive activities (increasing capitalization) rather than consumption
- Participation in group programs encourages more savings than among individuals
- Tracking savings in MFIs provides a database for improved national policy for low income groups

For borrowers, "the obligatory nature of savings schemes assures that each person develops a capital base, regardless of how small it may be… The interaction with a bank, the process of earning interest, the discipline of saving, and the decision making process on how to use savings, all constitute part of a capacity building process that equips each participant with the tools he or she needs to continue to engage in productive activities." (p. 56)

"Two important conclusions arise from this document that are pertinent to a discussion of methodology:

- **It is not just people's marginal propensity to save that determines the savings mobilization capacity of a program. The experience documented here strongly suggests that the structure of the savings component defines how much people save.**
- Successful methodologies in savings mobilization by microenterprise programs resemble the traditional savings schemes that have served the poor well for generations." (p. 57)

The study appears to support the use of forced savings. However, it recognizes that voluntary programs such as FINCA and BKK can also create powerful incentives for saving (p. 61). It also indicates that while most successful savings programs are group-oriented, this need not be required (p. 62).

Women's World Banking website:
www.womensworldbanking.org/english_test_only/2000/2100.htm

Key Activities by MFI To Achieve Success:

- Quick and simple approval and disbursement process
- "**No frills" credit as starter product**
- Easy/convenient access—reduces time investment for clients…

IFAD website: ***Rural Finance: From Unsustainable Projects to Sustainable Institutions for the Poor.***
http://www.ifad.org/pub/other/rural_e.pdf

Savings first or **credit first**?
The growth of outreach for sustainable poverty reduction is contingent upon the dynamic growth of self-reliant institutions. The essence of self-reliance of the poor and their institutions is local resources:

- **Savings** deposited and accumulated by the poor in local financial institutions are the basis of self-financing and household risk management;
- **Savings** mobilized by local financial institutions are the main source of growth of funds and bring independence from external subsidies and interference.

Savings are a liability of the institutions collecting them, but an asset of the poor depositing them. In contrast, loans are assets of the institutions providing them, but a liability of the poor acquiring them. Yet, the priority of one over the other **savings first** or **credit first** is a pragmatic, not an ideological, issue. The crucial criterion is the rate of return: **savings first** is more appropriate in subsistence agriculture and low-return activities; **credit first** is more appropriate in high-return activities. A household is the setting of complex, interlinked low- and high-return activities: **savings**-driven investments in low-yielding activities may generate the start-up capital for **credit**-financed activities with high returns. These, in turn, may generate profits and **savings** to be plowed back into low-return activities, including subsistence agriculture. IFAD's help speeds up the **savings**-and-**credit** cycle, with growing amounts of both. This may result in an increasing share of self-financing in security-oriented households, but in a larger share of external financing in entrepreneurial households.

TCP's Impact on Poverty (unpublished)

"TCP facilitates increasingly sustainable livelihoods…The achievement of this positive impact is a combination of building a strong business that can provide a reliable and adequate income to meet basic household needs, with **the development of assets** to protect this income and reduce vulnerability**. These assets include savings**, which provides for a fund to use in the case of emergencies, and means of managing money to meet 'lumpy' expenditure needs for business or household purposes."

Secondary Sources: Section 2

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[3] Johnson, Susan and Thalia Kidder. 1999. *Globalization and Gender—Dilemmas for Microfinance Organizations.* Small Enterprise Development. 10 (3) p. 4-15.

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3.1 Introduction

This section will focus on two specific questions:

- Is there evidence about the comparative strengths and weaknesses of microfinance vis-à-vis other tools, and how does microfinance rate against other development tools and interventions in terms of reducing poverty?

- Should there be a combination of microfinance and other tools to enhance synergies?

  (The other developmental tools to be considered should include, but not be limited to: primary health care, basic education, family planning, HIV/AIDS interventions, nutrition interventions, water and sanitation projects, the provision of shelter, and other economic development programming if possible.)

There are few rigorous studies of the relative efficiency of microfinance vs. other development interventions. The question is ridden with methodological difficulties, in that it is difficult to compare the various development outcomes: lives saved, compared with increased years of schooling or improved family incomes. Also, the various problems (and their associated interventions) are interrelated.

The good news is that, by the same token, the beneficiaries are likely to respond very positively to a coordinated array of interventions including microfinance. This synergy is fairly well documented, and we will start by reviewing that evidence before the less conclusive comparative literature on development interventions.

3.2 Should there be a Combination of Microfinance and Other Development Tools to Enhance Synergies?

3.2.1 Increased Effectiveness

A number of studies conclude that a combination of microfinance and other development tools increases effectiveness.

Oxfam GB Policy Department for UNICEF. August 1999. *From Unsustainable Debt to Poverty Reduction: Reforming the Heavily Indebted Poor Countries Initiative*. http://www.oxfam.org.uk/policy/papers/hipcref/hipcref.htm

"Reversing the downward spiral will require a comprehensive approach**. Isolating individual development targets would be mistaken, since sustained progress in any one area depends on advances in all areas.** Improving access to education without parallel advances in public health will produce sub-optimal outcomes for an obvious reason: sick and poorly nourished children do not make successful students. Similarly**, increased household income is the single biggest factor in determining the rate of improvement in health and education status, pointing to the need for economic growth to be placed at the centre of poverty reduction policies***."*

Smith, Stephen C. and Sanjay Jain. 1999. *Village Banking and Maternal and Child Health: Theory and Evidence from Ecuador and Honduras*. Working Paper. George Washington University Department of Economics. Washington, DC. (also found on the Microfinance Gateway at www.ids.ac.uk/cgap/static/1821).

The paper states that credit tie-in programs cannot be summarily dismissed as an unproductive interference with the natural comparative advantage of institutions designed to provide credit to the poor. It reviews arguments for tying-in microenterprise credit with other services, notably health and education. Using a theoretical model, in which households choose leisure, consumption and health subject to credit and other constraints, and in which higher goods consumption can increase health and incomes, the paper finds that:

- **The 'net price' of consumption and of time spent on health are lower than their market price**
- Their opportunity costs are partly recouped via reduction in sick time and increased productivity given hours worked. But some participants constrained to participate in a health component may exhibit lower gains than in a conventional credit bank
- Banks with tie-ins may gain economies of scope but lose comparative advantage

Johnson, Susan and Ben Rogaly. 1997. *Microfinance and Poverty Reduction*. Oxfam. UK and Ireland.

"Lipton[1] has recently argued for anti-poverty resources to be allocated across sectors on the basis that a **concentration on a single intervention mechanism, say credit, is much less effective in poverty reduction than simultaneous credit, primary health, and education work**, even if this entail narrowing geographical focus. The particular combinations that will be most effective will depend on the nature of poverty in a specific context. " (p. 14)

Marcus, Rachel. Beth Porter and Caroline Harper. 1999. *Money Matters: Understanding Microfinance*. Save the Children. London.

Marcus also states: "Whilst more analysis is needed, there is **some evidence that programmes tackling some of the broader aspects of poverty and powerlessness, such as illiteracy or poor health, as well as providing financial services are more effective in assisting the poorest people** than minimalist programmes (Glaser et al, 1992 cited in Peace and Hulme, 1993[2]." (p. 20)

"An important conclusion is that **microfinance has a greater impact on poorer, more disadvantaged people, on social relations (including gender relations) and on children when it is combined with other activities.** Typically these activities try to address the root causes of their disadvantage, such as discriminatory social attitudes as well as supporting them to develop more secure livelihoods, and reducing their vulnerability to discrimination or exploitation. Or they combine microfinance with training or services that enable participants to make the most of increases in income." (p. 32)

"One way of overcoming this (risk of misjudged investment or bad luck leading to impoverishment) is **through linking credit and savings to other poverty reducing and asset building programs**, such as employment guarantees schemes, **or provision of the basic services** discussed above." (p. 36).

Wright, Graham A. N. 2000. *Microfinance Systems: Designing Quality Financial Services for the Poor*. Zed Books Ltd. London & New York, and The University Press Limited, Dhaka.

"…It is worth pointing out that the client groups that meet regularly at the same place and time, offer a tremendous opportunity for health (and indeed most other forms of) outreach and extension work."

3.2.2 Examples of Synergistic Combinations

UNICEF Interventions

Nepal

UNICEF (1995) linked the delivery of social services in Nepal to credit and other support provided under the Small Farmer Development Program (SFDP) since 1982-1983. In areas where credit has been combined with support for basic social services, infant mortality is lower, school attendance for girls is higher and children's health, nutrition and education have shown greater improvement, than in areas where credit alone is given or where no credit is provided.

In 1982, UNICEF began supporting the Production Credit for Rural Women (PCRW) program by providing credit and training and supporting community development in five districts. Since 1989, credit has been linked with social development messages, drawing on the experiences of the Grameen Bank and the Self Employed Women's Association in India. The approach of combining credit and basic social services has attracted support from a number of donor and multilateral agencies.

The Small Farmer Development Program (SFDP), implemented by the Government of Nepal, gives loans of up to NRs30,000 (in 1995, $1 = 56.8 Nepalese rupees) on a group-collateral basis to small groups of farmers for various income-raising, agro-based enterprises. By 1992, the program covered 123,000 families whose annual per capita income was below Nrs2,500.

UNICEF has supported SFDP with interventions in health, nutrition, education and water and sanitation. The repayment rate for the loans is above 80% in the women's groups and 60% in the men's. The loan repayment rates are higher in those areas where social interventions are combined with credit than in areas where credit alone is given. Social indicators also show greater improvement in areas where credit is combined with delivery of basic social services:

- School attendance of girls between 5 and 14 years of age was higher in families that received both credit and support for basic social services than it was in families that received credit alone and in families in areas where there was no SFDP (75%, 63% and 50% respectively);

- Infant mortality rates were lower in areas with a combined credit and basic social services approach than in areas where credit was extended without social services and in those where no credit was provided (113, 116 and 135 per 1,000 live births respectively);

- The average number of child deaths from diarrhea was reduced by 33 per cent in the areas where credit alone was provided and by 37 per cent where credit was combined with basic social service interventions; immunization coverage for BCG (tuberculosis), DPT3 (diphtheria, pertussis, tetanus), polio and measles was higher in areas of combined credit and social development interventions than in areas where credit alone was extended or where no program was operating at all (83%, 71% and 61% respectively);

- More women of reproductive age were immunized against tetanus and had greater knowledge of nutritional needs in areas where credit and basic social services were combined;

- The proportion of households with latrines was twice as high in areas where credit and basic social services were linked, compared with the areas where SFDP was not operating. In areas where UNICEF gave support, 70% of households built latrines after receiving SFDP credit compared with only 45% where only SFDP provided assistance;

- The percentage of households using tap water doubled (from 19 to 38% of households) in areas where SFDP extended only credit, but it rose by a factor of four when credit was linked with basic social services (from 9 to 36%).

These studies support the benefits accruing to aid programs combining social interventions with microcredit.

Viet Nam

UNICEF (1996a) has supported a microcredit and savings program since 1989 in Viet Nam. Implemented by the Viet Nam Women's Union, the program has provided credit to 33,584 borrowers in 16 provinces. Borrowers form groups of between 10 and 15 members, and loans are made on a group-collateral basis. All the loans are to women and recovery rates are high. UNICEF has combined the credit program with health messages. Many social indicators have shown improvement as indicated below:

- 97% of the daughters of the borrowers attend school compared with 73% of daughters of non-borrowers;
- A survey showed that 73% of the non-borrower households faced food shortages of three months or more compared with 12% of the households that had borrowed money. Borrower households no longer attribute food shortages to a lack of land and capital; they attribute them instead to reduced time for food production because of the need to care for small children;
- 36% of borrowers consider animal husbandry as their main occupation compared to 16% of the non-borrowers.

In a second UNICEF-supported scheme in Viet Nam, 9,600 women have received loans, combined with literacy and education, in groups of 20 to 30 women in four provinces. According to UNICEF (1996a), evaluation showed:

- The vast majority of the borrowers (97%) significantly increased their household production since the project began in 1994;
- Prior to receiving credit, 86% of the borrower households faced a food shortage of more than one month. After the scheme was introduced, only 33% of borrower households experienced food shortages compared to 77% of the non-borrower households;
- Although credit increased household production, it is not known whether it has enhanced borrowers' confidence and their capacity for decision-making.
- There was a high demand by non-borrowers to join the scheme — 93% of non-borrowers interviewed wanted access to project loans.

Egypt

Since 1993, UNICEF (1996b) has supported a number of microcredit schemes in poorer regions of Lower Egypt and in some urban slum areas. In Alexandria, a microcredit scheme run by a local NGO combines credit for women with efforts to combat child labour. Each borrower group comprises five women, two of whom have working children. The condition for the women's loans is that all the children should go to school. This scheme, in an area with adequate access to basic education, showed that microcredit could reduce child labour and improve school attendance while at the same time improving the income levels of the participating families. It also showed that parents are willing to send their children to school once the economic condition of the family improves.

"Credit with Education" Programs

"Credit with Education is a development intervention created by Freedom from Hunger. It blends the provision of basic information on health, with the provision of microfinance.

Evaluation studies (MkNelly and Dunford, 1998, 1999; Dunford 2001) were conducted in the programs of the Lower Pra Rural Bank in southwestern Ghana and of CRECER. Program impact is summarized below on the combined effect of the financial and education components of the Credit with Education Programs as summarized by Dunford (2001).

These two studies provide the bulk of the findings summarized below. Several other studies, in Burkina Faso (MkNelly and Foly 1997), Ecuador, Honduras, Mali, Tanzania, Thailand and Uganda, also contribute results.

Few research efforts have compared the relative impacts of stand-alone credit and education interventions versus parallel or unified delivery strategies (Smith and Jain 1999). Some of the impacts evident in evaluations of *Credit with Education* programs might be the effect of either the financial or education components or both working together. Here are some examples of evidence of possible synergistic impacts as documented in Dunford (2001):

- **Women's Empowerment.** Based on Schuler and Hashemi (1994[3]), *Freedom from Hunger* defined women's empowerment in terms of 1) women's self-confidence and vision of the future; 2) their status and bargaining power within the household; and 3) their status and networks in the community. In both Ghana and Bolivia, there was evidence that access to the financial and education services had positively impacted women's self-confidence and status in the community. Participants in Ghana rated themselves significantly more confident than did non-participants that they would earn more in the future and that they could prevent their children from getting diarrhea and other illnesses. In terms of involvement in community life, participants in Ghana were taking on more active roles in community ceremonies, such as funerals, and participants in Bolivia were running for and holding offices in local governing bodies. In both countries, participants were significantly more likely to have given others advice both about practices for good health/nutrition and better business. There was little evidence, however, of women's increased bargaining power within the household (no significant increase in influence on a number of household investment decisions, with the exception in Bolivia of spending on house repairs and in Ghana on whether or not children went to school). One to three years of program participation by women may be too little to change deeply embedded power relationships and expectations within households.

- **Children's Diet.** Researchers from the Noguchi Memorial Medical Institute in Ghana (unpublished research by Dr. Margaret Armar-Klemesu, University of Ghana, Legon) conducted a dietary intake study of children of *Credit with Education* members and also non-participants. They investigated dietary intake of children 9–20 months old who were in the Ghana follow-up round of data collection. Dietary intake was assessed by the mother's 24-hr recall of all breastfeeding episodes and all meals and snacks consumed by the child on two non-consecutive days. Mothers identified measures used to offer food to the children, how much was offered, and proportions consumed in reference to local measures and fist size. Samples of all foods reported were taken to the lab for calorie and nutrient content analysis using appropriate food composition tables. The study found that the dietary quality of the foods given to participants' children was relatively higher. Also, the estimated caloric intake was significantly higher.

- **Children's Nutritional Status.** Measurements of the same children in Ghana showed the nutritional status of participants' one-year-olds—both weight-for-age and height-for-age—also significantly improved relative to the children of residents in control communities. For example, the percentage of participants' children categorized as malnourished, based on height-for-age, decreased by eight percentage points between the baseline and follow-up periods, while the percentage of malnourished actually increased in control communities.

Similar to studies of stand-alone health/nutrition education programs (Cerqueira and Olson 1995[4]; Contento et al 1995[5]), the findings from *Credit with Education* programs (Dunford (2001) demonstrate positive changes in clients' health knowledge, self-reported practice and some health outcomes:

- **Breastfeeding**. In Ghana, between the baseline and follow-up periods, there was a significant and positive increase among participants in giving their newborns the first antibody-rich milk, colostrum, rather than discarding it, relative to the two non-participant groups. Mothers in the program also exclusively breastfed their babies longer—closer to six months—and thus did not unnecessarily expose them to contaminants found in food or liquids other than breast milk. And, despite their involvement in loan-financed activities, clients did not stop breastfeeding their children earlier than did non-participants, and they were even significantly less likely to use feeding bottles.

- **Complementary Feeding**. In Burkina Faso, women participants learned how to prepare a thicker porridge and when to begin feeding it to their young children. In the recent past, a child could easily go without food besides breast milk until two years of age; women in the program were more likely to prepare special porridge and entice the child to eat solid food earlier.

- **Diarrhea Treatment**. In Bolivia, the baseline research indicated a key topic for the education component was the need for rehydration of children suffering bouts of diarrhea. Between the baseline and follow-up, a significant and positive difference was found in the percentage of clients reporting they gave children with diarrhea "more liquid than usual" (liquids of any kind, including breast milk) as compared to non-participants.

- **Immunization**. In Bolivia, participants' one-year-old children showed significant and positive improvement in the percentage having the DPT3 vaccination relative to non-participants' children. Typically, there is a drop-off in immunization coverage for those vaccinations given later in the series. This difference may indicate a positive effect of the program by encouraging mothers to have their children complete the full immunization series and in some cases by inviting health workers to provide these immunizations at the borrower groups' regular meetings.

According to Dunford, the Ghana study also showed that health/nutrition behavior-change promotion from multiple sources could be mutually reinforcing when coordinated and focused on the same population. Mothers reported that reinforcement from several trusted sources—local health center staff, the *Credit with Education* field agent, as well as the other Credit Association members—led them to try exclusively breastfeeding their babies for a longer period. This change represented a radical departure from the common practice of giving newborns water and other drinks in their first days and weeks of life.

In Ghana (MkNelly and Dunford 1998), the following impacts were noted:

- Microcredit program participants reported a reduced vulnerability to the “hungry season” relative to the baseline period compared to two other groups (a control group and a non-participant group).
- The nutritional status of infants in borrower families (weight for age and height for age indices) was improved relative to the other groups
- There was no difference in the maternal health status (body mass index) among study groups.

3.3 Comparative strengths and weaknesses of microfinance vs. other development tools

3.3.1 Strengths

- ***Cost Effectiveness***

Wright, Graham A. N. 2000. *Microfinance Systems: Designing Quality Financial Services for the Poor*. Zed Books Ltd. London & New York, and The University Press Limited, Dhaka.

"Furthermore as Rhyne (1994[6]); Christen et al. (1996[7]) and many others point out, the greater the Microfinance institution's outreach, (i.e. the more clients it serves) the more cost effective and sustainable it becomes. **In most development initiatives, the more people you serve, the greater the cost becomes; with Microfinance initiatives, the opposite is true**." (p. 35)

"It is clear that, in these days of dwindling development budgets, **the cost-effectiveness and sustainability of** interventions is one of the most important criteria for programming funds. It is here **that Microfinance has a particular advantage over almost (and probably) all other interventions….**" (p. 39)

"How else could a donor organization **invest as little as $35[i] per household** served with a good chance of **positive long-term impact, and the probability of an increasing number of households being served at no additional cost**? And ASA's stripped-down, if somewhat inflexible, system offers an even cheaper alternative. With branches breaking even within less than nine months of starting operations, and a breath-taking rate of expansion, ASA is now reaching nearly 1 million clients." (p. 35)

Khandker, Shahidur R. 1998. *Fighting Poverty with Microcredit: Experience in Bangladesh.* Oxford University Press, Inc. New York.

"The **social cost of supporting microcredit programs is low**, however – estimated **at $11 per household per year**." (p. 148)

[i] BURO, Tangail's Plan: As of 31st December 1997, BURO, Tangail provides 45,000 clients with a range of savings and credit services. By 2003 at the latest, the organization fully expects to be serving 100,000 clients. The capital funds for these services come from three sources: clients' savings, retained profits and donor funds. The total capital funds requested from donors is $3.9 million, with an additional $1.1 million to be invested in set up costs. By the year 2003, BURO, Tangail could easily start to repay the donor capital funds…If the loan is indeed repaid, or the donor funds are used to provide capital for other replications of BURO…the net investment of funds (including the inputted cost of capital at around 10% pa—giving $2.4 million) would be about $3.5 million or $35 per client served, to build up a sustainable and financially-sound organization.

➢ *Powerful Leveraging Effect*

Garson, Jose. *Microfinance and Anti-Poverty Strategies: A Donor Perspective*. UNCDF. http://www.undp.org/uncdf/pubs/mf/mf-contents.htm

"**Macroeconomic policies linked to structural adjustment processes, although subsequently oriented in ways that tended to limit or minimize social problems, could hardly bring about a lasting solution**. Such policies support the traditional approach, in which poverty is deemed to be alleviated by top-down money transfers initiated by the State in the direction of the poor.

Yet public money transferred to the poor can provide only short-term relief to their situation simply because nowhere is public (or donor) money in infinite supply. In the short- and medium-term, macroeconomic policies are bound to work in zero-sum-game environments where money transferred to the poor is necessarily taken from other segments of the economy, a decision always difficult to take at the government level. Furthermore, and of greater importance, the example of developed countries clearly showed that more money allocated to poverty by the government did not necessarily mean less poverty or less exclusion in society, even in the short term. On the contrary, the permanence of public transfers to some categories of people often created frozen situations where none of the actors involved in the poverty struggle had any incentive to move or change.

…At a time when governments are incurring heavy budget deficits, the question arises as to whether the cost of the anti-poverty effort should be shared further by the poor and by the private sector at large. **The income-generating approach described in the preceding paragraphs already allows part of that effort to be shared by the poor themselves. Credit, combined with the effort and skills of the entrepreneurial poor, can create the conditions necessary for the development of income-generating activities. Scarce public money earmarked for poverty eradication is then leveraged through credit**."

➢ *Potentially Financially Sustainable*

Also see section 1a

Dunford, Christopher. 2001. *Building Better Lives: Sustainable Linkage of Microfinance and Education in Health, Family Planning and HIV/AIDS Prevention for the Poorest Entrepreneurs.* http://www.microcreditsummit.org/papers/papers.htm

Dunford also presents evidence on the sustainability of CWE programs. The follow-up round of the impact evaluation research in Ghana (summarized above) was conducted in 1996, when the Lower Pra Rural Bank, using entirely its own loan capital, had been offering *Credit with Education* for about four years. At that time, the program had an operating self-sufficiency ratio of 81% (meaning that the interest paid by borrowers covered 81% of the Lower Pra Rural Bank's costs of delivering *Credit with Education* as one of its several services to surroundings communities). These operating costs included financial costs, including interest on debt but not loan-loss reserve. As of June 2000, the reported operating self-sufficiency was 130%.

Centre for Global Studies. 2001. *Options for a New Microfinance Promotion Agency*. University of Victoria. Victoria, BC.

The **sustainability and profitability of micro-credit programs in the developing world are achievable**. The extent to which and the rate at which sustainability is achievable is a function of the goals of the program, the target population, etc. There are examples that serving the poor can be sustainable.

Gibbons, David S. and Jennifer W. Meehan. 2000. *The Microcredit Summit Challenge: Working Towards Institutional Financial Self-Sufficiency while Maintaining a Commitment to Serving the Poorest Families*. www.microcreditsummit.org/papers/papers.htm.

CRECER was one of three microcredit institutions profiled by Gibbons and Meehan. CRECER's efficiency and sustainability ratios were comparable to, some better than, the other two institutions, which offered very little or no education in addition to financial services. At the end of 2000, CRECER's operating self-sufficiency ratio (including interest on debt and loan-loss reserve) was 106%.

Woller, Gary. September 2000. *Reassessing the Financial Viability of Village Banking: Past Performance and Future Prospects.* MicroBanking Bulletin 5 p. 3-8

Woller compared various performance indicators for nine of the best performing village banking programs reporting data to the *MicroBanking Bulletin*, including three which provide extra education (Kafo Jiginew, CRECER and PRO MUJER). The three integrated programs had the lowest administrative expense and salary expense ratios of the nine institutions. This indicates that the volume of lending in relationship to basic staffing and administrative expenses was relatively more efficient than for the other six village banking programs exclusively focused on microfinance. Compared to all 22 village banking institutions reporting to the *MicroBanking Bulletin*, all three integrated service providers out-perform the norm (average) for the administrative expense and salary expense ratios, and two of the three organizations out-perform the norm for the cost per borrower and staff productivity ratio. While education might add 6 to 10% to the administrative cost ratio, it is offset by productivity gains, which actually lead to lower administrative expense ratios.

CGAP Website: http://www.cgap.org

CGAP reports that 63 of the world's top MFIs had an average rate of return, after adjusting for inflation and subsidies, of about 2.5% of total assets. For example the Bank Rakyat Indonesia generated a US$178 million profit in 1996 from its UDES program and Grameen has stopped negotiating for new grants or soft loans since 1995. Given the opportunity to receive a small loan, which can make all the difference between staying poor and working out of poverty, many choose to take the loan and work towards independence.

3.3.2 Weaknesses

- ***Less Universal in its Application***

Marcus, Rachel. Beth Porter and Caroline Harper. 1999. *Money Matters: Understanding Microfinance*. Save the Children. London.

"Where market opportunities are constrained by low population density and limited purchasing power or are flooded with similar goods and services, training, technological development or assistance with marketing may have a greater impact than microfinance. Even where market opportunities are promising, basic services and infrastructure that improve the productivity of existing livelihood activities—such as agricultural extension or veterinary services, improved natural resource management, and irrigation—or health services which prevent sickness destroying livelihoods may be more appropriate than microfinance." (authors' footnote: "In the context of user fees and privatization of services, credit can enable poor people to generate the income to make use of such services. Whether they should be expected to do so, is a political question best resolved in context.) (p. 36)

Khandker, Shahidur R. 1998. *Fighting Poverty with Microcredit: Experience in Bangladesh.* Oxford University Press, Inc. New York.

According to Khandker, the usefulness of microcredit as a tool for reducing poverty depends on local circumstances. Poverty is often the result of low economic growth or high population growth or very unequal distribution of wealth/resources. The immediate determinants of poverty are unemployment or under-employment (low productivity). When poverty results from unemployment, creating jobs is appropriate. When poverty results from low productivity or low income, increasing productivity through training, capital investment etc is key.

Parker, J. and D. Pearce. 2001*. Microfinance, Grants, and Non-Financial Responses to Poverty Reduction: Where Does Microcredit Fit?* Consultative Group Focus Note No. 20. Washington, DC. http://nt1.ids.ac.uk/cgap/wnewlib.htm.

For microcredit to be an appropriate intervention, certain pre-conditions should NOT hold. Lending under these conditions may not produce tangible benefits. These include:

- **Immediately after emergencies**
- **For the chronically destitute**
- **In severely disadvantaged areas lacking infrastructure, services or access to markets**
- **Where illness such as HIV/AIDS pervades** (see section 3.4.7)

Parker and Pearce list other conditions that **may** limit the success of microcredit programs:

- **A very dispersed population**
- **Dependence on a single economic activity**
- **Reliance on barter rather than cash**

- **Unstable populations (e.g. those displaced)**
- **Real potential for future crises (wars, famines, etc)**

These conditions challenge even the most established and best managed microcredit institutions.

Versluysen, Eugene. 1999. *Defying the Odds: Banking for the Poor*. Kumarian Press. Connecticut. p. 41-44, 224-227.

Versluysen (p. 225) states that, "banking for the poor cannot be a surrogate social safety net". "The aged, infirm, and totally indigent who are unemployable do not belong in microfinance programs, because they would never be able to use loans productively, and would be burdened with debts", he concludes.

➢ *Borrowers need to be suitably entrepreneurial*

Khandker, Shahidur R. 1998. *Fighting Poverty with Microcredit: Experience in Bangladesh.* Oxford University Press, Inc. New York.

"The sources of the success of microcredit are also the sources of its weaknesses. Microcredit is self-targeting and hence cost-effective. But not all rural poor are able to benefit from Microcredit programs; utilizing loans in productive activities requires entrepreneurial skills that most people lack. Microcredit programs must target only those poor who have some ability to initiate activities with growth potential but lack capital. For the rural poor who are unable to become self-employed, targeted food programs and wage employment may be more appropriate. Microcredit also suffers from its limited ability to increase the size of the loan per borrower because of the limited capacity of borrowers to absorb loans.

Because of the emphasis on outreach, overhead costs are high, and subsidized funds are required over long periods of time. Although group pressure creates incentives to repay loans, enforcing group pressure and discipline involves costs Microcredit programs must find ways to reduce administrative costs as well as subsidy dependence." (p. 152-3)

➢ *Credit as debt and loan usage*

Buss, Terry. 1999. *Microenterprise in International Perspective: An Overview of the Issues*. Journal of Economic Development. 1 (1)
www.spaef.com/sample.html

Buss acknowledges the rapidly growing popularity of microcredit as a tool to reduce poverty and identifies a list of issues around this trend. (Buckley 1997[8]) identified concerns including:

- **Microcredit may force poor people or groups of borrowers into debt they cannot repay, or into businesses where they can barely subsist** (Montgomery 1996[9]).

- **Those who receive subsidized credit in many cases likely do not need it** (Seibel 1994[10]).

Microenterprise programs are generally targeted not only to very, very small businesses, but also to poor people, many of whom are women. Not all poor people can operate businesses successfully or pay back loans obtained. Offering credit may make some people worse off by obligating them to debt they cannot repay. For others, they may already have access to credit, but are drawn by better terms offered by subsidized microcredit programs. Still others may borrow without intent to repay, or even to use loans for business.

➢ *Limited Growth Potential*

Even in programs that are considered well targeted to address the poorest, only a small fraction of the target population is reached. For example, TCP (unpublished report) reaches 20% of the poorest with its programs in South Africa. Furthermore, there is a fairly small range of business type commonly run by TCP members, with most being some sort of petty trading. This can have the effect of increasing competition with the potential to take jobs away from others (in a localized sense) who operate with microcredit loans.

3.4 Rating microfinance against other development tools and interventions in terms of reducing poverty

Garson, Jose. *Microfinance and Anti-Poverty Strategies: A Donor Perspective.* UNCDF. http://www.undp.org/uncdf/pubs/mf/mf-contents.htm

Experimental projects have demonstrated that **credit could play a role in financing the provision of basic needs, especially in the areas of low-cost housing, water supply and sanitation** (Varley, 1995[11]) and health services. The role of credit in these projects is based on household needs for better access to specific basic services. In these projects, the State and local governments were not in a position to fulfill those needs. Poor families therefore undertook to develop their own response to the problem. Donors provided funds to an intermediary that extended credit to households which used the credit to finance the investments. The use of credit was made possible by the existence of simple, inexpensive technologies. The case of water supply and sanitation projects is noteworthy. Most investments in this area (water supply plants, waste-water treatment and infrastructure) are large and expensive to install. It is often difficult for the State or local municipalities to accept responsibility for funding them. On the other hand, on-site facilities, such as water storage tanks, pit latrines, septic tanks and small bore sewers, are affordable and immediate solutions that could be attractive to poor people because they generate personal economic benefits for which the poor are both willing and able to pay.

The existing market for housing improvements, including on-site water supply and sanitation is shown by the private savings invested in incremental extensions and improvements. While the high returns to investment in domestic water supply are uncontroversial, the proposition that demand likewise exists for sanitation at the household level is frequently treated with skepticism. However, experience suggests that cultural attitudes toward privacy (especially for women), public hygiene education, perception of the costs of vector-borne diseases and the positive effects of sanitation facilities on property values all increase the demand for on-site facilities. These investments often make use of purchased materials and contractors. Unless the contractor provides credit, such improvements require a significant up-front payment which is a source of demand for short-term and medium-term credit (Varley, 1995[12]).

The same approach–use of credit to finance basic needs–has also been used in health care projects. In many countries in Africa (e.g., Comoros, Mali, Senegal) savings associations (mutuelles de santé) have been established to help poor people to save and later finance their health-care expenses[ii].

The use of credit to meet basic needs creates a demand-driven approach centered on the needs of the household as the household perceives them. This approach is not valid for all basic needs, most of which must still be met by the State because of the nature of the need and/or the cost involved nor is it valid for all poor populations. When applicable, it does provide a coherence to a household's effort to achieve a better life. The presence of a credit intermediary that extends the credit for various categories of basic needs is another advantage of this approach. The credit intermediary provides successive loans

[ii] Author’s note: In Africa, mutuelles de santé have been developed by a programme implemented by ILO and Appui associatif et coopératif aux initiatives de développement à la base (ACOPAM).

to the same household and mobilizes savings. Through its interaction with households, the credit intermediary offers the possibility of coordinating the various improvements in the way of living of the poor.

3.4.1 Rigorous analyses lacking

Zeller, Manfred. Gertrud Schrieder, Joachim Braun and Franz Heidhues. *Rural Finance for Food Security for the Poor: Implications for Research and Policy*. International Food Policy Institute. www.ifpri.cgiar.org/pubs/fpr/synopses/fprsyn4.htm

"So far, few rural financial institutions for the poor have reached significant levels of outreach. Most of them depend on subsidies, although some at a modest level. **Recent research analyzing the impact of these institutions indicates gains in improved income, food security, and educational and nutritional status**. If rural financial institutions contribute to the objectives of economic efficiency and more equitable distribution of income and assets, they perform a worthwhile task for public policy. It is in this light that contemporary publications on this subject argue that public support for building financial institutions for the poor is justified if subsidies can be phased out after the initial years of institution-building and if the long-term financial sustainability of the institution appears achievable.

From a policy perspective, public support for building rural financial institutions ought, in principle, not be judged on the prospect of achieving financial sustainability of the institution itself, but on the economic sustainability of the public investment. Economic sustainability of a policy implies that scarce public funds are used to maximize social returns. In many rural settings of developing countries, long-term support for building and maintaining rural financial institutions that serve the poor may have higher benefit-cost ratios in both the short and the long run than some other competing policy instruments. A cost-benefit evaluation of public investments in rural financial institutions, however, has so far not been undertaken, largely because rigorous quantitative assessments of the welfare benefits of access to financial services are lacking. More research quantifying the benefits could contribute to better informed policy design and implementation."

3.4.2 Microfinance and other Social Welfare Programs

Khandker, Shahidur R. 1998. *Fighting Poverty with Microcredit: Experience in Bangladesh.* Oxford University Press, Inc. New York.

Khandker (133-144) concluded that microcredit programs were **more cost-effective** in delivering financial services than state-controlled agricultural development banks. Furthermore, he concluded that **microcredit is more cost-effective than formal rural financial intermediation, targeted food interventions and rural infrastructure development projects in Bangladesh.**

He concludes this by comparing cost benefit ratios (social costs incurred for each unit of financial services provided) among these interventions in Bangladesh listed in Table 1. Food intervention program benefits include the food allocated to program participants and the increase in consumption resulting from the program. Program costs are from program documents. Cost benefit ratios are based only on food allocation from published documents. Infrastructure cost benefit estimates are based on the cost of developing paved roads or electrifying villages and average income gains of 13% per upgraded village.

Table 1 Cost benefit ratios for poverty interventions (Khandker 1998)

Microcredit Banks **Ratio**	Grameen **(female, male borrowers)** **0.91, 1.48**	BRAC **(female, male borrowers)** **3.53, 2.59**	
Agricultural Development Banks **Ratio**	BDB **4.88**	RAKUB **3.26**	
Food Intervention **Ratio**	VGD **(two estimates from alternative data sources)** **1.54, 1.65**	CARE **2.62**	Food-for-Work **(two estimates from alternative data sources)** **1.71, 2.02**
Basic Infrastructure Development at Village Level **Ratio**	Electricity, paved roads etc **1.38**		

Table 1 data indicates the following:

- Only the Grameen Bank program with female borrowers provided more benefits than costs (cost benefit ratio less than unity).
- Untargeted basic infrastructure development at the village level was more cost effective than most other interventions.
- Bangladeshi banks were (at least at the time the Khandker study was completed) less cost effective than other forms of interventions.
- The figures for BRAC are likely too high; BRAC claims that the costs included expenses related to its education program

Khandker (p. 141, 151) concluded the following:

> "If benefits are limited to consumption, Grameen Bank appears to be more cost-effective than other targeted poverty alleviation programs [including BRAC, RD-12, agricultural development banks and targeted food programs]. Grameen Bank also seems to be more cost-effective than nontargeted programs, such as rural-based formal finance or infrastructure development projects. That is, for all programs considered here, Grameen Bank seems to incur the lowest cost for the same dollar worth of household consumption. (Alternatively, Grameen Bank generates more benefits for the same cost to society.)"

However, Khandker does not suggest that all energies be devoted to the most cost effective programs (p. 143):

> "This does not mean that all resources should be rechanneled into the single most cost-effective program or that all people would benefit from a reallocation of resources. People self-select into programs that fit their needs and abilities. Microcredit programs are not a viable option for many people because such programs require skills, such as accounting ability, that many people in the target groups lack. Credit-based interventions are best targeted to those among the poor who can productively use microcredit to become or remain self-employed, while public works programs are best targeted to the ultrapoor who lack the skills to benefit from microcredit."

Khandker bases this caution on findings that suggest (p. 142) that the ultrapoor are more likely to use public works programs than credit-based interventions, while those with larger landholdings are more likely to participate in microcredit programs and less likely to participate in wage employment.

3.4.3 Microfinance and Basic Education

Watkins, Kevin. 2000. *The Oxfam Education Report*. Oxfam GB for Oxfam International. http://www.oxfam.org.uk/educationnow/edreport/report.htm

"Progress in education has 'instrumentally momentous' consequences in relation to the wider 2015 targets" (Sen, 1997[13]). Women's education in particular is among the most powerful determinants of trends in public health and child mortality. **Income-poverty reduction is a function of two factors: the rate of growth and the distribution of income. Education generates important benefits in both areas.** It is positively associated with the rising productivity and innovation upon which economic growth depends.

Equally importantly, improved access to education can help the poor to participate in markets on more equitable terms, improving the distribution of income in the process. Globalization, and the associated emergence of increasingly knowledge-based systems of production, is strengthening the links between education and poverty reduction, both nationally and internationally.

The correlation between parental education and child mortality has been extensively documented. In almost all countries, child-death rates are inversely related to the level of maternal education. The more educated the mother, the healthier she and her child are likely to be. **Comparative research focused on 33 countries during the 1980s found that each additional year of maternal education reduced childhood mortality by about 8 per cent** (Caldwell, 1986[14]). For mothers completing five years of primary education, the risk of childhood mortality decreased by around 45/1000 births.

After controlling for socio-economic differences, one survey of 28 countries showed that mothers' education was the single most important influence on child mortality, especially after the first year of life. (World Bank, 1995[15])…. Schools can provide a focal point for community health and nutrition efforts, including pre-natal care, immunization, oral rehydration therapies, control of respiratory infections, and vitamin supplementation….. Educated mothers are not only better able to gain information about health matters and nutrition: they are also far more likely to make use of preventative health-care services and to demand timely treatment.[iii]…. **Even within low-income groups, maternal education is positively associated with better nutrition, partially compensating for other aspects of deprivation**.

While low income is inevitably associated with deprivation in other areas of human welfare, some countries have achieved far better levels of human development than others that have higher average incomes. For example, comparing performance of Pakistan with that of Vietnam, a country with lower average incomes and higher income-poverty levels[16]. More than half of Vietnam 's population lives below the poverty line. What is striking is that, despite this intense deprivation, Vietnam has achieved far higher levels of female literacy, which have in turn contributed to social advances in other areas.

However, it cannot be overstated that as important as education is to improved public health, it is **not the sole factor. Income-poverty is the primary driver of child malnutrition –and education does not override the structural disadvantages associated with poverty**.

Education and income-poverty

Education is critical to the achievement of the 2015 target of reducing the incidence of extreme poverty by half. At a household level, educational status is one of the strongest influences on income and poverty. The lower the level of educational attainment, the greater the vulnerability to income-poverty.

What is true for households is true also for national economies, with average income levels reflecting levels of access to education. The rate of economic growth and the share of national wealth captured by the poor dictate the rate of poverty reduction. Improvements in both areas depend critically on advances in education.

The benefits of education are equally pronounced in labour markets**. Education cannot compensate for disadvantages associated with working in low-wage environments** in which the poor are often discriminated against, **but it can increase relative earning power**.

The association between education and income is not automatic. Power relations in local markets, culture, and political decisions shape precise outcomes. Gender is one of the key determinants of the distribution of benefits from education (Herz, 1998[17]; Tzannatos, 1998[18]). Where women face unequal access to productive resources, services, and sellers' or labour markets, the scope for realizing the potential gains of education is substantially reduced.

[iii] See for example A. Barrett and A. Browne: 'Health, hygiene and maternal education: Evidence from the Gambia' Social Science Medicine. Volume 43 (11) 1996. E. Kalipeni: 'Determinants of infant mortality in Malawi: A spatial perspective' Social Science Medicine. 37. 1993.

➢ *Impact on Fertility:*

Handa, Sudhanshu. 2000. *The Impact of Education, Income and Mortality on Fertility in Jamaica.* World Development. 28 (1)

Microcredit (increased incomes) and Basic Education both have a significant impact on number of births. The **impact** of an increased income is less than that of education; however, the impact for education only becomes significant **after 6 years of schooling**. Thus, a microcredit program would have an immediate negative impact on births (and would continue to have such an effect) while the impact of an education program would only start to take effect after a period of 6 years (but the impact would be larger).

"Both income and education have significant negative effects on the number of births, with the impact of education being larger than that of income: the point elasticity's in rural areas are ÿ 0.45 and ÿ 0.15 for education and income, respectively. **The influence of education becomes negative only after grade 6**, and the simulations show that expanding education beyond grade 9 can have a particularly large effect on fertility, especially for urban women. In addition, the transmission of the education effect appears to occur through raising the value of time for the woman rather than changing tastes or desire for children. There are substantial differences in the estimated impact of education and infant mortality when recent fertility is used as the outcome measure. Education is no longer significant and mortality becomes insignificant among urban women. One possible explanation for this is that the impact of education is long term in nature and thus more likely to influence lifetime fertility rather than fertility in any given year."

Watkins, Kevin. 2000. *The Oxfam Education Report*. Oxfam GB for Oxfam International. http://www.oxfam.org.uk/educationnow/edreport/report.htm

In South Asia, the fertility rate for women with seven or more years of education is 35 per cent lower than for women with no education (Cochrane and Farid, 1984[19]). But changes in fertility reflect a more important change in the ability of women to exercise greater control over their lives. Better- educated women marry later and space births over longer periods, with benefits for maternal and child health[20].

Better education creates opportunities for employment and income generation, which in turn create incentives for later marriage. Improved access to information and increased self-confidence raise the demand for contraception, and enable women to express that demand. Whatever the precise mechanisms at play, maternal education is one of the keys to achieving the 2015 targets for reducing maternal mortality rates.

➢ *Impact on Cost:*

Delamonica, Enrique. Santosh Mehrotra and Jan Vandemoortele. 2001. *Is EFA Affordable?* UNICEF.

"The annual additional cost of achieving "education for all" in developing countries by 2015 is estimated at $9.1 billion (expressed in dollars of 1998)." *With approximately 120 million children not receiving education presently, this would mean that it would cost **$75 US annually, per child** to provide education for all. (see Wright, 2000—estimated cost of providing microcredit is* *a* ***one time input*** *of* ***$35 per household with the possibility of future households being served at no additional cost.****)*

Smith, Stephen C. and Sanjay Jain. 1999. *Village Banking and Maternal and Child Health: Theory and Evidence from Ecuador and Honduras*. Working Paper. George Washington University Department of Economics. Washington, DC. (also found on the Microfinance Gateway at www.ids.ac.uk/cgap/static/1821).

Smith and Jain reported a Project HOPE estimate of 6% for extra education in its integrated microcredit-education programs in Ecuador and Honduras.

"Credit with Education" Programs

- "Freedom from Hunger calculates that the integration of education with group-based poverty lending constitutes only 4.7% to 10.0% of total operating costs. Integration does not have to materially delay achievement of financial sustainability, and it is believed to enhance implementation and impact manyfold." (Vor der Bruegge et al, 1999)

- The three-year average "cost increase for extra education" in *Credit with Education* programs varied from 5.9% in Bolivia to 9.6% in Burkina Faso, with intermediate values in Mali and Togo. For example, the annual cost per client served in Bolivia was $63.82. The cost analysis suggests that eliminating the "extra education" could save $3.51 per client per annum. (MkNelly et al 1999, 1998, 1997; Nteziyaremye et al 2001)

- For the FOCCAS Uganda program Dunford estimated that eliminating the extra education could reduce time and cost for internal supervision, training and paperwork and for external technical assistance and training to support extra education (for an overall saving for the program of up to 10%); however, the time freed up would likely not be sufficient to enable additional loans (in new microcredit programs) to be provided in other villages. (Dunford 2001)

3.4.4 Microfinance and Basic Health Care

Wright, Graham A. N. 2000. *Microfinance Systems: Designing Quality Financial Services for the Poor*. Zed Books Ltd. London & New York, and The University Press Limited, Dhaka.

"Ill health is the biggest problem facing even those poor clients involved in Microfinance programmes. For example, Matin (1998[21]) found that **86% of the crises experienced by his study households were related to illness**. It is this reality that has prompted Grameen Bank to start an experimental health insurance programme, BRAC to continue and extend its health programme, and almost all Microfinance NGOs in Bangladesh to provide weekly health education at meetings and offer special loans for clients to install tubewells and latrines—they are protecting their loan investments. But MF institutions are rarely, if ever, capable of delivering other key preventative health care services like immunization services and reproductive health care. **However, it is worth pointing out that the client groups that meet regularly at the same place and time, offer a tremendous opportunity for health (and indeed most other forms of) outreach and extension work**." (p. 37)

Soucat, Agnes and Abdo Yazbeck with inputs from Rudolf Knippenberg, Shiyan Chao and Sergiu Luculescu. 2000. *Rapid Guidelines for Integrating Health, Nutrition, and Population Issues in Interim Poverty Reduction Strategy Papers of Low-Income Countries*. World Bank.
http://www.worldbank.org/poverty/strategies/chapters/health/hnpguide.pdf

"Typically around **70% of variance in infant mortality can be attributed to** across and within country **differences in income**. Communicable diseases represent most of the burdens of illness of the poor."

WHO website, fact sheets, and press releases. http://www.who.int/inf-fs/en/index.html

- **Infectious diseases are responsible for almost half of mortality in developing countries**. These deaths occur primarily among the poorest people because they do not have access to the drugs and commodities necessary for prevention or cure. Approximately half of infectious disease mortality can be attributed to just three diseases – **HIV, TB and malaria. These three diseases cause over 300 million illnesses and more than 5 million deaths each year**. None of these diseases has an effective vaccine to prevent infection in children and adults. In addition to suffering and death, these diseases penalize poor communities, as they perpetuate poverty through work loss, school drop-out, decreased financial investment and increased social instability – creating sizeable social and economic costs.

- For example, **Africa's GDP would be up to $100 billion greater if malaria had been eliminated years ago**.

- For malaria: it is estimated that **$1 billion a year is required to make a real difference. But the pay-off could be as much as $3-12 billion a year in terms of a boost to the combined GDP** of countries in sub-Saharan Africa.

- In the case of TB, $1 billion spent on drugs could mean that 70% of new cases could be treated, resulting in a 50% reduction in mortality over the next 5 years

- But, when a country has a healthcare budget of less than, for example, $50 per capita, the costs of the tools needed to fight TB, malaria and HIV are prohibitive. Many of the world's poor people live in countries with very low budgets for health care.

- Nearly two million children worldwide still die needlessly each year of vaccine-preventable illnesses. For only **US$ 17 per child**, we can provide lifetime protection against the six historical scourges ...and for not much more, we can extend the protection to include hepatitis B, yellow fever and *Haemophilus influenzae* type B," said Dr Gro Harlem Brundtland, Director-General of the World Health Organization, who is holding the Chair of the Board of GAVI for the first two years.

- Immunization is one of the most cost effective health interventions in existence. **If polio is eradicated by 2005, it has been calculated that US$ 1.5 billion per annum will be saved on immunization costs alone**. Similarly, it is estimated that the eradication of smallpox in 1979 led to direct savings of US$ 275 million per annum. Immunization reduces the social and financial costs of treating diseases, offering opportunities for poverty reduction and greater social and economic development.

Table 2: Estimated impact of immunization on vaccine-preventable diseases

Disease	**Number of vaccine-preventable disease cases**
Hepatitis B	900 000
Measles	888 000
Haemophilus influenzae b (Hib)	400 000
Pertussis (whooping cough)	346 000
Neonatal tetanus	215 000
Tetanus	195 000
Yellow fever	30 000
Diphtheria	5 000
Poliomyelitis	720
Total	**2 979 720**

Source: WHO Department of Vaccines and Biologicals

3.4.5 Microfinance and Family Planning

Centers for Disease Control and Prevention website:
http://www.cdc.gov/epo/mmwr/preview/mmwrhtml/mm4847a1.htm

- The most important determinant of declining fertility in developing countries is contraceptive use, which explains 92% of the variation in fertility among 50 countries
- Among married women of reproductive age in developing countries, 53% plan the size of their families (32); 90% of these women report using modern birth-control methods (e.g., female sterilization, oral contraceptives, and IUDs)

UNFPA (United Nations Population Fund) website at:
http://www.unfpa.org/modules/briefkit/01.htm

- 350 million couples do not have access to a choice of safe and affordable contraceptive methods. Surveys from more than 60 developing countries indicate that more than 100 million women who are not currently using a contraceptive method want to delay the birth of their next child or to stop having children.

Mitchell, Marc D., Joan Littlefield and Suzanne Gutter. 1999. *Costing of Reproductive Health Services*. International Family Planning Perspectives. Vol. 25. Supplement.
http://www.agi-usa.org/pubs/journals/25s1799.html

The costs of providing contraceptive methods, particularly surgical ones, as well as gynecologic and general health services, varied between ZNFPC and MEXFAM. Whereas tubal ligation cost $70 and oral contraceptives $3 at ZNFPC, a tubal ligation cost $269 and oral contraceptives $4 at MEXFAM. During a gynecologic visit, the cost of treatment for a sexually transmitted disease was $19 at ZNFPC and $29 at MEXFAM. The cost of providing an adolescent with a routine examination and iron supplement was $5 at ZNFPC and $4 at MEXFAM. At ZNFPC, providing a Pap smear, screening for a reproductive tract infection and checking an IUD during a single visit cost $4, compared with $6 when the procedures were performed separately. (The elements of a reproductive health care program were identified, and in 1995, the disaggregated costs of providing some of these services were gathered from a program of the Zimbabwe National Family Planning Council (ZNFPC) and from MEXFAM, a nongovernmental organization in Mexico affiliated with the International Planned Parenthood Federation. These data were used to estimate and compare the costs (in U.S. dollars) of various components of reproductive health care per visit (or per diagnosis and treatment) in the two countries.)

Wright, Graham A. N. 2000. *Microfinance Systems: Designing Quality Financial Services for the Poor*. Zed Books Ltd. London & New York, and The University Press Limited, Dhaka.

"**Schuler and Hashemi** (1994[22]) concluded that Grameen Bank members were **statistically more likely to be using contraceptives** (59% of Grameen members as opposed to 43% of a matched control group). Rahman and de Vanzo reached similar conclusions as a result of their work in Tangail (pending publication). Similarly, a recent **Asian Development Bank** report noted that, '**Contraceptive use goes up among members because they are better able to overcome the barriers to obtaining access to contraceptive services** (lack of mobility, cash, information, among others). Contraceptive use goes up among non members because of the **diffusion effect of changing fertility norms in the village as a whole**." (p. 31)

3.4.6 Microfinance and Nutrition

WHO website, fact sheets, and press releases.
http://www.who.int/inf-fs/en/back001.html

- Malnutrition of infants and young children remains one of the most severe global public health problems – malnutrition still contributes to nearly half of the 10.5 million deaths each year among pre-school children worldwide.

Pitt, Mark M., Shahidur R. Khandker, Omar Haider Chowdhury and Daniel Millimet. *Credit Programs for the Poor and the Health Status of Children in Rural Bangladesh.* International Economic Review, forthcoming.

"…we find that women's credit has a large and statistically significant impact on two of three measures of the health of both boy and girl children. Credit provided (to) men has no statistically significant impact…A 10% increase in (latent) credit provided to females increases the arm circumference of their daughters by 6.3%, twice the increase that would be expected from a similar proportionate increase in credit provided to men. Female credit also has a significant, positive but somewhat smaller effect on the arm circumference of sons. Female credit is estimated to have large, positive and statistically significant effects on the height-for-age of both boys and girls." No statistically significant effects were found for Body Mass Index (BMI).

Wright, Graham A. N. 2000. *Microfinance Systems: Designing Quality Financial Services for the Poor*. Zed Books Ltd. London & New York, and The University Press Limited, Dhaka.

"Nutritional indicators also seem to improve where Microfinance institutions have been working. Hashemi and Morshed (1997[23]) cite a study conducted by the World Bank in collaboration with the Bangladesh Institute of Development Studies, which showed that the Grameen Bank not only 'reduced poverty and improved the welfare of participating households, but also enhanced the household's capacity to sustain their gains over time. **This was accompanied by an increased caloric intake and better nutritional status of children in households of Grameen Bank participants**." (p. 31-32)

Results to date (Chowdhury and Bhuiya, 1998[24]) **suggest a significant decrease in severe malnutrition closely associated with the length of BRAC membership**—though whether disentangling the contribution of the Microfinance services from the other BRAC interventions (particularly the functional education component) has not been attempted." (p. 32-33)

Panjaitan-Drioadisuryo. D. M. Rosintan and Kathleen Cloud. 1999. *Gender, Self-Employment and Microcredit Programs: An Indonesian Case Study*. Quarterly Review of Economics & Finance. 39

"Overall the SFDP appears to have been very successful. The women who received the loans increased their income substantially, **improved their families' nutrition and faithfully repaid their loans. They also had higher aspirations for their children's education and were more likely to reduce fertility**.' (p. 8)

Khandker, Shahidur R. 1998. *Fighting Poverty with Microcredit: Experience in Bangladesh.* Oxford University Press, Inc. New York.

- Children's nutritional status—women's credit had **large and statistically significant impact on height and arm circumference,** and men's credit had a positive impact on girl's body mass index (but not on boy's)

3.4.7 Microfinance and Economic Programming

- ***Increasing Productivity in Rural Non-farm to Increase Agricultural Growth***

Marcus, Rachel. Beth Porter and Caroline Harper. 1999. *Money Matters: Understanding Microfinance*. Save the Children. London.

Marcus (p. 36) states: "grain or stock banks are an alternative way (i.e. an alternative to microcredit) of supporting agricultural livelihoods directly. These are particularly appropriate where cash economies are limited, where inflation is high, or where people known to have cash are at risk of robbery. Such programs typically loan grain or stock to members until after the harvest or till stock have given birth and the young are ready to be separated from their mothers…However the risk that disease can wipe out the investment, and jeopardize the scheme, the length of time members have to wait for their turn (up to six months with some animals or crops) and a human tendency to give back inferior stock or grain are potential disadvantages."

Khandker, Shahidur R. 1998. *Fighting Poverty with Microcredit: Experience in Bangladesh.* Oxford University Press, Inc. New York.

Khandker (p. 1-2) states that poverty reduction to combat chronic unemployment is best dealt with by increasing productivity. Microcredit, as opposed to agriculture and wage employment schemes[iv], can do this by providing opportunities the poor to become self-employed and by

[iv] Substantial job expansion through agricultural development may not be feasible due to its limited ability to provide widespread employment (agriculture already provides 70% of employment in many low-income countries) and because it is subject to seasonal unemployment. Although targeted wage employment schemes, like "Food-for-Work" can smooth consumption by the poor during the agricultural off-season (Ravallion 1991), neither agricultural development projects nor targeted wage employment schemes provide an answer to chronic unemployment.

The main objectives of Food-for-Work programs are: 1) to improve the performance of the agricultural sector through construction and maintenance of physical infrastructure for production and marketing, 2) to enabling them to undertake productive employment-generating activities, and can do so at an affordable cost.

Rural non-farm growth was once thought to depend on industrial growth. In other words, it was believed that as industry grew, the reliance on the rural non-farm sector would decline (Hymer and Resnick 1969[25]). But recent findings from developing countries indicate important backward and forward linkages between rural non-farm sector and agriculture (Ahmed and Hossain 1990[26]; Binswanger 1983[27]; Chadha 1986[28]; Hazell and Ramasamy 1991[29]; Hazell and Roell 1983[30]). That is, income from the rural non-farm sector increases as the agricultural sector grows. In fact, Khandker suggests, microcredit-led expansion in the rural non-farm sector can increase agricultural income. (p. 63)

> "In many countries without a strong modern sector, the rural nonfarm sector contributes to modernization of agriculture by providing employment and income for a large number of rural households involved in processing and other activities supporting agricultural growth."

Khandker (133-144) concluded that microcredit programs were more cost-effective in delivering financial services than state-controlled agricultural development banks. Furthermore, he concluded that microcredit is **more cost-effective than formal rural financial intermediation, targeted food interventions and rural infrastructure development projects in Bangladesh**

Holcombe, Susan. 1994. *Managing to Empower: The Grameen Bank's Experience of Poverty Alleviation*. University Press Limited. Dhaka.

Holcombe (p. 48-52) cites evidence of impact provided from other evaluations of Grameen Bank's targeted rural intervention programs. For example, Mahabub Hossain (1988[31]), economist, collected information on target and non-target families in five Grameen villages and two control villages, including non-participating, target families in the Grameen villages. He found that, initially, borrowers' investment was largely in non-agricultural and agricultural production. After three years, however, borrowers tended to put their money into social investment, housing, education and sanitation.

Tinker, Irene. Summer 2000. *Alleviating Poverty*. Journal of the American Planning Association. 66 (3)

"Poverty alleviation programs that have been implemented abroad document that **income and asset creation are more effective for helping the poor rise out of poverty than are welfare programs that provide maintenance alone.** Focusing enterprise opportunities on women has also proved more effective for ensuring improved nutrition and nurturing for children than focusing efforts on men." (p. 10)

reduce physical damage and loss of life from floods and cyclones by creating protective structures, and 3) to generate productive seasonal employment for the very poor (Khandker 1998: 21).

➢ *Infrastructure*

Parker, J. and D. Pearce. 2001*. Microfinance, Grants, and Non-Financial Responses to Poverty Reduction: Where Does Microcredit Fit?* Consultative Group Focus Note No. 20. Washington, DC.
http://nt1.ids.ac.uk/cgap/wnewlib.htm.

Parker and Pearce make clear that community infrastructure investments are preferred to commercial infrastructure projects. The former are likely to be used for facilitating enterprise activity in a community or region and are therefore well suited to grants, while the latter are likely to be managed by individuals or corporations for private benefit and more appropriate for private investment.

Khandker, Shahidur R. 1998. *Fighting Poverty with Microcredit: Experience in Bangladesh.* Oxford University Press, Inc. New York.

Basic infrastructure programs can directly improve conditions for employment or production at the village level with improved roads for market access, electricity, food storage facilities, etc. Investments may also be needed in disaster prevention or recovery. Khandker also indicates that, for examples considered in Bangladesh, infrastructure programs were cost effective as they affect a relatively large fraction of the local population.

Infrastructure programs can be used to generate widespread economic growth (e.g., in the agricultural sector with small-scale irrigation, fertilizer, farm credit, pesticides). Khandker suggests the co-ops formed to facilitate these are usually dominated by wealthy landowners and targeted high capital investment. There is little/no evidence of trickle down to poorest. The supply based strategies that were designed to create conditions for the alleviation of poverty did not directly address income and employment problems for the poor.

Nonetheless, infrastructure programs can provide temporary and permanent jobs. It is just not clear that these jobs are available to the poorest or that infrastructure programs preferentially assist the poorest.

➢ *Broad Economic Support Programs*

Rodrik, Dani. 2000. *Growth Versus Poverty Reduction: a Hollow Debate*. Finance and Development, a Quarterly Journal of the IMF. 37 (4)

According to Rodrik, in theory, a country could enjoy a high average growth rate without any benefit to its poorest households if income disparities grew significantly—in other words, if the rich got richer while the incomes of the poor stagnated or declined.

Moreover, to the extent that income distribution changes, its relationship to economic growth varies from country to country. Growth has been accompanied by greater equality of income in Bangladesh, Egypt, and Taiwan Province of China, for example, but by greater inequality in Chile, China, and Poland. This suggests that the magnitude of the poverty reduction payoff from growth depends, in part, on a country's specific circumstances and policies.

Lustiq, Nora and Omar Arias. *Poverty Reduction*. Finance and Development, a Quarterly Journal of the IMF. 37 (1)

Overall, the incidence of poverty in Latin America was approximately 3% higher, and roughly 70 million more of its people were living in poverty, in 1997 than in 1980. At the same time, substantial investments were made by the IMF. The limited progress made to date in combating poverty is partly due to the impact of the 1980s debt crisis. Although economic growth resumed during the 1990s, it was not enough to produce notable progress in poverty reduction. This was partly due to the increasing inequality of income during the 1980s that was not reversed during the 1990s.

All in all, the retrogression in reducing poverty in this example can be linked to recurrent economic downturns and the increase in earnings inequality. Clearly, increase in poverty in Latin America points to the inefficacy of large-scale loans to trickle down to the poorest or mitigate income distribution skew.

- ***Employment Programs***

The skills required for self-employment – ability to identify opportunities, decision making, risk tolerance - are not for all. For those without these characteristics, employment programs are an alternative. Food-for-work and public works programs fit this niche, keeping people employed, maintaining a level of skills and providing a basic living.

While such programs may be a holding pattern, with hope held out for the future generation and the creation of a longer-term productive labour force, they do not generally provide the means for self-advancement or a route out of poverty.

- ***Non-Financial Services***

As Khandker states (1998: 23) in his assessment of the Bangladeshi experience "NGOs introduced non-credit targeted measures to help the poor in the aftermath of the 1971 war for independence and the following natural disasters. The purpose of the programs was to reduce poverty by providing needed goods and services to the poor. NGOs soon realized however that poverty had to be confronted on a sustained basis and that human capital services such as adult literacy, skills training, and primary health care were inadequate to sustain poverty reduction among the rural poor (BIDS 1990[32], Holtsberg 1990[33]). In addition to promoting the human development of the poor, programs need to promote the productive capacity of the poor through physical means."

Parker, J. and D. Pearce. 2001*. Microfinance, Grants, and Non-Financial Responses to Poverty Reduction: Where Does Microcredit Fit?* Consultative Group Focus Note No. 20. Washington, DC.
http://nt1.ids.ac.uk/cgap/wnewlib.htm.

According to Parker and Pearce, in contrast to these social intermediation activities which have lower expectations of cost recovery, revised approaches to providing business development services to small entrepreneurs include the expectation to operate on an increasingly commercial basis primarily by charging fees for service. The rationale for fees is that entrepreneurs will only pay for services they need.

3.4.8 Microfinance and Water/Sanitation

WHO website, fact sheets, and press releases.
http://www.who.int/inf-fs/en/back001.html

- More than one billion people drink unsafe water
- 2.4 billion, 40% of the human race are without adequate sanitation
- Studies of diarrhea show that the simple act of washing one's hands with soap and water reduces incidence of the disease by 35%

Wright, Graham A. N. 2000. *Microfinance Systems: Designing Quality Financial Services for the Poor*. Zed Books Ltd. London & New York, and The University Press Limited, Dhaka.

Almost all Microfinance NGOs in Bangladesh to provide weekly health education at meetings and **offer special loans for clients to install tubewells and latrines**—they are protecting their loan investments. (p. 37)

UNFPA (United Nations Population Fund) website at:
http://www.unfpa.org/modules/briefkit/01.htm

- An estimated 1.1 billion people were without access to clean drinking water in 1994 and 2.8 billion people lacked access to sanitation services. Waterborne diseases infect some 250 million people each year, about 10 million of whom die.

3.4.9 Microfinance and HIV/AIDS

WHO website, fact sheets, and press releases.
http://www.who.int/inf-fs/en/back001.html

- A nation can expect a **decline in GDP of 1% per year when more than 20% of the adult population is infected with HIV**.
- The total spent on HIV prevention in **sub-Saharan Africa** (excluding South Africa) last year was $165 million from all sources. Current estimates now suggest that sums in the order of **$ 2.5 billion are needed for prevention alone**. Add the costs of care, and the figure rises dramatically.

UNFPA (United Nations Population Fund) website at:
http://www.unfpa.org/modules/briefkit/01.htm

- With 36.1 million people now living with HIV/AIDS and 5.3 million new infections in 2000, urgency cannot be overstated. One half of all people who become infected with HIV/AIDS are under the age of 25

McDonagh, Amy. 2001. *Microfinance Strategies for HIV/AIDS Mitigation and Prevention in Sub-Saharan Africa*. ILO Working paper 25.
http://www.ilo.org/public/english/employment/finance/download/wpap25.pdf

9 % of adults in SSA are infected with HIV/AIDS. UNAIDS data indicate a drop of 30-60 % in household income due to AIDS, expenditures on health quadruple, on school drop by 50 %, on food drop by 41 %.

Experience by FINCA, FOCCAS/Uganda and Opportunity International demonstrate that microfinance practices can be adapted to:

- **Mitigate the impact of HIV/AIDS on both MFIs and clients.**
- **Help to educate about AIDS and promote behaviour change**

FINCA/Uganda reports financial sustainability of 126 % as of July 2000."
FOCCAS/Uganda which has over 13 000 clients delivers **Credit with Education.**

Adaptations to mitigate financial impact of HIV/AIDS include:

- Greater choice of timing and amount of conventional loans.
- Emergency loans to avoid liquidating assets or cut school or medical expenses.
- Credit insurance and compulsory savings to cover default health insurance, funeral insurance and life insurance—plan succession—although these might price out some clients in areas of high HIV/AIDS prevalence
- Team loans (team= household or neighbors) to plan succession of assets and loans.

Advantage of MFIs in HIV/AIDS prevention:

- **Regular loan repayment meetings can be utilized to facilitate community empowerment and interaction**
- MFIs are designed to become sustainable, and they reach out in the community for the long run.

Only 2 million Africans have access to MFIs. There is an urgent need to scale up. The structure and products must be carefully tailored to the needs and capacities of the borrowers. The questions to be addressed include involving both men and women as well as traditional healers in the HIV/AIDS prevention strategy.

Finally it must be recognized that microfinance will not always be an appropriate component of a mitigation and prevention strategy, particularly in environments characterized by high prevalence rates.

3.4.10 Microfinance and Shelter

Development Alternatives, Inc. 2000. ***Housing Microfinance Initiatives—Synthesis and Regional Summary: Asia, Latin America, and Sub-Saharan Africa with Selected Case Studies*. 164 pages. http://www.mip.org/pubs/mbp/housingmicrofinanceinitiatives.htm**

What are the history and the roles and challenges facing the two basic types of housing microfinance programs?

A. The microcredit to housing finance (MCHF) programs began as microcredit initiatives for small and micro-enterprises, the home being both shelter and a place to house or support income-generating activities. The focus is construction and home improvement. Previous savings and land tenure are requirements. Clients are the entrepreneurial poor, mainly women. The housing loans are either run by the same entity, or by a subsidiary or in partnership with a specialized housing program.

B. The shelter advocacy to housing finance (SAHF) programs, arose out of an original advocacy agenda defending the right of the poor to equitable access to land, shelter, and adequate infrastructure and services. The focus is access to land and infrastructure in order to address the structural causes of poverty. Previous savings are a requirement. Loans are collective. Clients are the poorest of the poor, the homeless. The microenterprise and housing loans are either run by the same entity, or not, some offering bridge financing between communities and public programs.

Case studies extensively reported:
Grameen Bank in Bangladesh is by far, the largest housing loan provider: nearly 80 000 houses/year, at this time. Cumulative: more than 500 000 houses from 1984-1999. Others: SEWA Bank in India; the Center for Agricultural Development (CARD) and Payatas Scavengers' Association in the Philippines; the South African Homeless People Association; and Genesis in Guatemala.

Impact: Larger houses are better work and study places; Grameen and SEWA report increased productivity of small and micro-enterprises. 95 % of Grameen borrowers children attend school. The sturdy Grameen houses improve security in natural disasters. Also the compulsory latrines have reduced fever, influenza and typhoid by at least 50 %.

The Challenges:

1. **Meeting the shelter needs of the poorest of the urban poor, including squatters on remote or unutilized land and those living in rental arrangements in overcrowded inner-city slum tenements.**
2. **Providing loan products for land acquisition and infrastructure provision.**
3. **Reaching moderate income households that are ineligible for public assistance and for microfinance programs**

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4.1 Introduction

This section will focus on one question:

- What are the characteristics of microfinance programs which produce positive impacts (higher average income, other social indicators, etc.) and reduce risks (increased vulnerability, debt accumulation, negative social effects in households and communities etc.)?

The information in this last section reflects, to a large extent, the findings of the previous three sections. For instance, Section 1 covered the importance of targeting for microfinance institutions if they wish to reach the poorest. Previous sections have demonstrated that microfinance can have a positive impact on developmental indicators, including social indicators, and that the poorest can benefit from microfinance. This segment of the population would have the lowest levels of health, education, shelter etc. Thus, the highest positive impacts on social indicators would be the expected if microfinance programs targeted this group.

(Information that has been repeated from previous sections is highlighted in red.)

4.2 Reduced Risks and Increased Positive Impacts

Nteziyaremye, Anastase. Kathleen E. Stack and Barbara MkNelly. 2001*.* *Impact of* Credit with Education *on Recruitment of New Members to the Credit Unions of the Kafo Jiginew and Nyèsigiso Federations in Mali*. Freedom from Hunger Research Paper 7. Freedom from Hunger. Davis, CA.

"The focus group interviews provide insight into the type of flexing and ancillary financial services the credit unions might offer to better reach and keep the poorest, most food-insecure clients; for example, experimenting with **lengthening the loan period and reducing the meeting and repayment frequency. Ideally, the repayment schedule would match women's earning cycles** and capacity to repay. Repayment frequency also needs to be linked to the economic opportunities available within villages, such as the frequency and vigor of the market."

"Considering that most of the poor have little or no previous experience running an income-generating activity, the first educational sessions should emphasize business development to enhance their skills and confidence."

"Good quality savings services can attract and assist poor women who are afraid or unsure of how to use a working capital loan."

"If not policy already, meeting frequency needs to be reduced in the rainy season and new Credit Associations should not be inaugurated. The credit unions already allow women to save without borrowing if they so choose. In addition, alternative or longer-term credit products could also be offered at this time of year. A variety of studies have indicated that the financial products that the extremely poor need include the following:

- Good quality savings services that are convenient, available and voluntary
- Consumption loans that assist households to maintain adequate diets during the predictable 'hungry season' during the rains
- Emergency loans and/or insurance to help poor households weather economic shocks due to sickness or death" (p. 3)

"Recent work by Rutherford (1999[1]) and others suggest that loans made to very poor households are better understood as being repaid through these households' 'future savings' rather than simply through enterprise returns. Very poor households use the lump sum of a loan in a variety of ways to support their various productive strategies and consumption needs. Consequently, loan repayment is made from the 'surplus' or savings generated from a household's overall productive strategies. Seen from this perspective, on can perhaps better understand why the pressure of the weekly repayment, particularly as it increases with larger loan sizes, becomes more acute over time. The **implication is to base loan cycles and repayment schedules on a household's capacity to repay rather than assume clients are managing a specific enterprise that has the capacity to absorb larger amounts of working capital and generate ever increasing regular weekly returns**." (p. 60)

Robinson, Marguerite. 2001. *The Microfinance Revolution: Sustainable Finance for the Poor*. World Bank. Washington.

"The underlying belief is that to use their credit properly, the poor need training –in skill development, business, literacy, finance, agriculture, and so on. But two problems can arise when training is liked directly to credit programs. First, institutional sustainability is hindered because training costs are rarely covered by revenues. Second, the training provided is often not considered valuable by the trainees.

The issue is not the value of training in general. Many kinds of training—in literacy, health, family planning, skill development, and the like—can be extremely important tools for alleviating poverty. The issue is the linking of credit and training.

The **economically active poor** tend to know their businesses and to understand their financial needs better than the institutional staff who train them. General training programs that can reach large numbers of people at low cost are typically inappropriate for the heterogeneous needs of microfinance clients. Trainers often have little understanding of the dynamics of the informal economy and the local markets in which the borrowers operate, or of clients' enterprises and options. Borrower training of this kind not only comes at a high cost to the institution, hindering its efforts toward self-sufficiency, but is often considered to be of little value by borrowers (Adams and Von Pischke 1992[2]). It can also be costly for borrowers, who must add opportunity and transaction costs to the interest costs of the loan.

Another option is specialized training programs covering particular skills. But these programs tend to reach only a small number of people and to be costly for the financial institution. The experience of the Kenya Rural Enterprise Programme (K-REP) in linking training with credit is instructive:

> It…became obvious that the 'integrated' method of developing microenterprises, which combined traditional methods of making loans with intensive entrepreneur training and technical assistance, had limited impact on the beneficiaries, was costly, and could be sustained or expanded only through grant funding (Mutua 1994[3])

While there **are a few exceptions (the Bangladesh Rural Advancement Committee, or BRAC, is a notable example**) institutions providing both social services and microfinance have typically shown themselves to be inept at financial management. Lacking a focus on financial viability, they have often been unwilling or unable to manage loan delinquency, and generally have not achieved financial self-sufficiency. (p. 72-3)

van de Ruit, Catherine. Julian May and Benjamin Roberts. April 2001. *A Poverty Assessment of the Small Enterprise Foundation on Behalf of the Consultative Group to Assist the Poorest*. University of Natal.

On the need to target—SEF operates two programs in the same region, with the intention of reaching the poorest. The study shows that 15% of the non-poverty targeted program clients are very poor and 50% are in the least poor category, whereas 52% of the poverty-targeted program are very poor and 9% are in the least poor category.

Brown, W., C. Green and G. Lindquist. 2000. *A Cautionary Note for Microfinance Institutions and Donors Considering Developing Microinsurance Products*. http://www.mip.org/pubs/mbp/cautionary_note.htm

Is it advisable to combine MF with insurance (risk pooling) services?

Even when clients want to reduce risks, they might prefer individual savings to insurance. Savings are more easily managed by MFIs.

If clients do want insurance, "**Many of the risks faced by the low-income clients served by MFIs are insurable** and in these cases, well-designed microinsurance products can have an important development impact."

However, "With the possible exception of outstanding-balance life insurance, most MFIs …lack the (actuarial, financial and claims processing) expertise and resources needed to provide these products safely and profitably". For example, "Health insurance, like property insurance, involves greater complexity than life insurance because of the potential for multiple claims and the greater risk of fraud, moral hazard and adverse selection."

MFIs should avoid managing health and property insurance themselves, but rather refer to community based insurance schemes, mutuals supported by the International Labor Organization, or to a licensed insurance partner. In this partnership, the MFIs are the financially rewarded, no-risk-taking agents. For the client, premiums are lower.

Dunford, Christopher. 2000*. In Search of Sound Practices for Microfinance*. Journal of Microfinance. 2 (1)

The notion of "best practices" for all microfinance is challenged in favor of "sound practices" that are appropriate for particular organizational strategies and situations. A simple conceptual framework is offered to facilitate understanding of the current diversity of experiments with product-market pairs (e.g., group-based lending to poor women struggling to earn enough for family survival). Since the microfinance movement is still in a mode of intensive learning, we should not presume too soon what will be "best" for all product-market pairs. We can expect to discover a somewhat different set of sound practices for each distinct product-market pair.

The obvious but difficult solution is to find a middle ground that allows microfinance to be both focused on the institution and on development impacts. Here is where we have to be a learning movement, experimenting with sound practices….Notice that this approach calls for everyone to be very clear, very explicit about their objectives.

Dunford, Christopher and Vicki Denman. November 2000. *The Case for Credit With Education: A Promising Title II Microfinance Strategy for Cost Effective and sustainable Impact on Chronic Food Insecurity and Malnutrition.* Freedom From Hunger. www.fantaproject.org/downloads/pdfs/cwe.pdf

Credit with Education studies show that: "Microfinance programs face unusual challenges in making sure their services reach even the poorest of economically active households. A major obstacle is a set of assumptions of the community of academics, donors and practitioners supporting microfinance programming. They assume that the design of microfinance, especially poverty-oriented, group-based microfinance, creates a desirable bias toward the poor (or more accurately, against the not-so-poor). The small loan size, high interest rate, short loan duration (too short for many kinds of investment, especially for most types of production agriculture), the frequent repayments (initially weekly in most programs), and dependence on mutual guarantees are all factors assumed to make the program unattractive to people who have other sources of easier credit. It is assumed that the poor, with few, if any, other options (because they lack collateral and distinct businesses), will tolerate these unattractive features, while the not-so-poor, for whom easier options are available, will tap more attractive sources of credit. [paragraph] Firm belief in the effectiveness of a "self-selection" bias toward the poor explains why few practitioners attempt to verify that they are reaching relatively poor entrepreneurs. Formal intake surveys or selective screening out of the not-so-poor are considered unnecessary, costly and disruptive practices that are detrimental to the work of field agents. This is as true for Credit with Education as it is for most other group-based microfinance program strategies. **However, when easier finance options are not available to the not-so-poor, the demand for credit may be so high that even they are willing to tolerate the unattractive features of group-based poverty lending. In such a case, self-selection may prove to be ineffective in focusing services on the poorer community members. At best, the participant profile may simply reflect the poverty profile of the whole community**."

Gibbons, David S. and Jennifer W. Meehan. 2000. *The Microcredit Summit Challenge: Working Towards Institutional Financial Self-Sufficiency while Maintaining a Commitment to Serving the Poorest Families*. www.microcreditsummit.org/papers/papers.htm.

"So MFIs wanting to reach and benefit truly large numbers should be consciously working toward IFS. This does not of course mean that IFS should be attained at the cost of overriding goal of poverty-reduction. That would defeat the purpose for which we are working—which is not profit as an end in itself, but poverty reduction. Rather it means that IFS should be pursued at rate that is consistent with substantial poverty-reduction. **Attainment of both goals must be monitored so as to ensure that IFS does not displace the more important goal of poverty-reduction**." (p. 2)

"In order to know we are doing business with the poor and poorest, we have to identify and motivate them on the ground in a cost-effective manner. This process of identification and motivation is often referred to as 'targeting the poor'. Normally, the poorest will not come forward themselves to apply for financial services, as they will not know nor believe that the services are actually for them. Even when informed, many are likely to feel that it would be too risky for them to borrow. Only patient motivation work among them and convincing demonstration effect from neighboring poor and poorest households that do participate and benefit will encourage them to take advantage of the opportunity. (NP) **While targeting the poorest is critical to our ultimate goal of poverty reduction, if a program is not able to undertake this activity in a cost-effective manner, the potential for achieving IFS might be greatly reduced or even eliminated**—jeopardizing the long-term viability of a program. Hulme and Mosley themselves raise the concern that ' targeting on the poor of credit…imposes costs of research (finding out who is eligible), communication with the eligible and monitoring to prevent access by the ineligible, which may if pushed too far outweigh the benefits of poverty reduction' (Hulme & Mosley, 1996[4]) Fortunately, proven, cost-effective strategies have been developed and refined which enable programs to identify the poorest, while also maintaining the quality measures necessary to ensure that only the poor and poorest are admitted to the program….We are aware of **two existing approaches to target the poor and poorest that are proven and cost-effective.** These are (i) the CASHPOR House Index (CHI) and the Small Enterprise Foundation Participatory Wealth Ranking System (PWR) system." (p. 9)

"By focusing their efforts **exclusively** (authors' emphasis) on the poor and the poorest, MFIs can use funds allocated for their use most effectively and efficiently. As these funds are normally limited in supply, it is vital to ensure they get into the hands of the intended beneficiaries. Leakage to the non-poor should be minimized. (NP) There is a counter argument, however, that 'It is scale, not exclusive focus, that determines whether significant outreach to the poor is achieved' (Christen and others, 1995[5]). Programs serving several strata of clients, not just the poor and poorest may benefit. Moreover, such programs have the possibility of cross-subsidizing lending to the poorest from their more profitable lending to the non-poor due to larger initial average loan size, and thus could achieve IFS more rapidly. (NP) Whether or not such 'mixed' programs benefit large numbers of the poor and the poorest is an empirical question. If they do, they are surely welcome; but they should not, under any circumstances channel funds meant for the poor and poorest into the hands of the non-poor." (p. 10)

"Financial products being offered including both loans and savings products**, must be designed especially to meet the needs of the poorest women**. The first loan must be small enough to be easily repayable in frequent, small installments, but not so small as to be insufficient for generating additional income quickly….There should be different loan and savings products for clients of differing abilities and with different demands." (p. 19)

CARD has recently "introduced new loan products, such as the Multipurpose Loan Product, available to clients for any purpose after six months of membership…This product is intended to discourage clients from turning to the traditional moneylender, as they had been doing, in times of trouble. …CARD has also recently introduced the CARD Loan Accelerated Program (CLAP) for those very successful members who have been with the program for many years. Qualifying members are given an identification number that allows them to draw on an overdraft account based on the needs of their business." (p. 19)

"CRECER, unlike the other case study MFIs, operates in a highly competitive environment. While CRECER has avoided some of this competition by targeting the poor and poorest rural and semi-rural households (often not the primary target group for the majority of MFIs operating in Bolivia) they still must operate efficiently, maintain competitive interest rates, and provide services that their clients consider attractive compared to those of other MFIs. This is where Credit with education comes in. It integrates the weekly credit delivery service at the village level with health, nutrition, family planning, and better business education services. While this adds an estimated 6% to the cost of the program, it is clear from the efficiency and sustainability measures provided above that the services can be delivered competitively. Recent innovations include community-based distribution of contraceptives, including condoms and vaginal tablets, as a for-profit venture." (p. 19)

"…For all of the reasons outlined above, achieving IFS is of critical importance to MFIs if they seek to expand outreach to large numbers of poor households. However, as we are working with the poor and poorest, a balance must be struck when setting an appropriate interest rate…Most importantly**, an impossible burden must not be placed on the shoulders of the early clients**." (p. 22)

"It is now known that subsidized credit rarely gets into the hands of those for whom it was announced, yet politicians persist. In several countries governments still cap interest rates on small loans in the mistaken belief that it helps the poor and poorest. In fact, it has the opposite and unintended result of depriving them of access to credit at all, as the scarce, subsidized credit is taken by those at the local level with more influence and better connections than the poor and poorest." (p. 24)

"The examples above hint at a second important factor that makes it possible for the poor and the poorest to pay appropriate interest rates**. The returns to capital in their microenterprises tend to average more than 100%.** This was the finding of a recent, careful impact-evaluation study of CARD by Mahabub Hossain[6]. Returns to capital in his random sample of clients averaged 117%. As CARD's effective interest rate on loans to clients is approximately 39% per annum, this leaves on average 78% in the hands of clients to reduce their poverty. It can, of course be argued that if CARD's interest rate were significantly lower, its clients could come out of poverty faster. But, form where would they get their loans? If card does not charge an appropriate interest rate it may not be able, in the short-term and long-term, to earn a profit, thus making it dependent on donor and government largesse." (p. 25)

"For mainstreaming to occur in some of the poorest countries, key changes will have to take place. First, interest rate caps on loans to the poor and poorest must be removed where they still exist. **Second, a suitable legal identity for providing microfinance to the poor and poorest (perhaps exclusively, to minimize leakage to the non-poor) has to be created and provided with a regulatory system supportive to the overriding objective of reducing poverty through the provision of microfinance to the poor and poorest**. " (P. 27)

Miller, Mary and Zan Northrip. 2000. *Insurance as a Microfinance Product*. Microenterprise Best Practices Project. Innovations in Microfinance. Technical Note No. 4.
http://www.mip.org/pdfs/mbp/technical_note-4.pdf

Based on a conference presentation by Craig Churchill, Calmeadow, at the February 2000 conference on "Advancing Microfinance in Rural West Africa" in Mali.

"Savings and credit products are limited, however, to providing coverage equal to the amount that a household has saved or can repay…. In contrast, insurance can provide low-income households with a greater degree of protection against property, death, health, and disability risk, because the risk of these events occurring is pooled over a large number of people, at a much lower cost or premium per person." (p. 4)

"Term life Insurance is the product that is most frequently offered by microinsurers, particularly outstanding balance life insurance…From the perspective of most MFIs, the product's more important benefit is institutional, as it lowers loan default rates and collection costs." (p. 5)

"Property insurance is usually offered by microinsurers to insure the property that is collateral for an MFI loan or lease. For instance, Grameen Bank requires insurance coverage on all loans used to purchase livestock," (p. 6)

"Health insurance is riskier and more complex than life or property insurance because health claims are frequent, complicated, and varied." (p. 7)

"MFIs should question seriously whether they have the internal resources, skills, and infrastructure required to manage an insurance product properly…the level of complexity and required resources and skills for each activity are much greater for health and property insurance than for life insurance…..In general, where partnerships are not feasible, it is wise to limit insurance offerings to basic outstanding balance or life insurance products." (p. 9)

With the exception of FINCA Uganda, health care providers are the ones largely experimenting in this field. **"MFI clients also are likely to be better off if the MFI partners with an insurance company to offer insurance products, rather than developing products and coverage on its own**…. Arranging a partnership with an insurance company is not instant or easy" (p. 15)

In 1996, FINCA Uganda partnered with American International Group (AIG) to provide outstanding-balance life insurance to its clients and families. " This relationship has been beneficial for all involved. Clients' families receive a substantial benefit when a death occurs, FINCA Uganda benefits through increased client loyalty and reduced loan defaults, and AIG gains low-cost access to a new customer base. (p. 15)

Simanowitz, Anton. 2000. *Client Exit Surveys: A Tool for Understanding Client Drop-Out.* Journal of Microfinance. 2 (1)
http://spc.byu.edu/pages/microfinancevols/microfinancev2n1/client.html

SEF began its drop-out research by using a once-off drop-out study. This study used a two-stage qualitative approach, based on an understanding of the potential reasons for client drop-out. Discussions started with the least sensitive issues and covered all of the potential issues which may have motivated a client to leave. By the end of the discussions, it was clear as to what range of factors may have led to a decision to leave, and only at this stage was the question put directly. The success of the drop-out study in deepening understanding of drop-out, and its major impact in terms of improving the service provided by TCP and in reducing drop-outs, led to the implementation of on-going drop-out monitoring. The drop-out monitoring uses a similar approach to the drop-out study, building on the understanding of the range of reasons for dropouts. The group meetings and interviews follow the framework of reasons from this study, with the least threatening subjects being dealt with first, and the question, "Why did you leave?" being left until last.

It also provides a continuing understanding of the patterns and reasons for why members leave the program, whether measures to reduce drop-out are working or not, and whether new issues are arising.

It is clear that drop-out clients provide a valuable source of information for program improvement. This information relates both to the performance of the MFI in relation to client needs, and more generally to how an MFI relates to client livelihoods and external conditions. This information can form a core part of impact understanding. This understanding feeds into operational development and leads to changes that better tailor the MFI's services to their target client needs and thus improves the overall impact of the MFI.

Both survey and case-study approaches have their advantages and disadvantages. Survey-based client exit interviews provide a picture of the patterns of drop-out, but there is a strong possibility that they may not provide the depth of understanding required for improvements in operations. Drop-out clients are particularly difficult to interview, and often information collected from them is inaccurate or does not provide an understanding of the underlying reasons for drop-out. A case-study-based approach takes a sample of drop-out clients and therefore cannot develop an adequate picture of the patterns of drop-outs. Reasons highlighted by a small number of drop-outs may not be widely applicable to other clients. However, by raising the issues and by understanding the issues, one can gauge their applicability to the rest of the program.

Simanowitz, Anton. Ben Nkuna, and Sukor Kasim with inputs from Robert Gailey, John Hatch and Laura Frederick. June 1999. Updated June 2000. *Overcoming the Obstacles of Identifying the Poorest Families: Using Participatory Wealth Ranking (PWR), The CASHPOR House Index (CHI), and Other Measurements to Identify and Encourage the Participation of the Poorest Families, Especially the Women of Those Families*.
http://www.microcreditsummit.org/papers/povertypaper.htm

Small Enterprise Foundation (SEF), South Africa -- "Organizations, such as SEF, which have tried to work exclusively with the poorest, have found that, in their context, the poorest cannot be effectively reached in a mixed program. **To meet the needs of the poorest, a culture of poverty-focus needs to be created**. If there is a dominance of non-poor, or even poor over the poorest, then the stronger, more confident, more vocal people will make their voices heard. An innovative MFI striving for IFS or a loan officer responding to financial incentives for a good loan portfolio will listen to these voices. This will lead to a tendency to develop loan products more suited to the better-off clients. Poorer clients become increasingly marginalized both by the MFI, and in the case of group-based lending, by their fellow group and center members. The very poor, who take small loans, experience problems, are vulnerable and need much support, and are not popular with other clients, loan officers, or branches striving for profitability. At such a point, if the program is still attracting the very poor, it may well lead to negative impact for these clients, and in fact contribute to greater poverty."

Tran, Nuh-An. 2000. *New Product Development for Microfinance*. Development Alternatives Inc. Microenterprise Best Practices Project. Innovations in Microfinance. Technical Note No. 1.
http://www.mip.org/pubs/mbp/new_product_development.htm

Based on a seminar presentation by Monica Brand, ACCION International, at the February 2000 conference on "Advancing Microfinance in Rural West Africa" in Mali.

" Although this shift in approach, from providing "microenterprise credit" to "a range of financial services to low-income clients," is a positive sign that the market for financial services to the unbanked population is deepening, over-eagerness to introduce new products into the market without proper due diligence and internal preparation could lead to deleterious results that threaten the long-term viability of the MFI" (p. 1).

"Whether an MFI should consider new products depends on the institution's stage of development, the level of competition in the market in which it operates, and the needs of its clientele. Often, what is required is not necessarily the introduction of a completely new product but simply a readjustment or refinement of an existing product" (p. 2)

"An MFI should have an established credit product (i.e., its core product) and ensure that all "fundamentals" are in place before moving on to offer additional products." (p. 2) These fundamentals include Governance structure and control, systems and operational procedures, and organizational structure.

"The failure rate for introducing new financial products in conventional developed countries can be as high as 75 percent. Consequently, an MFI should identify opportunities before embarking on the product develop process. The opportunities are manifested through a set of market signals—customers, competitors, and the environment—as well as the bottom line-driven motives of the institution." (p. 4)

Wright, Graham A. N. 2000. *Microfinance Systems: Designing Quality Financial Services for the Poor*. Zed Books Ltd. London & New York, and The University Press Limited, Dhaka.

"…there is increasing acceptance that traditional Microfinance programmes are not reaching the "poorest of the poor"—indeed they are rarely reaching the bottom 10-15% of the population. This is **largely driven by the nature of the financial services provided by the MFI's** which force the poorer members of the community to choose not to join, and those who are required to guarantee or follow-up their loans to chose to exclude the poorest. A MFI's ability to attract the poorest depends on the financial services it offers, and **whether they have been designed to be appropriate for the needs of the poorer** members of the community." (p. 262)

"As Rutherford (1995[7]) and Wright et al (1997[8]) would argue, the exclusion of the poorest is also driven by the emphasis on credit delivery by many organizations. **For the poorest households the opportunities for productive use of loans are limited, and the risk of taking loans that are repayable on a weekly basis are unacceptably high**." (p. 17)

Destitute/core-poor: "The ASA (1997[9]) study of 626 respondents (drawn from a mixture of ASA staff and clients) revealed different perspectives, perhaps as a result of **focusing on the exclusion of the absolutely destitute.** Almost all (**98.8%) of respondents**, and all the clients, **said that lack of minimum clothing (to leave the bari and attend a public meeting) excludes the 'hardcore poor'**. 87.06% said that the local elite (moneylenders, religious leaders, union chairmen etc.) play an important role in the exclusion of the hardcore poor. 77.16% of respondents noted that ASA's age limits on membership (18-50) exclude the hardcore poor. Finally, analysis of the responses of the of the unit staff suggests that they themselves often screen out the hard core poor as too risky clients…" (p. 59) "Alamghir (1997[10]) …investigated why these poorer families (poorer than the members who had already joined the groups) did not join the groups…finding that of these **25.17% did not join because they would not be able to pay regular weekly savings**, 14.68% did not join because they would not be able to pay regular loan installments, 7.3% did not have any interest in receiving a loan, and 6.9% did not like to attend weekly meetings. It is interesting to note that none of the explanations for not joining by Alamghir involved MFI's staff screening out the poorer families. (NP) Thus while credit-oriented MFIs' staff may be screening out some of the poorest (for entirely pragmatic and legitimate reasons), it is the **MFIs' policies that seem to play a particularly important role in the exclusion of the poorest**. Not only are they unable to attend weekly meetings, and fear for their ability to make the weekly repayments, but also they even cite the weekly savings requirement as a mechanism that excludes them from risking taking membership in MFIs. Once again, **there seems to be an opportunity to examine still more flexible financial services** (for example entirely voluntary, open access savings accounts, without the weekly deposit requirements) to attract the poorest." (p. 59-60)

Zaman, Hassan. 2000. *Assessing the Poverty and Vulnerability Impact of Micro-Credit in Bangladesh: A case study of BRAC*. World Bank.
www.worldbank.org/html/dec/Publications/Workpapers/wps2000series/wps2145/wps2145.pdf

"There are a number of policy implications that could be drawn from this paper centering on issues of program design. The first observation is that the savings collected by organizations like BRAC could have a greater impact on reducing vulnerability than they currently do. Grameen, BRAC and ASA (the three largest MFI's) have collected compulsory regular savings from their clients with a view that the money would act as a de-facto lump sum 'pension' when a client leaves the organization. Access to these deposits was otherwise limited curtailing potentially important source of consumption-smoothing. Having recognized these limitations, there are an increasing number of MFI's in Bangladesh who have started providing more flexible savings products including the 'big three' mentioned above. BRAC in 1998 initiated a current account scheme which is independent of its existing long-term savings system. Now that it has been given a banking license, it is likely to offer a more varied savings package. ASA in 1998 decided to allow its clients to freely withdraw their savings and the following year opened a savings service to everyone in the village. Grameen also recently introduced an open access current account scheme which can be used even by non-members. Depositors earn a competitive market interest rate and are allowed to withdraw money irrespective of whether they have an outstanding loan or not. It has to be said, though, that there are issues of prudential regulation and deposit insurance which need to be though through carefully as more savings are mobilized by the NGO sector in Bangladesh.

A second policy implication is that **microcredit may be a more effective remedy against poverty and vulnerability if it is complemented with other interventions**. There are many programs in Bangladesh which already do so. BRAC operates a microcredit cum food-relief program (BRAC's IGVGD program caters to the needs of the most destitute rural women for whom traditional microcredit programs are not the answer) …and an insurance company operates a joint credit and health insurance program for the poor. These interventions may be especially appropriate for the poorest households who face the greatest risks of income fluctuations and have the greatest need for a range of financial and non-financial services and are less inclined to invest in the higher risk higher return activities that could push them out of poverty.

The issue of complementarity also arises when considering the effect of microcredit on the **'empowerment' of women**. Whilst the provision of microcredit can enhance a women's status in the eyes of other household members, as she is the source of an important resource, **social mobilization and legal education interventions in conjunction with credit is likely to have a more significant effect than credit alone.**" (p. 24-25)

"The **impact of credit on female empowerment (reduction in vulnerability) is controversial in the literature**. One camp believes that credit programs positively contribute to female empowerment and a variety of empirical results are used to argue this case. A second, more skeptical, viewpoint believes that credit programs do little to alter gender relations in favour of females but in fact may contribute to reinforcing existing gender imbalances…. Amin et al's (1994[11]) work in thirty six villages in Bangladesh showed that membership in BRAC positively affected a woman's decision making role, her control over resources and mobility but less so on their attitudes regarding marriage and education of their daughters….This is reinforced by Naved (1994[12]) who finds that the women credit program participants in her sample felt their status had improved within the household due to the fact that they were seen as income earners…Another seminal article supporting the 'favourable view' on credit and empowerment is that by Hashemi et al (1996[13])…Their analysis establishes that a woman contributing to her household's income is a significant contributing factor towards her empowerment, a claim also made by White (1992[14])…The focus of those skeptical about the empowering effect of micro-credit has been on the issue of women's control over loans. Goetz et al (1996[15]) …suggests that an inverse relationship between loan amount and control exists as well as diminishing control beyond a threshold level of membership age…**However the article is flawed in several respects. For a start the interpretation that 63% of women having 'partial, very limited or no control' whilst factually true is also misleading in the sense that one could sum up the figures and also conclude that 61.3% of the women have 'full, significant or partial' control over their loans and therefore a fair degree of control over their credit.** Moreover, the disaggregation of the sample into extremely small sample sizes makes comparisons of loan control across the four organizations studied unreliable….On the whole the evidence presented by those who argue that microcredit improves female status within the household appears more convincing than that argued by the 'skeptics' camp." (p. 5-8)

Buss, Terry. 1999. *Microenterprise in International Perspective: An Overview of the Issues*. Journal of Economic Development. 1 (1)
www.spaef.com/sample.html

"Political interference in credit markets is rampant, especially in developing countries. Politicians direct funds into moribund state-owned firms, political cronies, or into the pockets of wealthy people, but rarely into the hands of poor people seeking credit. **Poor people may need their own credit system."**

"The OECD recently reviewed the literature on microcredit programs and developed a list of factors that account for why programs succeed or fail (OECD, 1996[16]). They found that successful programs included the following:

- Programs found a way to effectively balance their developmental goals—alleviation of poverty—against the need for sound financial management practice. Successful programs stray neither too much in one direction nor the other.

- Programs had in place strategic plans to achieve permanence. Ad hoc decision-making is fatal in an already high-risk venture as microcredit.

- Programs strove for financial self-sufficiency and appropriate size. Expansion beyond program goals to alleviate poverty poses problems. Programs, in economic terms, sacrifice economies of scale and encounter diminishing marginal returns when they pursue excessive growth. Growth is always possible because there typically is an unlimited demand for cheap credit. Colombia's NGO Corposol, for example, failed because it tried to grow too rapidly, in the process losing economies of scale necessary to serve poor entrepreneurs (Steege, 1998[17])

- Programs attained high degrees of cost-effectiveness and sustainability. As observed above, those programs that honestly seek these goals are much more likely to succeed than are others who only mouth the words.

- Programs client-oriented (see Bennett and Goldberg, 1993[18]). Managers are effectively able to evaluate costs, risk, valuation of opportunities, and likelihood of loan repayment (see also Von Pischke et al, 1996[19]). As a strategy, successful programs assess market demand, then supply it. Unsuccessful programs supply products, then try to induce demand (Schneider and Libercier, 1995[20]; see also Brand, 1998[21]).

- Programs streamlined screening, lending and monitoring costs. Reducing transaction cost are the life's blood of microcredit. (Von Pischke et al, 1996[22]).

Cohen, Monique. October 1999. *Opening Up the Impact Assessment Agenda*. AIMS. Paper prepared for the Latin American Microfinance Meeting.

Implications for MFI product design:

These findings "suggest three challenges in the area of product innovation. The first is the need for products and delivery mechanisms that meet the financial needs of a wider spectrum of households. For all groups, more attention to client preferences in relation to loan size, repayment cycles, flexible loan products, and transaction costs in the design of products and delivery mechanisms could improve program outreach and retention. …A second challenge is designing products beyond credit that can help clients mitigate anticipated, but unpredictable, risks. On one level, ensuring that the terms, conditions and delivery of financial products correspond to the financial cycles of the clients should reduce risks both for clients and for lenders' portfolios. This linkage has been largely ignored by MFIs. At the same time, there is room for insurance products to help clients cope with frequent but hard to predict idiosyncratic risks such as ill health or death of a family income earner. There is also room for savings services that provide more accessible and private savings—de-linked from loans—that can be used to provide a back up for dealing with day to day economic stresses. A third and related challenge is designing more flexible loan products that help clients manage and recover from losses associated with unanticipated shocks after they occur. For example, emergency loans can…help clients to recover from such events more quickly, continue to pay their loans and stay in programs rather than default, thus reducing the risk to the MFI portfolio." (p. 10)

The World Bank World Development Report 2000/1 research suggests that most microfinance clients concentrate just above and below the poverty line. We found that:

- Both target and non-targeted programs studied reach a variety of clients across a broad range of poverty levels
- A majority of clients are from moderate poor and vulnerable non-poor households
- Clients from extreme poor households participate in microfinance programs but are not in the majority**. Programs that explicitly target poorer segments of the population generally have a greater percentage of clients from extreme poor households**
- Destitute households are outside the reach of microfinance programs

Marcus, Rachel. Beth Porter and Caroline Harper. 1999. *Money Matters: Understanding Microfinance*. Save the Children. London.

"Instead of viewing only one set of approaches as 'best practice', a more pluralistic vision is needed, which recognizes tat a range of approaches may be appropriate for different people in different circumstances." (p. 10)

"***Programme design issues*:**
Incorporating the following approaches into microfinance programmes can increase both impact and outreach

- **Providing microfinance services valued by the very poor:** These include: instant access savings services, consumption loans, alternatives to group guarantees

- **Tailoring services to clients' needs** can increase positive impacts and avoid pressuring clients In particular, flexible scheduling of loan repayments and providing access to repeat loans of increasing sizes, as well as providing savings services and consumption loans. (Ironically the design of microfinance programmes often serves to limit the horizons of poorer people and confine them to low-return activities….This suggests that greater flexibility in loan size and repayment schedules could significantly increase the impact of microfinance for poorer people. p. 22)

- **Programmes should aim to become financially sustainable over a realistic time-scale** to avoid pressuring existing clients and excluding poorer people. In some contexts—typically those experiencing rapid inflation, or isolated areas where support costs are inevitably high—financial sustainability may not be achievable

- **Minimalist or integrated programmes:** This issue presents a dilemma since integrated programmes generally have a greater impact on very poor and disadvantaged people than those providing solely microfinancial services. However, minimalist programmes can reach larger numbers at lower cost and have greater potential to become self-sustaining. Decision about the most appropriate approach can only be made in context. Where additional services are provided, they should be:
    - Optional—otherwise they can become an imposition on clients
    - Open to other community members so that the poorest people can also benefit
    - Funded separately from the microfinance programme

"Whilst more analysis is needed, there is some evidence that programmes tackling some of the broader aspects of poverty and powerlessness, such as illiteracy or poor health, as well as providing financial services are **more effective in assisting the poorest people than minimalist programmes** (Glaser et al, 1992 cited in Peace and Hulme, 1993; Chapter 3[23]). Equally, there is some indication that **minimalist programmes may be as or more effective than integrated programmes in assisting established small business and in raising the incomes of the 'better off poor'** (Hashemi et al, 1996[24])." (p. 20)

"Where the costs of such services (integrated) are passed on to participants, the costs of borrowing can be inflated unnecessarily, unfairly penalizing people who only want financial services. Combining financial services with training, education or other components is also viewed as attempting to mix 'business' and 'welfare'. This is seen as compromising the business orientation of microfinance, giving the signal that really these services are charitable activities and that borrowers do not need to repay. It may also overstretch an organization that really has the capacity only to provide one type of service." (p. 20)

However, there is another side to these 'best practices'—the poorest and most isolated people are usually excluded as the costs of reaching them are too high; minimalist programmes may be less effective in addressing the poorest people's problems than those which try to tackle other aspects of poverty and social exclusion as well providing financial services. **'Best practices' for MFIs and less disadvantaged people are not necessarily 'best practices' for the poorest people." (p. 20)**

More rigorous impact assessments: are needed, disaggregating effects by gender, age and socio-economic status and comparing impacts on participants, former participants and non-participants. This information should be used to modify programmes and enhance impact." (p. 11-12)

"Whilst financial sustainability is an important goal, it depends on low overheads and high repayment rates. This can mean that MFIs provide their services in areas which are easy and cheap to reach and to people they can be sure will repay. As a result, people living in isolated areas and poorer more vulnerable people who are seen as poorer credit risks may be unable to obtain financial services. A review of microfinance in West Africa concluded that the costs of reaching very poor people in remote rural areas of this region will always exceed possible revenues…subsidies will always be needed (Webster and Fidler, 1995 cited in Johnson and Rogaly, 1996[25]). Bennett et al, (1996[26]) reached similar conclusions for microfinance programmes in the mountains of Pakistan and Nepal. **Emphasizing financial sustainability above other concerns can thus result in the exclusion of the poorest, most vulnerable people, and those living in isolated areas from financial services**." (p. 19)

Whilst programme outreach is extremely important, it cannot be the sole objective for development organizations **whose goals are about improving the welfare of participants** and their families and for whom questions such as 'who benefits?' and 'how?' are paramount." (p. 18)

"Despite their popularity, groups are not the only way in which a loan can be guaranteed. Alternatives include personal guarantees, though it may be hard for poorer people to find a guarantor, and savings. Acceptance of non-traditional items as collateral, such as plant pots, radios or bicycles has provided an alternative to group guarantees in Indonesia (Hulme and Mosley, 1996[27])" (p. 24)

"Programme conditions, designed to exclude richer people or to ensure financial sustainability often mean that credit and savings services do not meet poorer people's needs." (p. 25)

SCF (Save the Children Fund, UK) -supported programmes are explicitly intended to benefit very poor people and most try to target this group. Several target directly on the basis of incomes, assets or membership of particularly vulnerable groups…Experiences of targeting have been varied…(gives one example of a targeted program, but does not know if poorest are excluded)…Most other programmes consider that given the high unmet demand for financial services, explicitly targeting only very poor people or certain groups is likely to create or exacerbate social tensions which could jeopardize the programme. Experience in Eachchantivue, Sri Lanka, where the programme is open only to female-headed households with children under 18 bears this out. **Such narrow targeting has caused some resentment**, given that everyone lost so much when they were displaced, and is being reconsidered. …Several SCF-supported programmes have **developed special components or modified their design to reach poorer people**. (p. 40-41)

"As programmes become more aware of the importance of savings to participants, many have **loosened their regulations for withdrawing money**." (p. 43)

"…members access to savings may be constrained by on-lending. Although this increases the circulation of money and interest payable on savings, it can also mean that participants may have to wait to withdraw money, thus **reducing the value of savings as a buffer in emergencies**." (p. 44)

"The recent programme evaluation concluded that the **requirement that participants' children to attend school** in combination with increased income through more productive farming probably plays a greater role in reducing school drop-out than the educational grants (Albee, 1996[28])" (p. 46)

"In order to provide a useful service to potential depositors, the services should be demand led, sustainable, and well managed. Institutions planning to provide deposit services should understand what is in place already, what needs are not being met, and what types of services or instruments would best fill the gaps. Institutions should ensure that such services are not simply provided on a project basis, but are set up to be financially and institutionally sustainable—by covering the costs of providing deposit services (investing or onlending at a higher rate tan paying depositors) and by ensuring that there are the institutions, systems and people to continue providing the services in the future….Deposit insurance can mitigate the risk to depositors, especially in the case of disasters; such schemes have often provided perverse incentives, however, and are difficult and costly to design and maintain." (p. 60)

Table 3
Ways to Enhance Impact of Microfinance (List of SCF locations where solutions are in use, are also listed in the resource material) (page 33-35)

Problem	Possible Causes	Possible Solutions
Poorer/more disadvantaged people generally do not participate in microfinance programmes	1. Credit and savings groups exclude people they think won't be able to repay 2. Poorer/more disadvantaged people exclude themselves because they fear not being able to repay and of being stigmatized by the group 3. Loan and savings conditions are often inappropriate for poorer people. These include: • time-consuming frequent meetings • restrictions on loan use • short repayment and	• Encouraging groups to include poorer members • Alternative guarantee systems for individual loans e.g. guarantors; use of household assets such as bicycles or plant pots as collateral • Asses building and training schemes to give poorer people skills, capital and confidence to participate • Training of staff so that arrangements for default do not drastically impoverish borrowers

	grace periods • limited access to savings	• Less frequent meetings—not more than once a month • Loan use should e flexible and include 'consumption' loans • Flexible repayment and grace periods, tailored to borrowers' circumstances and activities • Flexible access to savings (i.e. short notice periods, not need to leave credit group)
Poorer more disadvantaged people generally increase their incomes less than better-off people	1. Lack of skills, knowledge and social networks to make most of investment 2. Lack of initial capital and small loan size limits scope of investment 3. Markets often get overcrowded with too many similar enterprises	• Training to increase skills and knowledge and create own social networks • Asset building programmes related to microfinance scheme • Greater flexibility in loan size • Training, research and development, improved technology and assistance in accessing new markets to enable borrowers to develop a wider range of enterprises
Failed enterprises can lead to impoverishment	1. Insufficient advice given to borrowers/misreadin g of market 2. Tough penalties for late repayment and default	Risk can never be eliminated. However it can be reduced and the consequences of a failed investment mitigated by: • Proper advice and assistance in identifying opportunities • Arrangements for rescheduling and repayment schedule according to borrowers' capacity
Microfinance can lead to	1. Exclusion of poorest	• As above

increased inequality between 'better-off' – 'poor and poorest'	2. Greater capacity of better-off to benefit	• Ensure that support services are open to poorest even if they don't participate in microfinance programme • Try to harness potential of microfinance for collective action, as well as benefits to individuals and households
Men use loans made to women	1. Not enough loans are available to poor men 2. Men have better income-generating opportunities 3. Men and women see loan as household resource 4. Men resent women's independent access to resources	• Increase availability of loans to poor men • Training for women to enhance economic opportunities • Awareness raising to change attitudes towards women, cash and work • Support services for women to reduce particular constraints they face e.g. childcare • Accept this takes place and hold men responsible fro repayment
Tensions within households may be increased	1. Men's status threatened by women's greater financial contribution 2. Workloads increased but may be inequitably shared 3. Stress of meeting repayments	• Awareness raising (as above) • Support services (as above) • Rescheduling repayments • Ensuring loan is not beyond borrowers' capacity to repay at onset
Increases in income not translated into improvements in welfare	1. Attitudes to particular issues e.g. lack of knowledge of nutrition; discrimination against girls	• Education and awareness raising to address particular issue

Snow, Douglas. 1999. *Microcredit: An Institutional Development Opportunity.* International Journal of Economic Development. 1 (1) http://spaef.com/IJED_PUB/v1n1_snow.html

Microcredit programs can only evolve into sustainable institutions if they are linked, or partnered with local institutions: churches, post-secondary schools, local governments, credit unions, banks, established nonprofit organizations, service organizations, and job training programs. Microcredit programs operating without linkages to local institutions are less likely to be sustainable.

Sustainable microcredit programs must be embedded in the network of existing local institutions. They will become recognized avenues out of poverty. When a microcredit program becomes sustainable, net social benefits will be positive (Ostrom, Schroeder, and Wynne, 1993[29]: pp. 13-14). That is, operating and capital costs will be exceeded by reduced welfare costs, increased household income, and possible reductions in other, less quantifiable, social costs**. This does not necessarily mean that there will be no need for subsidies. A program might become financially sustainable, yet fail to achieve its original goal of reaching the poor.**

The primary advantage of local institutions is time and place information, knowledge about the circumstances and challenges faced by the poor. (Ostrom et. al, 1993[30]). While large organizations such as commercial banks and centrally located government agencies possess expert knowledge in the social and behavioral sciences, they lack a complete understanding of the needs of the poor. Without time and place information, organizations risk program designs that do not meet the needs of those they intend to serve. For microcredit, the risk is an initial flood of capital to high-risk borrowers, resulting in a disincentive to save, high defaults, and program termination. The very people who were to be helped may be harmed (Albee, 1996[31]). But local institutions dealing with poor people possess information that banks and government agencies cannot easily obtain or find too costly to produce. They are able to adapt to the needs of poor people.

Yunus, Muhammad. November 1999. *The Grameen Bank*. Scientific American. 281(5) p. 114-119.

"We try to ensure that the bank serves the poorest: only those living at less than half the poverty line are eligible for loans. Mixing poor participants with those who are better off would lead to the latter dominating the groups. In practice, however, it can be hard to include the most abjectly poor, who might be excluded by their peers when the borrowing groups are being formed." (p. 118)

Khandker, Shahidur R. 1998. *Fighting Poverty with Microcredit: Experience in Bangladesh.* Oxford University Press, Inc. New York.

"RD-12 was based on the model of a two-tier cooperative structure with solidarity groups of five to six members, following the credit delivery model of Grameen Bank. **This small group-targeted approach was more successful than the large group approach of the BRDB in reaching the poor and recovering loans**."

"Participants in microcredit programs tend to have low levels of skills and knowledge and are therefore limited to borrowing for self-employment in rural nonfarm activities that have low growth potential. Unless **activities with high growth potential** are supported by microcredit programs, the possibility of long-run poverty reduction through microcredit programs is remote. (NP) Skill development training benefits the poor. **For equal capital intensity, the marginal return on capital is higher among BRAC and RD-12 participants**, who receive skills development training, than among Grameen Bank participants. But Grameen Bank provides larger loans per borrower than the other two programs. As a result **borrowers of Grameen Bank enjoy higher returns to capital than do BRAC and RD-12 borrowers**, and the effect of their borrowing on household net worth is higher. **These results suggest that loan size matters, and that larger loans are needed to reduce poverty on a sustained basis."**

"Although **poverty reduction is the highest priority**, the goal of self-sustainability within the shortest possible time should also be incorporated into program design from the beginning. Donors and governments that support subsidized operations of microcredit programs can enforce this by **emphasizing that financial sustainability must be attained within a set period and that support is not open-ended**…But if subsidy is unavoidable to attain the primary objective of poverty reduction and social development, it should be kept to a minimum and used as efficiently as possible."

Chebair, Eliana Restrepo and Rebecca Reichmann. 1995. *Balancing The Double Day: Women as Managers of Microenterprises*. 93 pages.

"We discovered that **women used several strategies to balance the management of their households and enterprises**" (p. 27). These means included using free labour of family members, investing business profits in timesaving domestic appliances, dividing their enterprise working day, or reduce the geographic scope of their business. "Each of these strategies is mean to free up a small amount of women's time, the essential ingredient in a successful balance of work and family". Furthermore (p. 30), "The help of family workers is never adequate to meet all the family's and enterprise's needs, and women depend significantly less on such labour than do their male counterparts".

"**Our data do not indicate significant differences in men's and women's money management** – 33 to 39% of the income in both cases was earmarked for family consumption, allowing for subsistence conditions. However, **women invested slightly more in household consumption, and men slightly more in the enterprise**." (p. 35).

"A third find, less related to women's management, but nevertheless significant to our contribution of analysis of the informal sector, is **that poor families in Latin America – among which female headed families are the poorest – depend on multiple sources of income to survive; microenterprises are rarely the sole source of income among the families we studied**. In light of that fact, another key finding is even more surprising; large numbers of poor families in Latin America save money and prefer institutional savings, where they may also become borrowers of working capital credit." (p. 53)

Programs in the study:
PRODEM in Bolivia

- Solidarity group model, given business management training in early stage of program
- Assumes that its loan size of $344 (in 1994) provides targeting of "the smallest scale entrepreneurs in the country" (p. 66)

- Sells banks to BancoSol when they become profitable

CEAPE in Brazil:

- Targets existing businesses with less than 5 employees using solidarity group model

FMSD Colombia:

- Provides a variety of public services including credit
- Loan size $222 in 1994

FUNTEC/Genesis in Guatemala

- Developed to support existing microenterprises
- Individual (1993 average $817) and group ($170) loans

FUNDAP/PROSEM in Guatemala

- High proportion of indigenous borrowers – high illiteracy, non-Spanish
- Women not authorized to enter into contracts – 22% of borrowers are women
- Individual (1993 average $374) and group ($115) loans

Hashemi, Syed M. 1997. "Those Left Behind: A Note on Targeting the Hardcore Poor" In *Who Needs Credit? Poverty and Finance in Bangladesh*. (Eds.) Geoffrey D. Wood & Iffath A. Sharif. The University Press Ltd. Dhaka.

"…One element of the response has been to attempt to increase productivity and employment[i] and through this to increase the credit absorptive capacity of the local economy. **The other part of the response, strategies for better targeting of the destitute, now requires greater emphasis**. BRAC's IGVGD program seems to be one such experiment." (p. 256)

Hashemi, Syed M. 1997. "Building up Capacity for Banking with the Poor: The Grameen Bank in Bangladesh". *Microfinance for the Poor?* (Ed.) Hartmut Schneider. Development Centre for the OECD. p. 109-128.

Hashemi states that activities that take place at "Grameen's weekly Centre meeting" provides a "process of "empowerment" that most women go through that provides Grameen with its success, that ensures the continued support of its women, that allows for the sustainability of members and therefore turn the sustainability of the programme." (p. 115)

"A close investigation of Grameen postulates the following essential elements in building credit capacity for the poor: peer monitoring to offset risks in information gaps and reduce transaction costs; group solidarity for building extra peer identity and loyalty to the programme, hiring of fresh university graduates who are motivated to work with the poor; close monitoring of all bank activities to ensure discipline; and a creatively open perspective to be always experimenting, learning and improvising. They have also proved to be the essential elements in replicating Grameen in other countries (Hulme, 1994[32]; Gibbons, 1995[33])." (p. 124)

[i] Examples given are for Grameen's initiatives in textiles, the Krishni and Motso Foundations' in agriculture and fishery, and the Grameen Shakti in solar and wind energy, and telecommunications.

Hickson, Robert. 1997? *Reaching extreme poverty: financial services for the very poor.* Microfinance Services Pty Ltd. Office of Development Studies. UNDP. Goondiwindi, Australia.

http://www.MicroSave-Africa.com/relateddownloads.asp?cat_id=17&title=Risks+and+Vulnerability+of+the+Poor

Safe*Save,* Bangladesh -- began in August 1996. As of February 2001, Safe*Save* had four branches serving the Dhaka slums with 5,172 client accounts. These branches become profitable after two or more years of operation. Safe*Save* is a self-funding experimental project. It attempts to tailor its financial services to the specific requirements of slum-dwelling households so that even the poorest of these households can be reached. **SafeSave's premise is that all households, including extremely poor ones, can use some form of financial service effectively and that product structure and the delivery system determine participation and successful use of financial services**. It believes that this is particularly true for extremely poor households.

Qinghai Community Development Project (QCDP), China -- provides microfinance services to extremely poor households. "The program now has over 50,000 members and is growing strongly with a delinquency rate of about 4%. Nearly everyone **takes the most flexible option**, i.e., a loan in which the principal does not have to be returned until the end of the loan term. Interestingly, most clients repay before their loans fall due."

Nisho Prakalpa (Grameen Bank), Bangladesh -- a model of financial service delivery that can reach very poor households. The program started in 1996 and by 1999 had 1000 women members. In many ways it turns the traditional Grameen Bank model upside down. Nisho Prakalpa management believe that the hard core rural poor are afraid of joining Grameen Bank groups. **Targeting begins with the identification of vulnerable areas by Grameen Bank officials and within these villages, existing Grameen Bank members identify the poorest households**.

Hulme, David and Paul Mosley. 1997. "Finance for the Poor or Poorest? Financial Innovation, Poverty and Vulnerability" In *Who Needs Credit? Poverty and Finance in Bangladesh*. (Eds.) Geoffrey D. Wood & Iffath A. Sharif. The University Press Ltd. Dhaka.

When reviewing the 1994 Goetz and Gupta[34] study, the authors state, "From this perspective, credit schemes are doing relatively little to empower women, though one important exception must be noted. By contrast, the same study reports that 55% of widowed, separated or divorced women fully control their loans (compared with 18% for women in general) and that only 25% of such loans are fully appropriated by men. **Given that such women are usually regarded as the most vulnerable in Bangladeshi society this suggests a significant advancement in their capacity to engage in economic activity**." (p. 120-121)

"So **agencies need to pay much greater attention to their capacity to assist target groups** within the female population (particularly the assetless, widowed and divorced) rather than treating women as a homogenous group." (p. 122)

Johnson, Susan and Ben Rogaly. 1997. *Microfinance and Poverty Reduction*. Oxfam. UK and Ireland.

"However, peer-group monitoring has not proved necessary to other institutions seeking to do away with physical collateral. In Indonesia, government-sponsored banks have successfully used character references and locally-recruited lending agents (Chaves and Gonzales Vega, 1996[35]).The peer group methods of and the individual-user approach of the Bank Rakyat Indonesia can both be seen as attempts to lower screening costs by using local 'insider' information about the creditworthiness of borrowers." (p. 7-8)

"Decisions on whether and how to intervene in local financial markets should not be taken without prior knowledge of the working of those markets. If the intervention is intended to reduce poverty, it is especially important to know the degree to which poor people use existing services and on what terms. Only then can an intervening agency or bank make an informed decision on whether their work is likely to augment or displace existing 'pro-poor' financial services." (p. 14)

"Such a system (members holding loans on a more or less continuous basis with loan being repaid in fixed amounts over a fixed term) can force people to adopt complicated strategies to manage the funds until they actually need them, if they do not wish to miss their turn to obtain a loan. This helps to explain the myriad of on-lending arrangements that usually exist between group members (Rutherford, 1995[36]). This problem is not encountered in systems where members can take loans at time s appropriate to them. The case study scheme in Pakistan, run by SUNGI, …operates a system of loan applications to be made via the village organizations' credit committees, but there is no pressure to take a loan once a member is eligible. **Flexibility in amounts and timing of disbursement seem to be significant factors in providing a credit mechanism which poor people can manage in relation to their livelihood strategies**." (p. 50)

"…Hulme and Mosley's study strongly suggests that providing credit for micro-enterprises is unlikely to help the poorest people to increase their incomes. However, detailed research with users has found that **some design features of savings and credit schemes are able to meet the needs of very poor people. For example, it was found that easy access to savings and the provision of emergency loans by SANASA enabled poor people to cope better with seasonal income fluctuations** (Montgomery, 1996[37])."

TCP's Impact on Poverty (unpublished)

"Although TCP's focus is poverty and not business development, the evolution of a stable and sustainable business is central to the securing of livelihood. A strong emphasis is therefore put on the **productive use of loans, and loan utilization checks (LUCs), and the linkage of loan size to business value, in an attempt to ensure that loans are given on the basis of adequate productive return from the business**. In the case of less poor people who have multiple sources of income, this is not as important. Almost by definition, however, TCP members have unreliable income on entry to the programme, and are therefore not in a position to be able to maintain installments from their existing income, without putting themselves at high risk of problems."

"**LUCs do ensure that the loan is initially invested in the business, and business value checks do ensure that a member does not receive increasing loan sizes without a corresponding growth in her business**. However, within this context it is apparent that money is fungible, and there are resource allocation decisions (good and bad) that will divert money away from the business. The most common of these are **loan substitution,** where the loan replaces existing working capital from the business, and releases this for other expenditure, and **loan recycling**, where the initial rise in business value following the loan is gradually eroded away over time….**Generally, however, the careful allocation of loan amount, and the relatively short loan terms ensure that problems are not too serious where they occur, but the major effect of loan recycling and substitution is to increase the vulnerability of the member**."

"It is clear that the provision of credit alone would not achieve the kind of impacts described in this report. The strong emphasis on **selecting an appropriate business, developing skills to manage this business, and linking the loan product to the business is an essential part of a process of developing a stable and sustainable business**. This is particularly important in the case of the very poor, where there are limited other income sources to make loan repayments with, and to support the business if it experiences problems**. TCP's loan products are flexible in that they allow each member to determine her own loan size, and to a limited degree, repayment terms."**

"Key aspects in the success of the credit product are the pressure put on members to manage and grow their businesses, as well as the linkage of loan size to business value, and the relatively short loan terms."

"TCP does not provide savings services, but facilitates the use of the Post Office. This is not ideal, but is a viable solution given the nature of the regulatory framework and the costs and security issues of providing its own services. Savings play a key role in reducing the vulnerability of members, and in allowing for effective financial management."

"In addition to financial services, TCP plays a key role in identifying and supporting the most vulnerable of its clients, and working towards reducing this vulnerability. There is a major achievement in ensuring that most staff and members no longer perceive members with problems as being 'a problem', but as people who need support. Many TCP policies and practices aim to facilitate the reduction of member vulnerability, and to support the finding of solutions to business and other problems as they arise."

"At an intra-household level, increased 'independent' income fro women, and control over resources builds their position to make decisions that are 'good' for the household from their perspective. Although there are rare cases of increased conflict**, there is substantial evidence that TCP membership strengthens their position within the household, and builds their confidence and sense of worth.** Although SEF has not explicitly defined poverty-alleviation in terms of 'empowerment', it is clear from our members and field staff that increased self-confidence, participation in wider structures, control of resources and decisions within the household, and perceptions of poor people from the rest of the community are important indicators of increased well-being."

Matin, Imran. David Hulme and Stuart Rutherford. ***Financial Services for the Poor and Poorest: Deepening Understanding to Improve Provision.***
http://www.devinit.org/findev/Working%20Paper9.htm

Depth in outreach depends on program content, flexibility, terms and conditions; in other words, 'the degree to which the products offered meets poor people's special needs by tailoring the characteristics of the products to them'. The poorer strata might be better reached if a **broader range of financial services is provided.**

Sen, Binayak. *Poverty in Bangladesh: A Review*. http://www.bids-bd.org/poverty.htm

There is a need for building upon the success of microcredit achieved and sustained till date to service the credit needs of the various segments of the rural poor. The mechanism for delivery of microcredit may be suitable for banking with the women folks from the middle-poor households, but may need to be modified for meeting the needs of the small farmers who are at the threshold poverty line. Credit needs would vary for the farm and non-farm borrowers, with different implications for seasonality in credit demand. The same may be said of the extremely poor households who have very different risk-bearing capacity. These are new institutional challenges that require innovations in the mode of delivery. However, it is important not to undermine the value of what has already been achieved by way of microcredit.

CGAP. CBDIBA-ONG Benin Factsheet. Information Package on the Pro-Poor Innovation Challenge.
www.cgap.org

On the need to target—"CBDIBA was started in 1990 to promote grass-root development of rural organizations in Benin. It specifically targets the poor through participatory wealth ranking exercises. CBDIBA realized that the mot destitute women were not becoming members of the village banks. Larger groups and larger loans are seen as creating an exclusionary bias against the poorest. To rectify this, they started a special program."

Épargne Sans Frontieres –ESF Website
www.esf.asso.fr

The majority of this site deals with the funding mechanisms for small enterprises in Europe, and to a lesser extent, in less developed countries.

It also has a "development funding" focus which deals largely with enterprises of 5 persons or more, i.e. mini rather than microentreprises.

The site does not have much information about impact assessment but reviews and studies the processes for the provision of credit to underserved segments of industry.

In the area of funding for developing country enterprises, the site deals with either small-to-medium size loans (Cdn$2000 on average in Senegal, for instance) or venture capital (Cdn$10,000 or more per operation).

The site does mention the experience of GRETI in Cambodia, more clearly directed towards the poorest segments of society, but does not discuss impact. **It does mention an interesting and innovative scheme of animal leasing in Madagascar (ESF, Number 6, June-July 1996 issue). The initial investment for the purchase of cattle (a few hundred dollars) is repaid in 99% of cases, and the title for the animal lies with the lessor until full repayment.**

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Appendix A: Terms of Reference

Over the past three decades, the development community has been increasingly interested in microfinance as an approach for reducing poverty, supporting gender equity, encouraging more equitable income distribution, developing the private sector and promoting participatory development. Access to modest financial services and other forms of microenterprise support are key strategies to reduce poverty - providing the poor with opportunities for self-reliance through entrepreneurship and stabilizing the livelihoods of the poor during difficult times. Microfinance is one of many tools to reduce poverty, and CIDA has supported microfinance development since its inception in 1968. Microfinance figures prominently within CIDA's policy framework as a programming mechanism to meet CIDA's priorities - most directly in private sector development, but in other areas as well such as basic human needs and the integration of women in development.

Studies have suggested that microfinance has proven its potential to generate results. In particular there is some evidence to suggest that very poor people can effectively be targeted by MFIs, that they can effectively use microcredit with fully acceptable repayment rates and that microcredit has a positive impact on their lives. However it is not yet clear under which circumstances microfinance can be made more effective for reducing poverty as measured by progress against the DAC 2015 International Development Goals (IDGs). (Note: This was later changed to the Millennium Goals.)

The objective of this study is to research, through a literature review and the preparation of a synthesis report, the following:

1. The effects of microfinance on poverty reduction as informed by the IDGs (Millennium Goals)

   a. What is the evidence? Is the effect different depending on the degree of poverty?

   b. Are there higher impacts if the first step is credit rather than savings and insurance?

   c. To the extent possible, particular attention should be paid to the definition of the target groups and the implications of the definitions used: e.g., destitute, extreme poor, moderate poor, and economically active vs. non-economically active poor.

2. The effects of microfinance on poverty reduction compared with other development tools aimed at poverty reduction.

   a. Is there evidence about the comparative strengths and weaknesses of microfinance vis-à-vis other tools, and how does microfinance rate against other development tools and interventions in terms of reducing poverty? Should there be a combination of microfinance and other tools to enhance synergies?

   b. What are the characteristics of microfinance programs which produce positive impacts (higher average income, other social indicators, etc.) and reduce risks (increased vulnerability, debt accumulation, negative social effects in households and communities, etc.)?

The work must meet the following requirements:

i. The literature review of international sources should include, but not be limited to, the following: CGAP, Eldis, USAID (AIMS project), ILO Social Finance Unit, UNCDF, and the World Bank's Sustainable Banking with the Poor project, World Bank Study on Microcredit in Bangladesh.

ii. The effects of microfinance on poverty reduction should be considered for a range of poor, with explicit definitions of the different poverty levels.

iii. Other development tools to be considered should include, but not be limited to: primary health care, basic education, family planning, HIV/AIDS, nutrition, water and sanitation, and shelter, and other economic development programming if possible.

Appendix B: Defining Poverty

Very few studies/articles/books in the literature reviewed gave specific definitions/explanations for the levels of poverty discussed in that work. There are a number of potential reasons for this:

- Many studies did not have as their **main purpose** the analysis of the differential impact of MF depending on the degree of poverty of the borrower. Thus this would not be something that they would define or track.

- MFI's are often focused on their own financial survival, and have generally been **reluctant to invest substantially in evaluations**.

- There is no **academic consensus** on how to define the different levels of poverty. Definitions for extreme poverty can range from landlessness, to earning less that $1/day, to existing in the bottom half of those living under the poverty line, to income under a certain threshold. Also, the words themselves can vary—such that two studies might be using the same definition but different descriptor words for poverty.

- It may be **methodologically difficult** to implement a given definition of poverty in a purist fashion (e.g. below x number of cents per capita per day or those living in the bottom half of people below the poverty level). (However, there are quick ordinal proxies that will find those who are really among the poorest in a village. SEF's Participatory Wealth Ranking will give you those in the poorest third, and the Cashpor House Index will rank people's level of poverty.)

- **Assumptions** are made as to the level of poverty addressed by a particular study or MFI. Usually **small loan size is used as an indicator for poverty**---the smaller the initial loan, the poorer the client is assumed to be. It is assumed that the 'richer' clients will **self-select** out of a program that lends only very small amounts.

> "A major obstacle is a set of assumptions of the community of academics, donors and practitioners supporting microfinance programming. They **assume that the design of microfinance, especially poverty-oriented, group-based microfinance, creates a desirable bias toward the poor (or more accurately, against the not-so-poor). The small loan size, high interest rate, short loan duration (too short for many kinds of investment, especially for most types of production agriculture), the frequent repayments (initially weekly in most programs), and dependence on mutual guarantees are all factors assumed to make the program unattractive to people who have other sources of easier credit.** It is assumed that the poor, with few, if any, other options (because they lack collateral and distinct businesses), will tolerate these unattractive features, while the not-so-poor, for whom easier options are available, will tap more attractive sources of credit. [paragraph] Firm belief in the effectiveness of a "self-selection" bias toward the poor explains why few practitioners attempt to verify that they are reaching relatively poor entrepreneurs. Formal intake surveys or selective screening out of the not-so-poor are considered unnecessary, costly and disruptive practices that are detrimental to the work of field agents. This is as true for Credit with Education as it is for most other group-based microfinance program strategies. **However, when easier finance options are not available to the not-so-poor, the demand for credit may be so high that even they are willing to tolerate the unattractive features of group-based poverty lending. In such a case, self-selection may prove to be ineffective in focusing services on the poorer**

community members. At best, the participant profile may simply reflect the poverty profile of the whole community." (Dunford and Denman, 2000)

As was shown by the comparison of the Small Enterprise Foundation (SEF) and Tshomisano Credit Programme (TCP), this assumption that loan size and poverty levels can (to some degree) be equated, has not been found to be correct. Clients in the SEF programme, despite its small loan size, were found to be far less poor that those in the program that specifically targeted the poorest.

SEF has two programmes, the most established of which is the Micro-Credit Programme (MCP). In 1996, SEF introduced a poverty targeted micro-credit programme, the Tshomisano Credit Programme (TCP) that uses a participatory wealth ranking methodology (PWR) to facilitate targeting. As such, assessing the poverty targeting of SEF offers a unique opportunity to compare the depth of poverty outreach between these two programmes as well as the effectiveness of the two methodologies for identifying the poor.

The clients in the poverty-targeted programme are overwhelmingly situated in the poorest category, while the majority of clients in the non poverty targeted scheme are found in the least poor category. The majority of TCP clients (52 %) are located in the poorest category, as opposed to 9% in the least poor category. (van de Ruit et al., 2001)

For those studies that did define their examined levels of poverty, the applicable explanations/definitions are listed below:

Khandker, Shahid. 2001. *Does Micro-finance Really Benefit the Poor? Evidence from Bangladesh*. Paper delivered at Asia and Pacific Forum on Poverty: Reforming Policies and Institutions for Poverty Reduction held by the Asian Development Bank. Manila.

Khandker, Shahidur R. 1998. *Fighting Poverty with Microcredit: Experience in Bangladesh.* Oxford University Press, Inc. New York.

These studies (Pitt forthcoming, 1996; Khandker 2001, 1998) deal with data from 3 microcredit programs in Bangladesh (BRAC, Grameen Bank and BRDB Rural Development RD-12) that work exclusively with the rural poor, usually women. "Although the sequence of delivery and the provision of inputs vary some from program to program, all three programs essentially offer production credit to the **landless rural poor (defined as those who own less than half an acre of land**). (Pitt further clarifies this in a further paper[i] as less than one half acre of **cultivable** land and says, "the difference between total land ownership and cultivable land ownership is primarily homestead land.")

The Khandker (1998) study goes on to **define poverty in terms of consumption**. "In a country such as Bangladesh, poverty can be calculated based on nutritional requirements. According to the Food and Agriculture Organization, daily consumption of 2,112 calories is required to remain above the poverty line. The cost of meeting this requirement can be calculated by pricing various food items and adding a 30% allowance to cover the cost of nonfood items (Hossain and Sen 1992). As price differences were observed between villages, the poverty-line level of consumption varied from village to village. Village cost of living indices were used to establish **Tk 5,270 per person per year as the cutoff for moderate poverty**. **Any household in which per person consumption was less than**

[i] Pitt, Mark M. 1999. *Reply to Jonathan Morduch's 'Does Microfinance Really Help the Poor? New Evidence from Flagship Programs in Bangladesh'*. Department of Economics. Brown University.

80% of Tk 5,270 (Tk 3,330) was defined as living in extreme poverty (see Khandker and Chowdhury 1996)." (p. 55)

Chen Martha Alter and Donald Snodgrass. August 1999. *An Assessment of the Impact of SEWA Bank in India: Baseline Findings*. Harvard Institute for International Development.

"How many poor households are there in the sample? Since surveyed households average 5.9 members, per capita income per annum approximates $720 PPP. This figure is about 60% GNP per capita in purchasing power terms, which the World Bank puts at $1,190 for 1996 and which should have reached about $1,225 by January 1998. Even allowing for the fact that household income per capita is always a bit lower than GNP per capita, members of respondent households are thus poorer than the average Indian. How many are classified as living in poverty depends on where the poverty line is drawn. Local agencies place the urban poverty line somewhere in the range of Rs. 240-300 per person per month, which works out to approximately Rs. 17,000-21,000 per year for a family of 5.9 members (the average in the sample). By these standards, only 5-9% of borrower households, 8-14% of saver households and 14-24% of control households live in poverty.

The local poverty line, however, works out to only $6-7 per person per month at the exchange rate conversion or $24-30 PPP. **In its *World Development Report 1990*, the World Bank suggested a global poverty line of $1 per day per person in 1985 prices PPP. This is equivalent to perhaps $1.75 per day in the prices of January 1998, or $53 per month. So the local poverty line in Ahmedabad ($24-30 per month PPP) is only about one-half the international standard ($53**). Using the World Bank's widely accepted poverty line and equating it to about Rs 525 per month, 40% of borrower households live in poverty along with 50% of saver households and 62% of control households. This seems more realistic than the results obtained using the local poverty lines.

The sensitivity of the poverty headcount to the placement of the poverty line suggests that households in the sample cluster around the poverty line, with most of them either just above it or just below it. " (p. 25)

Garson, Jose. *Microfinance and Anti-Poverty Strategies. A Donor Perspective*. UNCDF. http://www.undp.org/uncdf/pubs/mf/mf-chap1.htm#a

"Those in the first category have been called the "**entrepreneurial poor**." The entrepreneurial poor do not need assistance for themselves, but they do need help in setting up an activity that will eventually increase their income." (p. 3)

"The non-entrepreneurial poor do not know how to use credit to generate income."

Gibbons, David S. and Jennifer W. Meehan. 2000. *The Microcredit Summit Challenge: Working Towards Institutional Financial Self-Sufficiency while Maintaining a Commitment to Serving the Poorest Families*. www.microcreditsummit.org/papers/papers.htm.

"Poorest are defined as those who live in households with incomes that place them in the **bottom 50%** of the poverty group as defined officially in each country. Households in the to p 50% of a country's poverty group are termed 'poor'." (p. 2)

Hashemi, Syed M. 1997. "Building up Capacity for Banking with the Poor: The Grameen Bank in Bangladesh". *Microfinance for the Poor?* (Ed.) Hartmut Schneider. Development Centre for the OECD. p. 109-128.

"Amongst the poor too, Grameen successfully targets women; 94 per cent of the membership are women. However, in rural Bangladesh, there is significant differentiation even within the ranks of the poor. About **half of the poor constitute what is referred to as hard core poor, who are forced to subsist on per capita income that is less than half of the poverty line** (Rahman, 1995).

Hulme, David and Paul Mosley. 1997. "Finance for the Poor or Poorest? Financial Innovation, Poverty and Vulnerability" In *Who Needs Credit? Poverty and Finance in Bangladesh*. (Eds.) Geoffrey D. Wood & Iffath A. Sharif. The University Press Ltd. Dhaka.

"All our case study institutions (13 institutions were studied), with the exception of the Kenya Industrial Estates—Informal Sector Programme (KIE-ISP) make loans to some people **with incomes below national poverty lines.**

"For analytical purposes it is appropriate, at least as a starting point, to conceptualize two main groups within the poor: **the core poor** who have not crossed a 'minimum economic threshold' and whose needs are essential for financial services that are protectional, **and those above this threshold who may have a demand for promotional credit.** This minimum economic threshold is **defined by characteristics such as the existence of a reliable income, freedom from pressing debt, sufficient health to avoid incapacitating illness, freedom from imminent contingencies and sufficient resources (such as savings, non-essential convertible assets and social entitlements) to cope with problems when they arise."**

Marcus Rachel. Beth Porter and Caroline Harper. 1999. *Money Matters: Understanding Microfinance*. Save the Children. London.

"Increasingly, SCF-supported projects examine the different impacts on women, men and children. However, at present they **do not disaggregate participants by whether impacts are greater for certain socio-economic groups or whether the poorest people are excluded**."

"SCF-supported programmes are explicitly intended to benefit very poor people and most try to target this group. Several **target directly on the basis of incomes, assets or membership of particularly vulnerable groups.** For programmes in rural Bangladesh, for example are open to women from households earning less than 1500 taka per month, with less than 40 decimals of land, and without any family member in formal employment. Other programmes are **targeted at groups considered locally to be the worst off**, such as female-headed households (Ethiopia, Sri Lanka, Tajikistan and Iraqi Kurdistan)."

"Many SCF-supported programmes are **located in particularly isolated or disadvantaged areas or those with higher than average concentrations of poverty,** such as the Thar desert in Pakistan, arid northern Mali, especially flood-prone parts of Bangladesh and one of the poorest regions of Vietnam, the north-central provinces, often because few or no other organizations are working there."

"There is not sufficient disaggregated data about the socio-economic status of participants in SCF-supported programmes to draw firm conclusions as to how far they benefit very poor people. **Anecdotal evidence suggests that many SCF-supported programmes do reach poorer people than other microfinance institutions.** In the West Bank and Gaza Strip programme, for example, SCF borrowers are notably poorer than those in other local programmes."

(Note re: above reasons for lack of poverty definition and assessment.) "From the mid 1990s, impact monitoring and assessment has become a regular part of SCF microfinance programmes. **Most impact assessment is based on participants' statements**. These provide important insights, but **rarely lend themselves to quantification and so little quantitative impact data is available**. In many programmes, **though this is now changing**, relevant 'baseline' information was not collected or systematically documented at the outset, making it hard to assess changes over time. No on-going impact monitoring and only two recent evaluations in Vietnam and Mali have compared **changes in participants' lives to those of non-participants**." (p. 40-41)

MkNelly, Barbara and Christopher Dunford. 1999. *Impact of* Credit with Education *on Mothers and Their Young Children's Nutrition: CRECER* Credit with Education *Program in Bolivia*. Freedom from Hunger Research Paper No. 5. Freedom from Hunger. Davis, CA.

While this report did not set out to define poverty levels within its group of clients, a recent paper by Gibbons and Meehan (1999) profiles the CRECER *Credit with Education* program as one of the three examples of microenterprise programs that was approaching financial sustainability while still reaching the poor. "With regard to serving its intended market of the poorest areas of rural Bolivia, the report noted that CRECER, **while not having as high a percentage of "poorest" clients as the other two MFIs, was operating in regions with the highest levels of poverty in Bolivia and was reaching the poorest households in those regions**."

If we refer to the Gibbons and Meehan (1999) paper for their **definition of "poorest", they state that the "poorest" families are those who lie in households with incomes that place them in the bottom 50% of the poverty group as defined officially in each country**. Households in the top 50% of a country's poverty group are termed "poor".

MkNelly, Barbara and Christopher Dunford. 1998. *Impact of* Credit with Education *on Mothers and Their Young Children's Nutrition: Lower Pra Rural Bank* Credit with Education *Program in Ghana*. Freedom from Hunger Research Paper No. 4, Freedom from Hunger, Davis, CA.

"Household socioeconomic status was assessed in two ways. First, **a good proxy for income or socioeconomic status is the value of a household's assets**. Program staff helped create a list of consumer goods that represent a progression wealth within the local context. All respondents were asked whether they owned ten different consumer or productive assets (radio/tape player, television, bicycle, water barrel, sewing machine, tractor etc.) and if so, how many. Respondents were also asked to estimate the current value of the asset by considering the price they would charge if they were to sell the asset at the time of the interview."

MkNelly, Barbara and Christopher Dunford. 1998. *Impact of* Credit with Education *on Mothers and Their Young Children's Nutrition: Lower Pra Rural Bank* Credit with Education *Program in Ghana*. Freedom from Hunger Research Paper No. 4, Freedom from Hunger, Davis, CA.

All respondents in the study had their assets valued, and this dollar value was used to establish a relative wealth ranking. 25% of the baseline households were classified as being in the poorest wealth quartile—the dollar value of their assets was less than $1.40.

"To limit the effect of the considerable variability in this measure of wealth, **the dollar value of assets was used to establish a relative wealth ranking**. Based on the distribution of the asset values, cutoff points were determined so that households could be classified as to whether they fell in the **poorest, poor to middle, middle to upper, or highest income quartile**. For example, 25% of the baseline households wee classified as being in the poorest wealth quartile and assigned a "1"—the total dollar value of their assets was less than $1.40—whereas another 25% were classified as being in the wealthiest quartile and assigned a "4"—the total value of their assets was greater than $121.86." (p. 14)

Navajas, Sergio. Mark Schreiner, Richard L. Meyer, Claudio Gonzalez-Vega, and Jorge Rodriguez-Meza. 2000. *Microcredit and the Poorest of the Poor: Theory and Evidence From Bolivia.* World Development. 28 (2)

Authors analyze the depth of outreach for 5 microfinance organizations in Bolivia. Level of poverty categorized using the 1992 national poverty assessment. The poverty line was set—below this were *poor* and the rest were *non-poor*; the poor were sub-classified as *moderate or poorest*.

Nelson, Candace. Barbara MkNelly, Kathleen Stack and Lawrence Yanovitch. 1996. *Village Banking: The State of the Practice*. UNIFEM. New York.

Nelson does not give specific definitions except to state that Village Banking focuses on "offering services to the self-employed who did not qualify for commercial credit but who did have established businesses and some assets…Gradually, the programmes evolved to serve more disadvantaged entrepreneurs." (p. 5)

To some extent, loan size is used as a proxy for poverty level.

Panjaitan-Drioadisuryo. D. M. Rosintan and Kathleen Cloud. 1999. *Gender, Self-Employment and Microcredit Programs: An Indonesian Case Study*. Quarterly Review of Economics & Finance. 39

Conclusions are based on the results of a study that was conducted on the island of Lombok (Indonesia). **Credit was given to women whose families were under the poverty line (then equivalent to $96 per capita per year)**. **Their land holdings ranged up to three hectares (7.5 acres) but almost 50% of both groups (control and sample) owned no land**.

Pitt, Mark M., Shahidur R. Khandker, Omar Haider Chowdhury and Daniel Millimet. *Credit Programs for the Poor and the Health Status of Children in Rural Bangladesh.* International Economic Review, forthcoming.

Pitt, Mark M. and Shahidur R. Khandker. 1996. *Household and Intrahousehold Impact of the Grameen Bank and Similar Targeted Credit Programs in Bangladesh*. World Bank Discussion Papers 320. Washington, DC.

These studies (Pitt forthcoming, 1996; Khandker 2001, 1998) deal with data from 3 microcredit programs in Bangladesh (BRAC, Grameen Bank and BRDB Rural Development RD-12) that work exclusively with the rural poor, usually women. "Although the sequence of delivery and the provision of inputs vary some from program to program, all three programs essentially offer production credit to the **landless rural poor (defined as those who own less than half an acre of land**). (Pitt further clarifies this in a further paper[ii] as less than one half acre of **cultivable** land and says, "the difference between total land ownership and cultivable land ownership is primarily homestead land.")

Remenyi, Joe and Quinones, Benjamin. 2000. *Microfinance and Poverty Alleviation: Case studies from Asia and the Pacific*. New York. 79. p. 131-134, 253-263.

Remenyi defines the p**oorest of the poor (absolute poor)** as those whose monthly income is US $9.47 and below and the **poor (moderate and upper)** as those whose monthly income is in excess of US $9.47.

This definition is based on a specific case study particular to Sri Lanka and not a general (worldwide) definition of the poorest. In a 1995 poverty alleviation programme known as the Samurdhi Programme (SP), the Sri Lankan government defined the poorest of the poor as those earning only Rp500 (US$9.47) and thus qualified for cash handouts (subsidies) of RP1,000 each per month to bring them near or up to the poverty line (no specific definition is given for poverty line). Those in excess of RP500 (US$9.47)--defined as moderate and upper poor received a monthly subsidy of RP500 (US$9.47) under the SP programme (see Remenyi 2000:133-134 for further details). The goal of the subsidy (SP programme) was to increase the disposable income of the poorest of the poor and the poor.

Simanowitz, Anton. Ben Nkuna, and Sukor Kasim with inputs from Robert Gailey, John Hatch and Laura Frederick. June 1999. Updated June 2000. *Overcoming the Obstacles of Identifying the Poorest Families: Using Participatory Wealth Ranking (PWR), The CASHPOR House Index (CHI), and Other Measurements to Identify and Encourage the Participation of the Poorest Families, Especially the Women of Those Families.*

The **poorest** are defined as those living in the bottom fifty per cent of the people living below a country's poverty line. The **poor** are those living below the poverty line.

Todd, Helen. 1996. Women at the Center. Westview Press Inc. Colorado.

Using a per capita income that would support **minimum daily intake of 1800 calories to establish a poverty line**, Todd ranked her 40 Grameen Bank women and 22 control women. 57.5% of the Grameen women and only 18.2% of the control group were ranked as 'Not Poor—i.e. incomes that allowed them a

[ii] Pitt, Mark M. 1999. *Reply to Jonathan Morduch's 'Does Microfinance Really Help the Poor? New Evidence from Flagship Programs in Bangladesh'*. Department of Economics. Brown University.

minimum daily intake of 1800 calories or more. For those living below this poverty line, Todd has 2 categories—Moderately Poor and Extremely Poor, but she does not say specifically what income level is the differentiation point.

UNICEF. 1997. *Give Us Credit*. Division of Evaluation, Policy and Planning.

The paper does not give specific definitions for levels of poverty, but does mention loan size and tracks annual per capita income (as being below a specified value, but does not say how this value is arrived at) for a number of cited programmes.

van de Ruit, Catherine. Julian May and Benjamin Roberts. April 2001. *A Poverty Assessment of the Small Enterprise Foundation on Behalf of the Consultative Group to Assist the Poorest*. University of Natal.

The clients in the poverty targeted programme are overwhelmingly situated in the poorest category, while the majority of clients in the non poverty targeted scheme are found in the least poor category. The majority of TCP clients (52 %) are located in the poorest category, as opposed to 9% in the least poor category.

The TCP poverty profiles indicate that SEF is reaching the poorest people and point to the success of the targeting mechanism (Participatory Wealth Ranking) in encouraging poorer people to join the programme.

The poverty scores derived from the participatory wealth ranking were compared with the CGAP instrument. Three quarters of those defined as poor by the poverty assessment were also defined as poor by the PWR.

Versluysen, Eugene. 1999. *Defying the Odds: Banking for the Poor*. Kumarian Press. Connecticut. p. 41-44, 224-227.

Versluysen defines the poor as those earning US $1 and below per day.

Yunus, Muhammad. November 1999. *The Grameen Bank*. Scientific American. 281(5) p. 114-119

In this article, Yunus provides two graphs which provide a basis for his definition of poverty. The first shows those in the **extreme poverty category to be in the bottom 10% of Grameen clients, and the second shows that moderate poverty is defined as those in the bottom 60% of clients**.

As is stated above, the initial criteria for Grameen membership is one of owning less than one half acre of cultivable land.

Zaman, Hassan. 2000. *Assessing the Poverty and Vulnerability Impact of Micro-Credit in Bangladesh: A case study of BRAC*. World Bank.

Zaman examines the extent to which micro-credit reduces poverty and vulnerability through a case study of BRAC, one of the largest providers of micro-credit to the poor in Bangladesh.

"BRAC's official 'targeting' criteria are **households who have less than 0.5 acres (50 decimals) of land** and whose main occupation is manual labour."

For his analysis of the data, Zaman discusses **the ultra-poor (proxied as those with less than ten decimals of land) and the moderate-poor households (porxied as BRAC members with greater than ten decimals of land).** (p. 10)

Zaman goes on to discuss the some other 'definitions' and how they apply to the BRAC group of clients. "In practice, the land criterion is the one that is more closely adhered to in the field. Several studies show that between **15-30% of** BRAC members are from 'non-target' households measured in terms of land (Khandker 1998, Husain 1998, Zaman 1998). However these households are typically **marginal farmers** and can be considered part of the '**vulnerable non-poor' group, prone to transient bouts of poverty** (Zaman 1998). On the other hand there is also evidence that there are a large proportion of **extremely-poor households** in BRAC groups (Khandker 1998, Husain 1998, Zaman 1998). For instance, in Khandker's sample 65% of BRAC households had **no agricultural land** compared to 55% for Grameen members and 58% for a comparable Government-run microcredit program. Moreover non-land **indicators of extreme poverty (number of income earners, illiteracy, female headedness, disabled household head**) also point to the fact that BRAC targets a significant number of extremely poor households (Halder and Husain 1999)." (p. 2)