Chapter 2

MFI: A strategic tool for Achieving MDGs

MFI: A strategic tool

The Millennium Development Goals can be met by 2015—but only if all involved break with business as usual and dramatically accelerate and scale up action now. Instead of business as usual, what is required is a revolution in the way we fight poverty.

UN Secretary General Kofi Annan

Grameen Bank Managing Director Muhammad Yunus gave an example of the revolutionary action required when he was asked about his strategy for creating the Grameen Bank. “I didn’t have a strategy,” Professor Yunus replied, “I just kept doing what was next. But when I look back, my strategy was, whatever banks did, I did the opposite. If banks lent to the rich, I lent to the poor. If banks lent to men, I lent to women. If banks made large loans, I made small ones. If banks required collateral, my loans were collateral free. If banks required a lot of paperwork, my loans were illiterate friendly. If you had to go to the bank, my bank went to the village. Yes, that was my strategy. Whatever banks did, I did the opposite.”

The main aim of microfinance is to provide financial products and services to the very poor, once again denying them tools they need for a dignified route out of poverty. Microfinance is about providing financial services to the poor who are traditionally not served by the conventional financial institutions. Three features distinguish microfinance from other formal financial products. These are: (i) the smallness of loans advanced and or savings collected, (ii) the absence of asset-based collateral, and (iii) simplicity of operations.
Microfinance has apparently caught the imagination of many in the development community. Some observers see micro credit as a community building tool that can empower disadvantaged individuals; some see it as a poverty eradication weapon that can “transition” individuals from welfare to work; and yet others see it as a vehicle for job creation and economic development (Morduch, 1998).

2.1 MFI: As an economic tool for reducing income inequality

Robust economic growth cannot be achieved without putting in place well focused programmes to reduce poverty through empowering the people by increasing their access to factors of production, especially credit. The latent capacity of the poor for entrepreneurship would be significantly enhanced through the provision of microfinance services to enable them engage in economic activities and be more self-reliant; increase employment opportunities, enhance household income, and create wealth.

As per the HDR 2003, Economic growth alone is not enough. Growth can be ruthless or it can be poverty reducing – depending upon pattern, on structural aspects of the economy and on public policies. Poverty has increased even in some countries that have overall economic growth and over the past two decades income inequality worsened in 33 of 66 developing countries. All countries – especially those doing well on average but with entrenched pockets of poverty – should implement policies that strengthen the links between economic policies and poverty reduction.

The need for such policies could not be higher for any country than India, which presents picture of contradictions. Where on hand it is on the verge of becoming the largest supplier of technical manpower and on the other hand is likely to fall short of meeting its goal of reducing the gender disparity in primary education even by the year 2015 (UNESCO report). While on one hand it is the fastest growing economy
in the region, but on the other hand it still has alarming rates of unemployment and under employment.

From the macroeconomic point of view, micro finance is useful for channeling and generating credit for poor people. Micro-finance as a development initiative has been justified on the grounds that it is beneficial to both micro-finance institutions as well as clients. Since the poor can be banked upon to return loans on time, it is believed that micro-finance and profits are not antithetical to each other. In fact this intervention is being hailed as the one method that will address both development and promote market behavior. On the part of the clients, it is believed that it is possible for micro-finance institutions to instill trust in the poor to give up their savings and to avail of micro-credit so that they can pull themselves out of the poverty trap.

Viewing at micro level, access to credit – Micro finance- both micro credit and micro savings- provide poor people with a way to procure and build up assets it encourages borrowers to invest in productive activities and savers to amass assets and earn interest. According to some estimates, 5 % of micro finance programme participants could lift their families out of poverty each year.

While it is well accepted providing access to a basic level of financial services significantly improves the ability of people to participate in the economy. More broadly and fundamentally, it is believed that a healthy and competitive financial sector capable of allocating resources efficiently based primarily upon risk/return criteria is a vital element of country’s economic health

“Microfinance as a development initiative has been justified on the ground that it is helpful for both the MFI Clients as well as institutions”. It is reasoned that by giving credit to the clients, you are not just promoting development, but also

1 Database Issues: Women’s Access to Credit and Rural Micro-finance in India by Dr. Joy Deshmukh-Ranadive
promoting savings by clients and also improving his marketing capacity and behavior.

It remains an important policy instrument for large-scale poverty reduction. Its success depends on the scheme; participating community and the support from the donors, the local government and the administrating agency. Scaling up depends on the macroeconomic stability on the health coverage and the efficacy of the financial sector and on the government's ability to reach the poor people on a national scale.

Economic research supports the broad view that access to deep and efficient financial sector services contributes importantly to economic growth. Poor people can particularly benefit from these services, such as loans, savings deposits, insurance and payment systems. Anecdotal evidence suggests that financial services are reaching more poor people and that, as a result, wealth increases not only for the recipients, but their communities as well. Hard data, however, on who receive what types of services and how effective these services are, and the funding sources of these services, remain scarce and at times even unhelpful: estimates of worldwide microfinance clients range from 70 million to 750 million. We need better data to understand how microfinance can reach its potential and effectively contribute to human development.

Private sector providers of microfinance need this information to channel their investments. Policy-makers and regulators, both at the national level and in bilateral and multilateral donor agencies, need to know whether and to what extent the poor have access financial services in order to measure the effectiveness of their own activities, and understand what changes, in regulation or structural reform, are needed. The convergence of information needs between public and private interests has motivated a number of institutions to consider how best to move forward. The World Bank and the International Monetary Fund (IMF) has increased their attention to microfinance in their Financial Sector Assessment processes. The UK Department for International Development (DFID) has made progress in collecting on access to finance in South Africa.

In October 2004, the United Nations Capital Development Fund (UNCDF), the World Bank and the IMF brought together top economists and statisticians to figure out how to get better data. West Africa shows what can be achieved in this way. Since 1993 the Central Bank of West Africa collected detailed statistics on institutions that offer microfinance in seven West African countries. As a result, it knows that the number of institutions that provided microfinance from 1994 to 2004 increased six fold and that the number of service points increased from 1,000 to 3,000 outlets. Furthermore, it knows that these services reach more than 12% of the economically active population of West Africa and that a 13-fold increase occurred in the value of deposits since 1994. There also some evidence that the areas where
Microfinance has grown have seen particularly strong economic growth—an encouraging sign, though the impact of microfinance will clearly need to be further analyzed.

The International Year of Microcredit 2005 provided a unique opportunity to understand and address the dearth of critical information on the access of poor and low-income people to inclusive financial services, and to determine how these services can be effectively provided in the future.


The micro-credit clients of are typically unemployed youth, marginalized women, who fail to fulfill the “eligibility conditions” of most of the “normal credit schemes”. They can be illiterate housewife, home-based micro enterprises employing one to five persons, including unpaid family members and a few paid staff. Their capital requirements for start-up and enterprise expansion are small. The bulk of their assets are working capital, which turns over quickly, yielding returns on investments, which can just about sustain their livelihood. Under the compulsions of local competition, they just end up feeding to the buyers market rather than have their own bargain in the pricing. Dependent on the minimal capital, they are forced to buy from the local market and also sell nearby to minimize the overheads. Thus maintaining economy of scale in production and finding regular markets is their major challenge.

2.2 MFI: A strategic tool for poverty alleviation

Microfinance stands as one of the most promising and cost-effective tools in the fight against global poverty....First, there is clear evidence that microfinance can work for the very poor. Many among the very poor actively seek better ways to borrow, save, and purchase insurance—but find themselves too often rebuffed by state banks or traditional commercial institutions. Not all would make reliable customers, but microfinance practitioners have demonstrated that it is possible to serve large numbers of the very poor.

—Jonathan Morduch, Chair, United Nations Expert Group on Poverty Statistics, September 2005

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Microfinance (mF) has become, in recent years, a fulcrum for development initiatives for the poor, particularly in the Third World countries. It has been practiced in varying forms in different countries and has come to be regarded as an important tool for poverty alleviation. It does sometimes take the form of thin line between survival and getting doomed to poverty. Although mF could possibly include a range of financial services targeted to the poor, in common parlance, however, micro-credit and mF are often used interchangeably with emphasis on provision of credit to the poor.

It has proven an effective and popular measure in the ongoing struggle against poverty, enabling those without access to lending institutions to borrow at bank rates, and start small business.

‘Microcredit is not the goal, but the means — The goal is to end poverty!”

Anne Hastings, Director of Fonkoze in Haiti

Expanding the access of poor people to credit is considered critical instrument to take them out of the vicious circle. Poor people cannot on their own tackle the vicious circle of poverty and structural constraints that keep them in trap. According to Human Development report 2003, a lack of sustained poverty reducing growth has been a major obstacle to reducing poverty. Every country should (Especially the top and high priority ones) needs to systematically diagnose what it will take to achieve the goals.

The efforts of Poverty reduction refer to a situation where specific manifestations of poverty are systematically reduced, resulting in a change in conditions in both the short-term and long-term. Eliminating poverty requires a massive paradigm shift in thinking about and acting toward the poor where civil organizations perceive them as assets not problems, as people eager to improve their lives if access and opportunities are provided and longstanding constraints are lifted.
As per HDR 2003, the public policies that can strengthen the links growth and poverty reduction are

- Increasing the level, efficiency and equity of investments in basic health, education and water and sanitation.

- Expanding poor people’s access to land, credit, skills and other economic assets.

- Increasing small farmer’s productivity and diversification.

- Promoting labour-intensive industrial growth involving small and medium size enterprises.

Microfinance, while not a panacea, is still the best tool we have to reduce poverty among the very poor. Perhaps the most compelling data on the impact of micro credit to date can be found in two important documents published in 2005. One is Shahidur Khandker’s in-depth study of three Bangladeshi MFIs: BRAC, Grameen Bank, and RD-12, the latter a government Program. The additional findings are in the United Nations Development Program’s Human Development Report 2005.

- Moderate poverty in all villages declined by 17 percentage points, 18 points in program areas and 13 percentage points in non-program areas.

- Poverty declined by greater than 20 percent for program participants who had been members since 1991/92, which is about three percentage points per year. Greater than half of this reduction is directly attributable to microfinance.

- The impact was greater on extreme poverty than moderate poverty.

- Spillover effects among non-participants due to growing economic activity: Microfinance reduced poverty among this group by some 1.0 percentage points annually for moderate poverty and 1.3 percent annually for extreme poverty.

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Based on his data, Khandker concluded that microfinance accounted for 40 percent of the entire reduction of moderate poverty in rural Bangladesh.

Another evidence for Microfinance's Impacts on Poverty: 

Microfinance clients manage their cash flows and apply them to whatever household priority they judge most important for their own welfare. Thus microfinance is an especially participatory and non-paternalistic development input. Access to flexible, convenient, and affordable financial services empowers and equips the poor to make their own choices and build their way out of poverty in a sustained and self-determined way.

The body of evidence for microfinance's impact on poverty has grown to such a level that the answer to the question, "Does microfinance really work as a poverty alleviation mechanism for the poor?" is a definitive "Yes," provided the services target the poor and the institution is well-run. While neutral and even negative findings can be teased out of any individual study, the totality of evidence identifies microfinance as a critical strategy for poverty reduction. Some of the most notable evidence for microfinance's impact on poverty includes the following findings:

• After a two-year period, participants in three Ugandan microfinance programs showed an increase in both assets and savings compared to a non-participant group, and reported greater profits from their microbusinesses (Barnes 2001).

• An evaluation in India discovered that three-fourths of members who participated for longer periods experienced marked improvements in their economic status (Todd 2001).

• A study of Grameen Bank clients in Bangladesh found that after eight to ten years in the program, 57.5 percent of participant households were no longer poor (Todd 1996).
In Indian context an evidence paper examining evidence from a programme (based on the Grameen model) in Mahabubnagar, a drought prone area in South India says that MFI has been successful in reaching the poorest (defined as those 50% below the poverty line) - however it has been less successful in improving the lives of the poorest women. Most loanee households do better but the poorest women do a lot worse on empowerment indicators. Because these women part with their loan money for the larger good of the household, but in the process lose control over it and badly damage their ability to repay loans. Targeting poor women does help their households but if improving the welfare of the women is a concern then supplementary steps need to be taken. Also if women and their households are to be lifted out of poverty then typical loan amounts have to be increased dramatically.

Another study in Indian context shows that microfinance can directly improve access by the poor to finance that supports productive activities and asset development. Micro-credit has enabled client households (all wealth ranks, including the poor and very poor) to invest in productive assets and to diversify their livelihoods. Sixty percent of households who acquired a productive asset have reported income increase. On other (non-income) dimensions, client households have been able to build financial capital (savings), physical capital (household assets and improved housing – though the difference between client and non-clients here is not so large) and human capital in terms of sending children to primary school (but no increase seen in girls’ attendance or in education at secondary levels and above). Finally it concludes that as a financial service, micro-credit has served to reduce dependency on moneylenders, reducing the average interest burden. On practically all indicators, a comparison with non-clients shows especially significant effects for poorer households.

4 (Anita Simmons and, Impact Social performance, poverty and organizational learning; institutionalizing impact in microfinance)
3 EDA Rural system for SIDBI foundation to gather baseline data
However acknowledging clear effects of microfinance, it questions whether they are sufficient to move households out of poverty. Deeper analysis of cross-sectional analysis of the baseline data (by levels of involvement in microfinance) suggests through case-study evidence movement of client households into less poor wealth rank categories in four MFIs, with a possible shift out of poverty (to non-poor) for around 20% of the sample in these MFIs. Nevertheless, even in these four MFIs, 30% of high involvement clients are below the local poverty line (including 12% very poor). Across the entire sample, one third of high involvement clients are still poor. Involvement in microfinance therefore may reduce poverty for some clients, but not for all, the greatest challenge remaining to reduce the poverty of the poorest.

Even in the face of clear findings some people like to debate about imprecise definitions and lack of clarity on which poverty groups are being discussed. Initially the argument centered on the perceived requirement that only the “economically active poor” be targeted because they were the only group who could use a loan successfully. The phrase “economically active poor” was meant to refer, for example, to clients who at least had a stall in a market. It was also meant to exclude the very poor. The economically active poor argument always seemed weak given that virtually all people in very poor countries are, of necessity, economically active in one way or another. Even begging is an economic activity.

2.3 MFI: A tool for gender equality & women empowerment

"Give a man a fish, he’ll eat for a day. Teach a man to fish, he’ll eat for a lifetime?" It’s missing something: microfinance is the fishing rod, the boat, the net, etc. Cash and dignity, side by side. . . Maybe the mantra should be: “Give a man a fish, he’ll eat for a day. Give a woman microcredit, she, her husband, her children and her extended family will eat for a lifetime.”

Bono, lead singer, U2
The above statement clearly says it all. The gender dimension of micro-finance is based on the understanding that the entire household benefits when the loans are given to women. Further, it is argued that it has been found that besides food, credit is also needed for health, housing and education. These needs are also critical to survival. (Stern and Stern, n.d.; Zeller, 2000).

Microfinance as a development initiative has been justified on the ground that it is instrumental both as poverty alleviation strategy as well as gender balancing tool. Reducing the gender discrepancies is most desirable outcomes that distinguish it from all other poverty alleviation approaches.  

It is now more or less generally accepted that poverty affects men and women differently, and that men and women can play equally important, if sometimes substantially different, roles in alleviating poverty. Gender equality and the empowerment of women are thus increasingly recognized as essential conditions for the reduction of poverty.

Macroeconomic policies, for instance, rarely take the specific situations of women into account or do so superficially years, resulting in detrimental effects on the lives of women. Macro-economic policies, including trade liberalization and the commercialization of welfare and social services, often do not take gender

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6 Database issues: women’s access to credit and rural microfinance in India- by Dr. Joy Deshmukh – Ramalive
perspectives into account, systematically underestimating the important nexus between women's poverty at the micro-level and national anti-poverty policies at the macro-economic level.

Unless women's capabilities are improved and gender equality increased, the other Millennium development goals will not be achieved. Strengthening women's voice and agency is essential to enhancing their capabilities and strengthening their capabilities is essential to enhancing their agency and voice. [Human Development Report, 2003]

"Nearly 340 million women are not expected to survive to age 40." An intergenerational transfer of poverty along gender lines ensures that girls born into poverty become women who will remain in poverty. Gender bias and the low priority on young women in existing poverty alleviation programs further restrict the abilities and opportunities of young women to improve their lives. Experience has shown that microcredit can empower women and change lives. The success of Grameen Bank, Sewa Bank, and many other micro credit programmes in other countries, has proved that micro credit is an indispensable tool for not only poverty alleviation but also to reduce the gender based discrepancies. Enabling them to control assets make economic decisions and assume control of their lives results in other desirable outcomes which contribute to the achievement of social goals rather than mere economic betterment of the family.

Human development report 2005 quote with regard to Bangladesh that “one of the four strategies that have contributed to Bangladesh’s human development take-off is “Virtuous cycles and female agency”, which ensures Improved access to health and education for women, allied with expanded opportunities for employment and access to micro credit, has expanded choice and empowered women. While gender disparities still exist, women have become increasingly powerful catalysts for development, demanding greater control over fertility and birth spacing, education for their daughters and access to services
"Women have plans for themselves, for their children, about their home, the meals. They have a Vision. A man wants to enjoy himself."

The Grameen idea spread all over the world. Independent studies of microcredit programmes show that providing easy and affordable access to credit and other financial services to poor families can have a host of positive impacts on their livelihoods. A large number of impact studies done on the Grameen Bank have shown a significant impact on the lives of its members across wide range of economic and social indicators, including moving out of poverty, improved nutrition, better housing and sanitation, lower birth rate, lower child mortality, better access to education for the children, greater empowerment of women, and increased participation of women in social and political activities. Prof Mohammad Yunus, Bangladesh

Monitoring indicates an increasingly higher level of control over expenditure at both the household and community levels and female clients showed self-confidence in dealing with their businesses, and banking system, diversified and new women businesses, higher degree of mobility and better social interaction among women from different ethnic groups. The main lesson learned from the experience is that microfinance is a necessary condition (but not enough) for women empowerment and hence it is an appropriate tool towards gender equality.

ACORD experience in Sudan suggests very strongly that MF still (and will continue to) holds a pivotal position in helping women to bridge the gender gap. MF institutions and scholars must seriously consider the numerous disadvantages of advocating for

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7 - Grameen Bank's Md. Yunus to a US Congressional Forum on why 94% of his loans go to women.
8 - (Asha Elkarib, Senior Programme Manager, ACORD, Sudan Is Microfinance Working for Women? ACORD Experience in Sudan)
MF in isolation from other development packages such as gender sensitization and institutional/organizational capacity building. MF is to be geared towards addressing strategic women issues rather than the mere notion of economic empowerment and improvement of income or income generation.

Direct observation of microfinance clients tells us that increased self-confidence, especially among the poorest women, is one of the first changes to take place. The ability to borrow and repay a loan and build savings is no doubt an empowering experience for poor women. Coupled with the mutual support and collective courage offered through the group dynamic, women are empowered to participate in family and community decisions, and are more able to overcome obstacles of inequality. Among the real and potential clients of micro-finance, women are seen as the most reliable in terms of repayment and utilization of loans.

Most studies examining women's empowerment focus on women's decision-making power in various realms of their lives as a reflection of levels of empowerment. A study in Bangladesh found that Grameen Bank members were 7.5 times more likely than the comparison group to be empowered, and BRAC members were 4.5 times more likely to be empowered—and the level of empowerment increased with the duration of membership (Hashemi 1996). In Nepal, an evaluation found that 68 percent of microfinance participants in the Women's Empowerment health have shown that families accessing microfinance have better health practices and better nutrition and are less sick than comparison families.

In India NABARD which has steered the rapid growth of SHG-bank linkage into the largest microfinance initiative in the world in terms of its outreach felt the need to closely look at the different critical issues related to it and thus got various studies done. The studies\(^9\) cover the overall programme and its impact, document the

\(^9\) NABARD In working paper MFI and SHG Linkages
different steps taken so far, and evaluate the need and scope for fresh initiatives. The major findings of comparison between old groups and new groups are:

- **Power over Economic Resources**—more women are earning members in their households.

- **Ownership of House** Though the ownership of house—many of which may be ancestral homes handed down from generation to generation—may not change much as a result of SHG membership of a woman, it should be pointed out that the percentage of those owning the house or having a share in its ownership is higher in the older SHGs.

- **Basic banking operations** An important indicator of being practically empowered is whether the SHG member is sufficiently aware of the basic banking operations and can handle her savings account on her own. As for the awareness of the core purpose of a bank, on almost every point, more Old Group members are aware. They themselves operate their accounts frequently.

- **Power over her Own Development**—more respondents in the older groups have said that their control over their own lives has improved and they have a greater role in making decisions about themselves than before.

- **Power over local polity**—The study tried to measure the change in the role of the women members who till now have been at the fringes of the society—in the events and decisions that affect the lives of all the villagers, including their own. The findings show that the situation is largely the same as ever. Only 10% and 16% members in these categories respectively say that they (get to) participate more than before in the local polity.
The Other side of picture

On the other side of the gender aspect there are debates that women are being addressed only due to the empowering intention but because they are easy to organize, easy to be made to fall in line and thus less likely to be defaulters.

Why Are Microfinance Services Offered Primarily to Women?

- Women are a better credit risk than men.
- Women benefit from creation of a social network and increased level of empowerment, in addition to economic benefits.
- The group structure offers a source of mutual support and collective courage otherwise nonexistent for most women accessing microfinance services.
- Income directly and positively affects the health of family members when controlled by women and earned in small and regular amounts.

A detailed research in this context hypothesizing that microfinance contributes to women's empowerment at individual, household and community levels explores women's empowerment largely through indicators identified by women clients (through FGDs), and using data for women clients and their households. (Data on indicators of women's empowerment in households of men clients shows little change).

It states the following observations:

1. Nevertheless, MFI practice in general does not reflect a drive towards empowerment of women in the fullest sense of 'empowerment': enhancing women's capabilities and altering fundamental gender relations. Even those MFIs who explicitly target women may do so because it is easier to organize them, increase programme outreach and impose discipline theirs is a more neutral or instrumental approach. The SHG model – which promotes more
responsibility within women's groups - shows more scope for support to developing women's opportunities and skills.

2. There are differences between the north and the other regions of the country. The scope for women's empowerment and economic activity is conditioned significantly by the local context – both socio-cultural factors and livelihood opportunities. These tend to be less restrictive for women in the south than in the other regions, as seen in differences in economic activity. They are also less restrictive in urban areas.

3. At individual level, on basic financial aspects (the neutral approach) it is clear that targeting women as clients of microfinance has provided for many women (including women heads of households) an option to save and access credit for the first time. However, basic awareness of microfinance related issues (products and terms, banking procedures) appears to be limited, particularly for very poor women. Women like to be part of a group. They draw moral support from their peers and develop a sense of confidence from interaction at group meetings. The group mechanism thus contributes to women's options, mobility and skill development, though this contribution is strongest for group leaders, and in the SHG model.

4. At the household level, involvement in microfinance is contributing to women's recognized ownership of assets (mainly for productive assets, to some extent for housing); women are involved in the management of enterprises for which they obtain micro-credit, especially in the southern sample though typically in activities that are micro-scale, require low investment and are home-based (animal husbandry, petty trading). A number of enterprises depend on 'joint management' with the common pattern being that men negotiate the more public markets and handle major cash transactions (for example purchasing a milch animal, buying stocks from...
wholesale markets). There are also cases of 'loan pass': 27% of supported enterprises in the southern sample, over half of the northern sample. In such cases, women are pleased to be contributing to household income. What is less important here is that who manages an enterprise activity, but more important is that it generates additional income for the household. Gender roles remain the same, nevertheless, with women continuing to be dependent on their husbands for money for repayments and savings deposits.

5. On subjective aspects related to a woman's 'status' in the household, the qualitative information gathered through case studies and FGDs suggests that many women clients have a sense of self-worth that arises from an enhanced ability to earn, to save and to contribute to the welfare of the household. The picture though is mixed. It seems most positive in clients of mature SHG groups in the South, and especially for group leaders. And in Grameen clients (South and North-East) who have been able to use credit to enhance their economic activity.

For these women, access to micro-credit has helped them to a sense of financial responsibility, sometimes even autonomy; and discussions during group meetings have given them an increased awareness about financial matters and opportunities (though this maybe not as increased as it should be). But the path to enhanced status is not clear-cut or uniform. Other women clients (in the North, but in the South too) say that they do not perceive any change in their role in decision-making. Men continue to take all decisions; including those regarding financial matters and women may or may not be consulted on other household decisions.

6. The barriers that women face when they have to make a living for themselves. Women are disadvantaged by lack of exposure to the world of business and enterprise, and assumptions about what women can do and
where. In such situations, credit may be available but credit alone is not a solution.

7. **At community level**, the study found just a few examples of group based action in the community (one in the urban south – for cementing a road, one in the rural north – an unsuccessful attempt to stop liquor sales in the village). We found no instances of women clients getting involved in wider community forums (such as *panchayati raj*). New initiatives are however opening up new responsibilities for women at an institutional level – in SHG Federations (SHG model) and in Mutual Benefit Trusts (at a very preliminary stage in some Grameen MFIs).

**2.4 MFI: A tool for Integrated social development**

One thing, the Microcredit Campaign and many of the microfinance practitioners it supports worldwide, have learned is that microfinance is an incomplete solution for many poor people and that its impact can be magnified if used in combination with complimentary strategies.

The Microcredit Summit Campaign’s work on integrating microfinance with health education case in point. If a family raises its daily income from $0.50 to $1.50 through micro-credit, its members might still be no more knowledgeable about basic health topics and other life skills such as the importance of vaccinating children against preventable diseases or learning how to prevent HIV/AIDS. This lack of knowledge and the resulting illnesses can swiftly undo the improvement in a family’s economic situation. Economic well-being cannot be separated from health; indeed, the two are intimately linked.
But just as health providers see the need for micro credit, some micro credit providers find that their clients' greatest barrier to leaving poverty is poor health and the money spent on medical treatment—treatment that is sometimes competent and sometimes not.

Most microfinance programs already offer some combination of services to their clients, including savings, training, networking, and peer support. Microfinance programs can become powerful vehicles for other desirable social developments. Linking financial services with health education can improve the well being of clients and their families, increase their productivity, and reduce dropout rates, all in a sustainable manner.

The Human Development Report 2005\(^6\) presents four strategies directly contributing to Bangladesh's advances, including "expanded opportunities for employment and access to Micro credit." Despite the impressive impacts of microfinance services on poverty, health, and empowerment, the development community realizes other services and strategies—besides credit—must be made available to create a web of support to help families lift themselves out of poverty. Two organizations in Bolivia, CRECER and Pro Mujer, are already successfully combining microfinance services with reproductive health education, while also reaching large numbers of poor clients and achieving financial self-sufficiency.

UNFPA (United Fund for Population activities) which has a vision to make every pregnancy safe and invests a lot in reducing maternal mortality has drawn a specific advocacy document which calls on development agencies, governments, microfinance institutions (MFIs), and donors to help realize the goal of health and equal opportunity for all by investing in strategies with proven impact on the problem of global poverty and poor health. It advocates and proposes specific

\(^6\) Human Development Report Available at www.human-development.org
strategy of combining of microfinance and reproductive health education thereby
acknowledging the intimate relationship between poverty and poor health, and has
proven impacts for very large numbers of the poor and very poor.

Many believe that microfinance could maximize its potential by integrating other
complementary services within the infrastructure of the financial services. While
others have taken the integration of microfinance and health education to profound
levels within their own institutions, the U.S.-based non-governmental organization
Freedom from Hunger has for years been leading the charge globally and, as a result,
microfinance programs in many regions have successfully offered basic health
information to clients along with financial services. It strongly believes that “If
reproductive health education were to be integrated on a massive scale with micro­
finance services for the very poor worldwide, then the true potential of microfinance
to empower women and offer a dignified route out of poverty could be realized.”

When microfinance is coupled with health education, the impacts are greatly
enhanced. Freedom from Hunger’s evaluation in Ghana and Bolivia found that in
both countries programme participants had better health knowledge and practices in
the areas of breastfeeding, diarrhea treatment, and immunization as a result of
education on these topics provided by the microfinance program (McNelly
and Dunford 1998 and 1999). And, in Ghana, participants’ children had better
nutritional status than non-participants’ children. After receiving health education,
clients of FOCCAS in Uganda had better health care practices than non-clients, and
32 percent of clients had tried at least one HIV/AIDS prevention practice, compared
to 18 percent of non-clients (Barnes 2001).

The HDR 2005 compares Bangladesh’s successes in human development to India, a
country with much higher income and economic growth than Bangladesh, but lesser
progress toward human development goals. It declares that, “Had India matched
Bangladesh’s rate of reduction in child mortality over the past decade, 732,000 fewer
children would die this year.” Microfinance is a Vehicle for Improving Reproductive Health, Preventing HIV and Increasing Women’s Empowerment.

Microcredit institutions increasingly recognize their dependence on the health of their clients and their clients’ families. Many acknowledge the challenging circumstances for clients playing the triple roles of wife, mother and businesswoman. Local public health officials confirm that much of the risk to clients and microcredit institutions alike could be greatly reduced with the use of effective family planning methods. In some countries, the HIV/AIDS epidemic is so severe that it threatens microcredit institutions through reduced loan portfolio growth, decreased client retention, increased portfolio delinquency and increased draw-down from savings deposits, as well as death of experienced staff or the burdens on them of caring for dying relatives.11

The integration of reproductive health education and microfinance services takes into consideration that the poor, especially the poorest, are unlikely to access reproductive health education and services without the incentive of immediate benefit, which the offer of affordable credit can provide. The prospect of getting a loan can draw people to a program that offers them additional services. Certain features of group-based microfinance programs make them ideal for integration of reproductive health education:

- Group-based microfinance brings poor women together on a regular basis over periods of months and years to repay loans and deposit savings. These meetings are also opportunities to provide reproductive health education (and other health topics) over extended periods.
- MFI can be provided to mothers and also younger and older women who would not normally be reached by reproductive health education.
- Increased income and assets due to microfinance should enable women clients to put what they learn from reproductive health education into

11 Pathways Out of Poverty, 2002
practice, and to increase their consumption of primary health services and contraceptives.

- Microfinance services empower women, enhance their roles as decision-makers within the family, and pave the way for behavior change.
- Microfinance programs often achieve financial self-sufficiency through interest paid on loans.

They can generate sufficient income to sustain not only the financial services but also additional reproductive health education services offered by the same staff. Much of the cost of education is in bringing sufficient numbers of people together with an educator at set times and places, which is already achieved by the microfinance operations. The impact of Combined Reproductive Health Education and Microfinance Services in light of the impacts of microfinance previously presented, it is safe to assume those impacts would only be further enhanced by the addition of health education services, specifically reproductive health education. There is a limited amount of research focused specifically on the impacts of combined programs on reproductive health outcomes.

However, the research that does exist allows one to make educated assumptions about the impacts such programs have had. Several studies have specifically examined contraceptive use by their clients as a result of participation in microfinance programs. Some of these programs were offering additional education services and others were not. Regardless, most found an increase in contraceptive use among program participants.

BRAC in Bangladesh, which offers a variety of social and financial services to clients, found that members who had participated for more than four years had higher rates of contraceptive use (Khandker 1998). Another study in Bangladesh of a new microfinance program found participants, after a year or more, were 1.8 times more likely to use contraceptives than the control group (Steele et al. 1998).
CRECER to administer the integrated services

CRECER sees the integration of health education with its financial services as its competitive advantage in the vibrant Bolivian microfinance marketplace.

CRECER works to enhance the health education provided during the weekly meetings. In some regions, CRECER established relationships with health service providers—such as rural clinics—to offer referrals to clinic services. Clinic staff will also visit village bank meetings to assess health care needs, and CRECER promotes health campaigns, such as vaccination and PAP smear services, through its village bank meetings.

Health Education topics offered by CRECER:

- Family planning
- Women's health
- Breastfeeding
- Integrated management of childhood illnesses
- Infant and child feeding
- Immunization
- Diarrhea prevention and treatment
- Self-esteem

Additionally, CRECER created an innovative network within its Credit with Education program that offers family planning education and contraceptives to village bank clients. The program, called the Community-Based Distribution System, identifies one member of the village bank to become the Community-Based Distributor (CBD). The 330 CBDs receive special training about the use of various family planning methods and then receive a supply of contraceptives at cost.
A CBD's stock is replenished by the promoter, but limited by government health regulations to condoms and Cycle Beads. However, the CBD is trained to offer advice on a range of family planning options and is linked to local family planning service providers. Approximately three-fourths (73 percent) of CRECER client households fell below the national poverty line. More specifically, approximately one-fourth (23 percent) of the CRECER clientele were classified as “poorest,” one-half (50 percent) “moderately poor,” one-fifth (21 percent) were at the threshold, and only a few (6 percent) “non-poor”

In early 2002, the CGAP Poverty Assessment tool was applied to a sample of new CRECER clients and non-clients. CRECER’s services were found to have a pro-poor bias, with 39 percent of the clients categorized in the poorest tercile, another 40 percent in the middle percentile and only 22 percent in the better-off tercile

CRECER is realizing its goal of achieving financial self-sufficiency while also reaching large numbers of poor clients, and it is doing so while covering the marginal cost of offering health and business education services to clients. CRECER is gaining widespread recognition in the micro-finance community for this accomplishment and was one of two institutions featured in a paper commissioned by the Micro credit Summit Campaign as a model for reaching the goals of financial self-sufficiency and poverty outreach.

“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.” Under the tutelage of Freedom from Hunger, Microcredit Summit trainers in Asia and Africa have begun leading three-day and five-day trainings on integrating micro-finance with education in health.

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12 Gonzalez-Vega, 2001  
13 Jimenez, 2002  
14 Chris Dunford, President of Freedom from Hunger
Although combining quality financial services with quality health education can create a powerful synergy, there is still an influential, and, in the view of the Campaign, short-sighted school of thought arguing that microfinance institutions should only offer financial services. This was made clear in 1999 when a microfinance specialist at a donor agency replied to the Campaign’s initial efforts to integrate microfinance with health education. “Lunacy!” he wrote in response to our request for feedback. “Let bankers be bankers and let health educators be health educators.” It is, therefore, critical that academics learn from the revolutionaries. Those who say we cannot reach the very poor will see no reason to try and will in fact not reach the very poor. Those who say we cannot integrate financial services with health education will see no reason to try. It is the visionary leaders, those willing to break the rules, who will create what is missing to end poverty.

2.5 MFI: As a Social equity tool

In striving to wipe out poverty, one would have to develop not only macro-policies applicable to the poor as a whole, but also at the same time consider ways in which particular disadvantaged groups such as socially, racially or geographically disadvantaged or disabled, elderly, deviant sections are specifically addressed. Experience and deeper desegregations of poverty has already shown than these groups are more vulnerable to poverty and constitutes large sections of poverty. Hence unless these structural vulnerabilities are addressed the poverty can not be overpowered. In India micro finance has been specially tailored in suit the special groups like schedules castes (Harijan Nigams), Schedules tribes( tribal welfare boards) and physically challenged. Now even those who are affected and infected with HIV/AIDS are beginning to strategically use microfinance to offer them the light of hope. Several NGOs have formed groups of PLWHA (People living with HIV/AIDS) and helping them with Microfinance to not only fight the afflictions by covering for the cost of medicines and Ante retroviral treatment, but live with dignity in the face of stigma that society normally offers.
2.6 MFI: As a Disaster mitigation tool

The role of MFIs in overcoming the emergent situations and reducing the vulnerability to disasters both natural and manmade has been less documented. Vulnerability being intrinsically linked to poverty both as cause and symptom is defined as susceptibility to risk, risk being understood as the chance of a loss in income, livelihood, health, housing. After the disasters when there is total collapse of the system at all fronts including the means of livelihood, it is MFIs which help people in picking up the threads of their life and re-beginning the life right from scratch. Studies after tsunami have reinforced this fact and clearly inferred that “Small loans can help people to start businesses”

A study done by the South India Producer Associations (SIPA) covering seven districts in Tamil Nadu with about 1,000 women respondents found that alternative livelihood options for tsunami-affected people can be facilitated by providing small, affordable loans to start micro enterprises. K. Gopalan, programme manager of Oxfam (India) Trust, said farmers in rural Dindigul always asked for credit and never grants. They reaped success with small investments made possible by Covenant Centre for Development.

Baseline study by EDA rural system for SIDBI foundation found that in case of risk, micro-credit strengthens the coping strategies of its clients ex ante (in advance) mainly through livelihood diversification and asset building though protection through financial intermediation is weaker, Ex post (after risk occurs). The poor and the very poor continue to borrow to meet the costs of risk related needs such as medical costs, marriage, debt redemption and emergency needs (such as for food, house repair). Micro-credit contributes quite substantially to the latter needs – especially through the small flexible loans usually available in the SHG model, and specific products of some (mainly Grameen) MFIs, as well as through general

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products that may be used for such needs (fungibility). Given the (small) size of micro-credit, it is not surprising that it contributes less to larger needs (marriage, medical costs). Clients are going to moneylenders for such loans, but their dependence on moneylenders in case of risk is less compared to non-clients.

Analyzing the impact on vulnerability deeper it says that microfinance contributes to the coping strategies of its more vulnerable clients (the very poor, scheduled castes, women headed households). Though the most vulnerable (those with irregular income sources, existing indebtedness) are also the least creditworthy. Such households do sometimes struggle as MFI clients and their vulnerability can lead to dropout. However in case of enterprise risks, microfinance support is marginal, if any. In fact, where micro-credit is being provided for enterprise use to clients with limited skills or previous experience, this is contributing to increased vulnerability.
Global Perspectives
Chapter 3  Microfinance in Global perspectives

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3.3  International year of Microfinance
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