

Microfinance as a vehicle for educating the poor

Christopher Dunford, Freedom from Hunger

Introduction

Microfinance can be a powerful tool for giving the poor more economic options. However, the very poor need more than microfinance to address the causes and conditions of their poverty. Ideally, they would have access to a coordinated combination of microfinance and other development services to improve business, income and assets, health, nutrition, family planning, education of children, social support networks, and so on. The question is how to ensure a 'coordinated combination' of appropriate services, especially in rural communities and other communities where multiple services are simply unavailable.

Microfinance practitioners are often motivated to provide non-financial services to their clients, because they recognise the need and hear the demand. However, the legitimate concern for sustainability, interpreted as the financial viability of the microfinance service as a business, has made practitioners very cautious about non-financial add-ons. They believe that add-ons can only be a drag on the drive for sustainability. Where other, non-financial service organisations can provide these other services for the same clients, some microfinance practitioners have fostered referrals and common points of service with their non-financial counterparts. But most microfinance institutions (MFIs) feel compelled or prefer to focus solely on the financial needs of their clients and do not attempt to meet their non-financial ones.

On the other hand, group-based microfinance provides a good opportunity to provide low-cost education services needed by the poor, if only to improve their performance as microfinance clients. This is especially true for village banking and related delivery systems (for example, Grameen Bank) that bring large groups of relatively poor clients together in regular meetings. Good, non-formal adult education techniques can be used effectively at these meetings to cover a variety of topics. Examples include promoting changes in child care, personal health habits, and use of local health services, as well as improvement of business skills that enable microfinance clients to put their loans to more productive use and generate more profit and savings.

Integration scenarios

In this article, service 'integration' refers to the coordinated delivery of different-sector services to the same people. There are three common scenarios for integrating microfinance with other services: linked, parallel and unified delivery.

Linked delivery

This scenario involves *different* organisations and service delivery staff, but the *same* end users. When there are several development service providers in a target area, as in many urban and peri-urban areas, an organisation may reasonably choose to specialise as a microfinance business. Ideally, different organisations offering different services would coordinate their marketing, including delivery at common points of service and mutual referrals, as clients' needs for other services arise. Many specialist MFIs could embrace this scenario, but few reach for the 'ideal' of coordinated marketing with non-financial service providers.

One longstanding example is the close coordination of the Bangladesh Rural Advancement Committee's (BRAC's) Rural Development Program (RDP), with the Government of Bangladesh and World Food Program, food distribution to the 'hard-core' poor. The relationship is mediated by the Income Generation for Vulnerable Groups Development (IGVGD) programme, jointly administered by BRAC and the Government of Bangladesh (CGAP 2001). The IGVGD links government food distribution to the very poor with a special BRAC effort to prepare destitute people for normal participation in the RDP. Otherwise, these people would not have even the minimal skills, resources or opportunities required for participation.

Parallel delivery

This scenario involves the *same* organisation and end users, but *different* service delivery staff. A generalist or multipurpose organisation may offer not only microfinance services, through specialist microfinance programme staff, but also other sector services through different programme staff of the same organisation – to the same people in need.

BRAC again provides a good example. The RDP, the 'normal' version to which IGVGD beneficiaries can graduate, serves 3.64 million members (97 per cent of whom are mostly illiterate women) with both financial and non-financial services to their Village Organisations (VOs). The VOs are composed of seven to eight solidarity groups of five members each. The financial services include four types of solidarity group loans:

- general – for whatever the borrower chooses and her solidarity group approves;
- programme – to support particular activities promoted by other BRAC programmes, such as poultry, silk culture and social forestry;
- housing – to help VO members to build homes; and

- rural enterprise – to set up in rural areas non-farm businesses, such as small restaurants, grocery stores, or laundry and tailoring shops.

The VO meets weekly with the Program Organiser (PO) responsible for credit to collect savings (minimum of US\$0.90 a week, earning 6 per cent a year, withdrawn only upon departure from VO membership), to decide who should get loans, and to make loan repayments.

Non-financial services are provided by different POs, who also travel by bicycle to meet with the VOs and to see individual members. The social development POs provide general education at the monthly *Gram Sobha* (village meeting). This provides a forum where women can learn and gain information informally through discussion and consultation with other members and BRAC workers. Various socioeconomic, legal, health and political issues are discussed, including the need to prevent early marriages, how to stop domestic violence, how to prevent illegal divorces or bigamy, and where to access various types of services, such as immunisations. The social development PO is also responsible for offering new VO members a 30-day course on human rights and legal education.

A third PO for health provides the Essential Health Care component of the RDP. This PO facilitates a monthly education forum in the community, for both VO and other community members, covering various health issues such as local food sources of vitamin A, good nutrition during pregnancy and lactation, protection against six killer diseases through immunisation, use of slab-ring latrines, and use of delivery kits for safe childbirth. Each meeting covers a new topic, has roughly 20–25 participants, and lasts around 45–60 minutes. The health PO encourages learner discussion and participation with the help of community health volunteers. Through the health POs, the RDP is also providing prenatal and postnatal care at the community level and has established referral linkages with the basic and comprehensive Emergency Obstetric Care unit of the government.

The total cost of delivering financial services includes all financial costs of capital lent to clients as well as all costs of external technical assistance. Based on financial performance in 2000, BRAC's RDP credit programme was projected to completely financially self-sustainable in 2001 and beyond. During 2000, the credit programme actively expanded from 3.2 million to 3.64 million members, which lowered that year's financial self-sufficiency ratio below 100 per cent.

From the surpluses generated through the credit programme and some of BRAC's sector programmes, such as poultry, silk culture, social forestry, outside the RDP, BRAC is able to fund some of its educational programmes. Still, all of the educational and training components are expected to rely partially on external funding for the foreseeable future.

Unified delivery

This scenario involves the *same* organisation, service delivery staff, and end users. When the people in need have access to few, if any,

other development services, as in many rural communities, and the MFI cannot afford a long-term commitment to provide two or more services with different specialist staff, it may choose to field only one set of staff tasked to provide microfinance with another service. The organisation may even seek to hold its costs to a level that it can sustain solely with revenue generated by the unified service itself.

Credit with Education providers are good examples.¹ Credit with Education comprises elements of the Grameen Bank, FINCA village banking, USAID-sponsored child survival programming and principles of non-formal adult education. A more complete description of the model is provided by Vor der Bruegge et al. (1995).

FUCEC-Togo offers a specific example of Credit with Education in the institutional context of credit unions. This credit union federation and its member credit unions offer Credit with Education (Service Crédit-Epargne avec Education, or CE/E) as one of several financial service products. Credit with Education gives the FUCEC-Togo credit unions the opportunity for outreach to serve people who otherwise could not join a credit union, specifically poorer women in more remote rural communities.

FUCEC-Togo invests part of its central liquidity fund, in which all member credit unions invest part of their individual members' savings on deposit, as loans to groups of women who cannot or will not join as individuals, because of the high cost of membership: shares are too expensive, they cannot save sufficient amounts to get needed loans, the nearest credit union is too far away, credit unions are perceived to be for men. These groups are called Groupements d'Interêt Economique et Social (GIES) and are composed of 18–30 (average 24) women, subdivided into solidarity groups of four to seven. These groups deposit savings in the credit unions in group accounts, but they are 'net borrowers'. They join the credit union as a group and do not have the same rights as regular members to 'one person, one vote' participation in the governance of their credit union, nor access to any financial services other than those delivered to the GIES.

A GIES meets in its own community with a FUCEC *promotrice* (field agent) for one to two hours each meeting – weekly for the first few 'loan cycles' (16 weeks each), then bi-weekly as the group demonstrates its reliability. One *promotrice* meets with the group for the joint purposes of providing savings, credit and educational services at the same meeting. The GIES are generally located in rural areas served by public transportation once in a week. Therefore, the *promotrices* travel to their meetings on motorcycles provided by the Service CE/E.

The Service CE/E made its first loans in April 1996. The value of those outstanding at 31 December 2000 was US\$1,470,000 to 13,540 active borrowers. The average loan size was US\$109 in 550 GIES served by 21 *promotrices*. The credit union makes a loan to the GIES as a group. The GIES then on-lends to its members for any activity approved by fellow members. The members are not required to borrow, but 98 per cent had loans at the end of 2000 (www.microcreditsummit.org/papers/healthintro.htm).

To receive education from the Service CE/E, women must be GIES members, attend the weekly or bi-weekly meetings and be current savers. Topics covered deal with health and nutrition, diarrhoea prevention and management, breastfeeding, infant and child feeding, immunisation and family planning, better business development including increasing sales and knowing your real profit, and GIES management.

Almost every GIES meeting, except when loans are disbursed by the *promotrice* or repaid in full by the group, includes a learning session. Each session takes about half an hour. Each topic, like family planning, requires several sessions spread over several meetings, generally concentrated in one 'loan cycle' of 16 weeks duration. Learning sessions are led by the *promotrice*, with assistance from the women in the groups. She uses short 'dramas' and sometimes visual images to introduce the subject, and various discussion facilitation methods to encourage everyone's contribution to develop and convey the key messages.

As of the end of December 2000, income from credit operations covered 97 per cent of the unified costs of the Service CE/E. Grant funding for start-ups in new areas has been provided by both PLAN International and Freedom from Hunger. Technical assistance funded externally is not included as revenue or expense in the tracking of programme costs. However, all these costs were included in a cost accounting analysis of the first three years of the programme (Vor der Bruegge et al. 1999). The average percentage of total costs that could be attributed to the 'extra education' (that which would not be provided by a standard village banking programme) was 8 per cent. While there is no comparable cost analysis for the year 2000, note that the costs of 'extra education' are included in the calculation of the 97 per cent operational self-sufficiency for the end of 2000.

Its experience with the Service CE/E has convinced FUCEC that education added to small loans and savings is essential for changing the lives of poor people in rural communities. Despite difficult economic conditions that limit the potential of their microenterprises, poor women have stayed with the programme, according to FUCEC, because they enjoy fellowship with others and the information they receive during learning sessions. This has helped the financial self-sufficiency of the programme as well as helping the women. In addition, FUCEC has become convinced that the financial and educational services can be efficiently and effectively delivered together by the same *promotrices*.

Parallel/linked v. unified service delivery

In the cases described, each organisation is committed to full financial self-sufficiency of the microfinance operations, but satisfying the broader needs of the clients is as important, it seems, as financial self-sufficiency of the overall institution. Where they differ is in their deployment of managers and field staff. Only the Credit with Education providers (exemplified by FUCEC-Togo) are using the same managers and field agents to deliver both microfinance and non-financial services, and only they are coming close to full recovery from the clients of all costs

for the full range of services. But BRAC, being willing and able to rely, in large part, on external funding, offers a broader range of services to its clients.

In general terms, the major challenge to the parallel scenario is the sustainable financing of the non-financial service, whereas the major challenge to the unified scenario is the management of field staff tasked to deliver different-sector services. It might appear that the linked scenario escapes both of these problems, and in theory it does. In practice, it is very hard to maintain over time and over large service areas. Totally independent organisations have different missions, strategic plans, managers, and revenue sources. Those differences are likely to limit overlap in target populations and service areas and also to pull the organisations apart over time, ending the linkage agreement. The linked scenario in practice is the one least likely to reach major scale and be sustainable, but it works for BRAC and the Government of Bangladesh.

An MFI considering delivery of additional services in non-financial service sectors should ask itself the following questions:

- What additional services are required by the institution's own development objectives?
- What additional services are required to satisfy the needs and wants of the intended clientele?
- What are the feasible options for providing additional services that meet both institutional objectives and client objectives? Links to other, non-financial service providers? Creation of a separate institution to provide non-financial services? Creation of a separate non-financial service unit within the institution itself? Unification of the non-financial services with the existing financial service delivery system?
- What targeting measures will be needed to ensure that the client group reached does not exclude the poorest households?

The unified delivery option is the most demanding, but it also may be the only option or the one most likely to be sustainable in the long term. Even then, unified delivery is advisable only when the institution wants to add one or more forms of education to microfinance services for relatively large borrower groups that meet regularly with field agents of the institution.

The education should adhere to the principles of effective adult learning, but the content can be varied or singular and drawn from structured curricula or facilitated exchanges of knowledge among the clients themselves. A mix of approaches (as in Credit with Education) can be used. But the education programme, whatever it is, must be manageable by the same people (clients and staff) who are involved in the management of the financial services.

Smith and Jain (1999) have put forward the reasonable idea that the quality of either microcredit or education must be compromised for the sake of unified delivery. In other words, the efficiency and effectiveness of services are diminished (and impact is compromised) when delivered by multi-tasked generalists rather than by focused specialists.

In contrast, Freedom from Hunger has done considerable research (especially the studies in Ghana and Bolivia: MkNelly and Dunford 1998, 1999) to verify that Credit with Education is having the intended impacts in three areas: improved economic capacity of women, empowerment of women, and adoption of key child survival health and nutrition practices that lead to measurable change in food security and nutritional status. Other impact studies (including those by or for BRAC and FUCEC-Togo) yield similar findings. Impact studies for microfinance-only programmes have shown financial results similar to those found in studies for Credit with Education programmes. The addition of health and nutrition education does not appear to keep village banking from producing the significant economic and empowerment impacts sought in microfinance programming. Likewise, impact studies for stand-alone health and nutrition education programmes show results similar to those found in the impact studies for Credit with Education programmes. Therefore, it seems the education in Credit with Education can be as effective in stimulating health and nutrition behaviour change.

Is the unified, self-financing scenario possible? Is it feasible? Is it effective? The answer appears to be 'yes' to all three questions when applied to certain types of microfinance and certain types of education delivered together. Integration is only for those whose objectives call for providing multisectoral services to address multiple needs/wants of the very poor. Unified integration is only for those with the need and the will to lead and manage staff towards long-term independence from operating grants. As an organisation considers the unified option, it should understand why this option is more demanding and be realistic in assessing its commitment.

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Notes

1. Each Credit with Education practitioner develops its own operational system for self-financing, unified delivery of microfinance and education to poor women. Credit with Education was first developed by Freedom from Hunger in 1989–90 for the purpose of improving household food security and child nutrition. As of 30 June 2001, Freedom from Hunger had assisted NGOs and community-based financial institutions in 15 countries to start their own Credit with Education programmes. In aggregate, these implementing organisations were reaching 189,540 women, of whom 153,733 were taking current loans averaging US\$73 each. The total amount of outstanding loans was US\$11.2 million, and the total amount of savings was US\$2.6 million. The weighted average for operating self-sufficiency, of the implementing organisations reporting complete revenue and expenditure data for the previous six months, was 92 per cent. Overall portfolio at risk was 3.86 per cent. Other versions of Credit with Education have been developed by other organisations in the past decade without Freedom from Hunger assistance, notably by World Relief Corporation and Project HOPE (www.fhtechnical.org).

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