Microfinance plus: linking microfinance to other services to reach the poorest

Mini-conference // Microfinance

Moderator

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Speakers

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Executive summary

Microfinance can be tied to other socially driven companies to increase their impact in a substantial way. The CGAP-Ford Foundation introduced the "graduation program"[1], which aims at alleviating poverty by making poor people independent with brings changes into their lives. The program follows a method which was implemented by BRAC in Bangladesh to determine how safety nets, life standards, and microfinance can connect to create ways out of extreme poverty.

The graduation program selects the poorest households and provides them with financial assistance and basic formation so they can reach financial sustainability and manage their savings. It then provides them with an economic asset and with investment guidelines based on market opportunities, and pilots that investment with support committees and an assistance staff. Results, though encouraging, should still be judged over the long term.

Inter Aide presented a healthcare micro-insurance program set up in India in 2003 and directed towards an improvement of health and hygiene life standards through cost reduction.

1 All information about the CGAP's "graduation program" is drawn from "Creating pathways for the poorest: Early lessons on implementing the graduation model" – CGAP's brief written by Mayada El-Zoghbi and Aude de Montesquiou, with contributions from Syed Hashemi, December 2009.
2 http://www.brac.net/

Synthesis

Aude de Montesquiou works for **CGAP** on the CGAP-Ford Foundation "graduation program". Since 2006, the CGAP-Ford Foundation has been adapting BRAC's experiments to new environments through a series of 9 pilot projects – in Ethiopia, Haiti, Honduras, India, Pakistan, Peru, and Yemen – with very diverse institutional, economic, and cultural backgrounds. These pilot programs have been implemented through partnerships with financial services providers, NGOs and social care public programs. Randomized impact assessments and/or qualitative surveys are carried out to measure the effect of these programs on the tested populations.

The graduation model is based on a holistic and intensive approach which demands a high level of concentrated efforts. Success depends on a sound sequencing of development services and a careful monitoring of the customary interactions between the staff and the households. The selection of participants is critical to ensure that only the poorest households are allowed into the program. A first mapping can be done using a wealth-based household classification on a participative basis within the community, as well as a straight-to-the-point survey of the households. Besides, it proves necessary to schedule visits of the program administrators to keep better-off households from getting involved.

Moreover, as the model is based on strengthening economic activities, only people who are physically and intellectually fit to manage a small business can be hired. Once the participants have been selected, they start with receiving a small amount of money or goods to prop up and eventually stabilize their consumption. This can also be implemented through an existing social care program. Discussing the amount and the length of the assistance builds trust with the population and make them think of some projects to indulge into once the program is over. Once people's food consumption has stabilized, they are encouraged to save money, usually on an individual bank account at an MFI.

In addition to building assets, customary savings instill financial discipline and familiarize prospective clients with MFIs. Most pilot areas feel the need to train the populations to budget management and financial administration. Participants also receive skills training on how to manage their assets and run a business. While rudimentary, such training is essential for the success of small businesses. This training also provides information on assistance and available services (veterinary care, for instance).

A few months after the program starts, each participant benefits from a sponsored asset transfer to help him start a business. To identify sustainable subsistence options in unsaturated market segments, support services and market infrastructures must be thoroughly reviewed beforehand. Once several options have been identified, the participant chooses from a range of assets, based on his preferences and previous experience. For risk mitigation purposes, households need to diversify their activities; both short-term and long-term assets are required. If one chooses livestock, it should be resistant to diseases and easily treatable.

The crucial part of the model is the regular monitoring and participant observation tasks by a dedicated staff. Generally, people in need lack self-confidence and possess no social capital whatsoever. Training increases skills and trust but does not by itself stimulate self-confidence. The program staff visits the households weekly to track their progress, but their chief purpose is really to coach the participants throughout the program, which can last between 18 and 24 months.

During these meetings, the staff helps the participants plan their professional activities and manage their earnings while offering a social assistance as well as care and hygiene prevention services. In some cases, it was essential to integrate a healthcare provider into the program, either public or non-governmental. Trust building can also be fueled through support and solidarity offered by group meetings and mutual assistance groups. Several pilot programs have created "village assistance committees" that usually comprise of local figures, such as members of the clergy, teachers or elders. These committees support the participants during the program and can keep doing so after its completion.

CGAP-Ford Foundation's pilot programs are at different stages of progression: four of them have completed the progression cycle while the other five are currently in the application phase. In Fonkoze (Haiti), 143 participants out of 150 have reached the progression objective. Most of those who have failed to do so lived in area which received post cyclonic humanitarian interventions where Fonkoze has decided to withhold its operation. In Bandhan (western Bengali), 97% of the participants have reached the program objectives, and the organization has begun to expand in both urban and rural areas. In the same region, at Trickle Up, in spite of major obstacles to the program during the initial phase, among which the avian flu and other diseases, floods and a massive cyclone, 258 of 300 participants had reached the progression objective in October 2009. Each of them had gathered assets worth 150 dollars, saved 20 dollars and could rely on diversified cash flows. In the State of Andhra Pradesh, the SKS program deals with the participants with group logic: 360 of 426 had reached their objective in October 2009. SKS projects that, after the fourth group has left, the success rate will reach 97%.

We still have to determine whether the progression model produces long term effects on poverty or if participants will go back to their initial condition after it has ended. The CGAP-Ford Foundation's impact evaluation will continue to monitor the participants of the pilot programs to gather evidence on long term impact.

Yannick Bézy has worked to implement development programs on various scales of commitment (social microfinance through training courses, savings, family development, vocational trainings and job placement, health mutual organizations, etc.). During the conference, he focused on micro-insurance. Micro-insurance came from the idea that, in urban areas, hospitalization and health problems were the major causes for the failure of micro-entrepreneurs in microfinance programs, representing between 30 to 40% of cases where people returned to poverty. All the efforts made by the population were then ruined and the point was to create micro-insurance products that befitted poor people.

Yannick Bézy focused on India where **Inter Aide** implemented a micro-insurance program in 2003. Slum dwellers' healthcare problems are caused by money issues, poor life standards, and lack of information.

1. Without any social care program, they need to finance their medical expenses themselves. When hospitalized, the financial clout results from medical expenditures and the loss of their daily income, thus contributing to their poverty.
2. Access to quality healthcare services is complicated. Doctors' fees and medicines' costs are expensive. In India, 40% of the doctors have uncertified qualifications and it's hard to find proper medication. There is also a lack of healthcare education.

3. Poor people do not have access to information as to which services can meet their needs (cheap products, guidance, local management, etc.).

4. Besides, a lack of hygiene in some areas and superstition issues are aggravating factors of healthcare problems.

The program launched by Inter Aide is a healthcare mutual fund program. The objective is to reduce the cost of healthcare services. This fund pays out 80% of the costs of hospitalization (up to 15 000 rupees a year). Access to quality care is allowed through a network of 200 health practitioners and health check-up camps in the slums. Guidance is provided through increased access to hospitals and other healthcare services. The program is managed by locals within the community through monthly meetings. The product offers 100 rupees per year and per member and is compulsory for loan takers.

In 2010, there were 100 000 members and 100 000 Euros were reimbursed. Members also benefit from free healthcare services and become acquainted with hospital networks which provide discounts on healthcare expenses. In 2010, members saved more than 100 000 Euros on healthcare expenditures. A similar model is currently implemented in Madagascar.

Finally, **Rustam Sengupta** presented his foundation. **Boond** is a small social business in India which targets the poorest populations. It means "drop of water" in Hindi. Nearly 25% of the Indian population (300 million people) lives with little to no electricity. Where then is the 9% economic growth figure coming from? Boond looks at the challenges that villages are facing: electricity, drinkable water, food storage, sanitation, health insurance, pest control, etc.

Solutions exist but accessing them is uneasy. The Boond development centers propose simple and affordable products with the corresponding assistance service using low-cost financing. It also provides micro-entrepreneurs with the products and sales training. Boond development kits can also be sold directly. They comprise of a mosquito net, a lamp, and a solar panel. In cases of extreme poverty, 30 additional rupees are distributed every day. These payments take place throughout the year. The business is sponsored by big companies, MFIs, and private funds. It is a 2.0 microfinance model.

Questions

Could we have more details on BRAC's program financial sustainability?

Aude de Montesquiou: BRAC costs 150 dollars per participant. For the CGAP program, it ranges between 200 and 1480 dollars for programs lasting from 18 months to 2 years. In the future, they hope to make economies of scale. It remains an expensive solution as it is intense and only suitable for about 10% of the population. A cost-benefit analysis will be carried out in 2013.

How is your staff trained?

Rustam Sengupta: We hire people with a vision and a strong connection to the place. We train them on the field and teach them some basic skills too.

Do micro-entrepreneurs have to borrow?

Rustam Sengupta: The Boond foundation grants the first loan. It starts with an 800 Euro investment. During three months the company pays for the rent, and then micro-entrepreneurs recover the costs and establish a 20%-80% partnership. They own the business and provide monitoring support and feedback while the manager is entitled more shares than the people working for him.

Are the subsidies coming from public investors?

Rustam Sengupta: Boond has a hybrid model: it is a foundation without formal subsidies and its role as a social business is secondary.

What have you learned from this experience?

Yannick Bézy: Guidance, follow-ups, and check-ups are very important to feed people with better information and improve access to healthcare services.

Rustam Sengupta: Customers and consumers are different. People might be poor but they are not stupid. They need products with an actual added value.

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