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Introduction

This compilation of 14 Microfinance Gateway Highlights captures some of the industry trends, initiatives, and debates that marked 2008 – a year in which political, environmental and economic crises rattled the industry. We invite you to reflect on the myriad successes, challenges, and issues these Highlights raise. You will learn how Kenya’s post-election crisis, the 8.0-magnitude earthquake in China, and the global food crisis impacted microfinance institutions and clients in 2008. Articles also explore the difficulties of civil-military cooperation in Iraq’s microfinance industry, India’s complex microfinance sector, and the buzz about online microlending.

The Highlights series is committed to bringing a diverse range of views and topics to the Microfinance Gateway community. Our sincere thanks to the following organizations and individuals who contributed to this collection of articles:

Fazle Abed, BRAC
Bernd Balkenhol, ILO
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Mayada El-Zoghbi, Banyan Global
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Farai Jena, CGAP
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Song Song, CGAP
Roshaneh Zafar, Kashf Foundation

Enjoy!

Microfinance Gateway Staff
Microfinance and Public Policy
B. Balkenhol, ILO – 22 January 2008

New book explores the links between performance, efficiency and subsidy dependence

An estimated US$4 billion is invested annually in microfinance around the world. But while microfinance institutions (MFIs) must have strong business models in order to survive, they face the challenge of making profits and at the same time creating lasting social change. The continued commitment to their original mission is not always easy for MFIs. It is particularly tricky in an increasingly competitive environment where competing MFIs set their priorities between financial performance and social impact differently.

For donors this raises the question of which criterion to use to judge “good” overall performance when some MFIs have an increasingly commercial and others a more social orientation. This opens a few fundamental issues:

- Why is it that some MFIs are profitable, but on closer scrutiny not very efficient?
- Of the various drivers of efficiency in microfinance, which can be acted on by MFI managers, and which are contextual?
- What does it all mean for donor support, government interventions and public policy?
- Can subsidies in microfinance be justified for MFIs that fail to be financially self sufficient, as long as they are efficient?

These and other questions are examined in Microfinance and Public Policy, a new book published by Palgrave McMillan and the International Labour Organization (ILO) and edited by Bernd Balkenhol. The publication is based on a survey of 45 well-established microfinance institutions in 24 countries, carried out by the ILO, the Universities of Geneva and Cambridge and the Institute of Development Studies in Geneva, with funding from the European Union and the Ford and GIAN Foundations.
The book explores the conditions that allow microfinance institutions to grow while remaining committed to their missions. It looks at mission drifts due to donor prodding, and presents evidence on the factors influencing the trade-off between profitability and poverty impact. The one criterion that gives an insight into MFI performance, regardless of mission, is efficiency. Efficiency is measured by the ratio of operating expenses to the loan portfolio. Operating expenses are in turn determined by three main drivers: average loan balances, salary costs and staff productivity.

**Understanding the drivers of efficiency**

Unfortunately, there’s no magic recipe for efficiency. Context matters critically for performance; it’s not just a question of good or bad management. However, a starting point is to better understand the three main drivers of efficiency:

1. *Average loan balances:* Given the cost functions in finance it always pays to go for larger loans; the downside is that one may lose the original clientele and move up-market into a less poor segment of the market.

2. *Salary costs:* The second driver of operating expenses is staff costs. These vary enormously between countries as a result of the scarcity of qualified loan officers.

3. *Staff productivity:* Even the third determinant of operating expenses is sometimes difficult to manage: in rural and peri-urban areas it is a challenge for a loan officer to cater to 250-400 clients.

MFIs operate with greatly varying degrees of efficiency, and four configurations emerge taking into account location, legal form, delivery techniques, subsidies received and staff structure. The first group of MFIs is markedly inefficient - both in terms of social and financial performance - relative to peer group institutions. The second group serves many poor households but is weak on financial...
measures. The third group does well on profitability, but less well in terms of social impact. And the fourth group performs well in both respects.

In order to improve efficiency, management must work on all three drivers. However, these drivers are themselves also subject to contextual constraints; a manager cannot change pay rates at will or hike up average loan balances. For donors this means that in order to be fair when rewarding progress towards greater efficiency, they should also differentiate between endogenous and exogenous factors.

Lessons for public policy: smart subsidies

All 45 MFIs reviewed in the research for Microfinance and Public Policy were being subsidized in one way or another. 34 were convinced that without subsidies, they would not be able to scale up by improving their use of human and financial resources. These results have implications for public policy, and especially subsidies:

1. **Profitability does not necessarily mean efficiency.** Several institutions operate as monopolists which allows them – for the time being – to charge high interest rates and earn tidy profits, but pass on the costs of their inefficiencies to their poor customers. Inversely, some MFIs operate efficiently but fail to break even due to local market conditions (particularly high labor costs and low population density) or because of a strategic decision not to raise interest rates and other fees.

2. **Outreach to the poor can be used as an excuse for inefficiency** which limits the scale of outreach and the quality of services. Both monopolies and strategic decisions can mask inefficiencies. Every single one of the 45 institutions received some form of subsidy, and current practices of subsidization continue to distort the market and undermine accountability: fifteen institutions even had two or three donors, and twenty had more than three sources of grant support. From 1999 to 2003 the use of subsidies decreased in 12 institutions, but in 14 MFIs the share of subsidies on total liabilities increased.

3. **Subsidies can and should be tied to progress towards efficiency.** Market distortions can be contained or avoided if subsidies are tied to progress towards efficiency. A better understanding of the drivers of efficiency will
make donor support more stable, transparent, performance-based and - above all - “mission-neutral.” Instead of favoring one type of MFI over others, efficiency-based donor support accommodates different combinations of social and financial objectives. Subsidies should enhance and stimulate efficiency, rather than force an MFI to choose between its social objectives and financial performance.

The book argues for a fundamental reform of subsidies in microfinance, built on longer-term, stable “performance-based contracts” between governments/donors and microfinance institutions that are geared towards efficiency targets for which managers can be held accountable. Whether this will work or not hinges largely on efforts by donors and governments not to undermine each other: success depends on working together to promote principles of transparency and incentive-based support.

Related Documents

- Maximising Efficiency: The Path to Enhanced Outreach and Sustainability
- The MicroBanking Bulletin Issue # 4: Focus on Efficiency

Related Links

- ILO: Social Finance Programme
- Interview with Bernd Balkenhol
- Microfinance and Public Policy
- MIX MicroBanking Bulletin #15: Efficiency Drivers of MFIs
Advancing to GO!

Développement international Desjardins – 22 February 2008

Youth essays on microfinance

Imagine playing a game of Monopoly but starting off with less than a dollar. Without access to any credit, each roll of the dice lands you into more debt and the cycle of poverty rolls on. Think of microfinance as the “Advance to Go” card that allows you to collect a small yet sufficient amount of money to invest in. For 2/3 of the world’s population living on less than a dollar a day, the “Advance to Go” card is their only viable option for breaking the cycle of poverty.

Microfinance creates partnerships that allow the poor to gain access to financial services, to move towards self-reliance, to build the capacity of local businesses and local knowledge, to foster entrepreneurship and to increase income, assets, security and hope. Inevitably, microfinance can serve as a cornerstone for better health, gender equality, improved education, empowerment and a poverty free world.

Whereas the economic term monopoly is defined as the domination of a market by a single provider, microfinance allows millions of providers to provide for themselves. Indeed there is a new game to be played!

- Mike Lafleur, age 29, Alberta, Canada
The Doingmypart.Coop Youth Contest

The short essay above is one of two winning essays from Développement international Desjardins (DID)'s DoingMyPart.Coop Youth Contest. In fall 2007, DID invited Canadians aged 18 to 30 to express their opinions on microfinance in an essay contest organized in partnership with Jobboom, COOPSCO and CIDA. Now in its second year, the contest is a way for DID to make Canadians more aware of international development and to spotlight young people who can clearly articulate their thoughts on a current issue. This year’s essay question was: Is microfinance a solution for sustainable development in developing countries?

The two grand prize winners were Sarah Kelly of Quebec and Mike Lafleur of Alberta. Mike Lafleur is an Education Program Developer with the Centre for Affordable Water and Sanitation Technology, an organization dedicated to developing new technologies for making affordable water and hygiene services available in developing countries. His essay (above) expresses the dilemma of the 1.2 billion people in the world who live on less than one dollar a day. Sarah Kelly is studying for a Master’s degree in ethics at the Université du Québec à Rimouski. Her essay below portrays a Peruvian mother with very limited means for improving her family’s living conditions:

Her day begins...

It is 5:30 am. Her day begins on this damp December morning in Peru. She knows the routine and the reason: feed her three children, at least for today… All day her unfailing fingers will weave the products they know so well and then the children will sell them. The small profit, if there is any, will be spent on yarn and dye. She cannot afford to send her little ones to school and they already work so hard. It is impossible to break out of this vicious circle that keeps them in this vulnerable state.

What if someone gave her the chance to plan ahead, a chance to get ahead? What if there was a source of financing that would let her start up a new project with others in the same situation? An opportunity that would encourage community activities and create jobs, enabling them to break through the barriers that
confine and condemn them. It would be possible to find new ways to meet the many needs of the community while at the same time building for future generations.

Microcredit programs offered in developing countries affect sectors as diverse as agriculture, craftwork, the social economy and social protection. These programs contribute to improving a multitude of social, medical and family services. Microfinance services provide members of the community with the independence to create innovative projects of their choosing, projects that will lead to new lives.

It is 5:30 am. A new day begins for her and her children in this land of a thousand opportunities …

- Sarah Kelly, age 23, Quebec, Canada

The quality of the winning essays shows young people's awareness of development in countries in the South. This year's winners will travel to Tanzania in East Africa for a one-week education tour of Tanzanian financial cooperatives. Students will meet with employees, managers and members and discuss the practical benefits that access to basic financial services provides for them and their families.

Développement international Desjardins (DID), a component of the Desjardins Group, is the largest integrated cooperative financial group in Canada, specializing in providing technical support and investment for community finance. For over 35 years, DID has provided support for the creation, development and strengthening of financial institutions, and currently works in Africa, Latin America, the Caribbean and Central and Eastern Europe.

Related Links

- [Développement international Desjardins (DID)](https://www.desjardins.com)
- [DoingMyPart.Coop Youth Contest](https://www.doingmypart.coop)
Meditations on the U.S. Sub-Prime Crisis

McKee, K. – 18 March 2008

Lessons and implications for the international microfinance industry

Kate McKee is a Senior Advisor at CGAP focusing on policy issues including consumer protection and state-owned banks. She previously led USAID’s Microenterprise Development office as well as directed federal policy development and helped create pioneering secondary market mechanisms for non-conforming home loans at Self-Help. Board service included chairing the Consumer Advisory Council of the Board of Governors of the US Federal Reserve.

Less than two years ago, nagging delinquency problems started to crop up in one tiny corner of the U.S. home finance market - so-called “sub-prime” mortgages. While many sub-prime borrowers were refinancing existing mortgages, and some were speculators, others were borrowers pursuing the dream of owning their first home. Many sub-prime loans had characteristics that we now know to be unsustainable - artificially low “teaser rates” that are now adjusting upwards to much higher rates unaffordable to many borrowers, steep pre-payment penalties, and complex features geared to the investor markets into which they were resold.

What began as a niche problem has now spread in dramatic fashion - delinquencies and foreclosures have skyrocketed, with an estimated two million sub-prime loans likely to default, creating a precipitous decline in housing values in many markets. As the ripples move outward, the crisis is now threatening the U.S. with economic recession, and setting off worldwide concerns about how the resulting credit crunch and possible U.S. recession will affect growth in countries rich and poor.

What consequences might the sub-prime crisis have for microfinance in developing countries and what lessons can our field draw from its underlying causes?
Observation #1: Unsustainable products and practices

A sub-prime mortgage is a mortgage loan underwritten using lower credit standards than those used in the prime lending market. In the U.S. credit market, sub-prime lenders disproportionately targeted minority and lower-income people and places with higher-priced products offered on inferior terms. In some cases, borrowers that could have qualified for prime loans were “steered” to inferior financing. The increasingly typical practice of selling sub-prime loans shortly after they were originated meant that often, mortgage brokers and even lenders did not have to live with the consequences if the loan went bad. Many of the products and practices were at best, reckless, and too often, predatory. While the sub-prime market offered a valuable opportunity to many, too often loans were complex, confusing and downright deceptive. High levels of competition and product innovation in the aggregate failed to offer meaningful choices of products and providers to consumers.

Implications: Typical microfinance products are still fairly simple and there is little evidence of widespread delinquency problems or over-indebtedness. Resale of loans to investors is in its infancy and faces many practical challenges. However, with the entry of aggressive consumer lenders in rapidly developing markets such as Mexico, India and Eastern Europe, credit is extending far down the income pyramid with new products and underwriting practices. While the full effects of these developments cannot yet be predicted, over-indebtedness could surface and microfinance providers would be well advised to keep an eagle eye on portfolio performance as well as market share. Not all innovation is good, and competition in the overall market does not necessarily result in better choices for the consumer.

Observation #2: Buyer bias and wishful thinking

A small but not insignificant share of sub-prime borrowers in the U.S. were either speculating on rising home values or taking advantage of the lax underwriting standards. To be sure, greed and poor judgment played a role in the crisis. But the majority of those now in trouble borrowed in good faith and genuinely intended to repay their loans. Buyers’ systematic biases and wishful thinking contributed to soaring delinquency and default rates. Cutting-edge consumer behavioral research reveals that optimism, the desire to own a home, and other psychological factors can often override careful analysis of repayment capacity. Brokers and lenders capitalized on these attitudes in their product
design and marketing techniques. The buyers’ disadvantage was further compounded by the complexity of the mortgage products, low levels of financial literacy, and voluminous but ineffective disclosure requirements.

**Implications:** Consumer psychologists and behavioral economists have just started teaming up to explore attitudes, decision-making and cognitive biases of typical microfinance clients in developing countries. The microfinance industry’s market research, product design, delivery techniques, and client interface should bring these insights on board as soon as they are available, since common assumptions about client attitudes and behavior are probably wrong. The goal should be to design sustainable and responsive products rather than to exploit information asymmetries more cleverly! This research and the sub-prime experience suggests that as players with a long-term perspective on the market, we need to be sure we are offering our clients a reasonable and sustainable value proposition, disclosed transparently and communicated with care.

**Observation #3: Shaky credit processes in the mortgage “value chain”**

We can now see that the sub-prime loan screening and underwriting processes failed too often. One contributing factor was over-reliance on credit scores relative to traditional risk management techniques such as down payment requirements, income verification, and mortgage insurance. Outsourcing of loan marketing and origination to mortgage brokers that were subject to no or negligible regulation was another weakness. A third factor was the role of non-bank mortgage lenders; banks could protect the parent brand by doing very profitable sub-prime business through an affiliate with a different brand and looser underwriting standards. Moral hazard permeated the system, since neither brokers nor lenders expected to suffer the consequences of delinquency and default when loans were resold into the investor market.

**Implications:** To date, the microfinance sector has achieved impressively low default rates, by developing innovative underwriting and risk management techniques for extending credit to those previously considered unbankable. Maintaining this focus on portfolio quality is critical - and especially challenging when providers are expanding at double-digit rates and facing stepped-up competition. The incorporation of credit scoring tools into microfinance underwriting offers enormous potential; the sub-prime experience
reminds us, however, that such lending innovations require care in implementation. Similarly, while outsourcing and partnership models offer potential to increase efficiency and expand access, extreme care must be given to their design and implementation to ensure adequate controls and well-balanced incentives for high-quality portfolio performance and customer service.

Observation #4: Investors in the world of “slice-and-dice” finance

To a large degree, liquidity in world capital markets and investors’ appetite for higher-return product has driven financial innovation, including in the sub-prime market. This niche was at the forefront of financial engineering, as loans were sold and repackaged into increasingly complex securities that offered investment opportunities for banks, investment banks, and hedge funds. The attractive returns may have led investors to rely excessively on ratings rather than careful analysis of the risk and performance of underlying portfolios. The various checks and balances - ratings, regulators, bond insurers, and most significantly, boards of directors - all seem to have failed to exercise adequate due diligence and oversight to prevent the crisis. And the complex securities and ownership arrangements definitely complicate the “unwinding” process, severely limiting the flexibility of lenders, loan servicers and policy makers to negotiate loan restructuring on delinquent and defaulting loans and portfolios.

Implications: The “irrational exuberance” that has characterized global investing is likely to be tempered by the sub-prime crisis. At a minimum, we should expect more careful due diligence and perhaps a reduced appetite for complex financial instruments. Microfinance expansion plans based on the assumption of almost unlimited access to cross-border capital, beyond the current large pool of microfinance-dedicated capital in specialized pools and funds, may need to be reduced. The specialized investors may be rebalancing their risk profiles and taking extra care to assess their portfolio companies and associated microfinance products and practices. The role of competent ratings becomes all the more important. Microfinance managers and boards should consider the potential down sides of securitization and other such financing options.
Observation #5: Regulators in the hot seat

Leading players in the microfinance industry would do well to get out in front of these issues and articulate the principles and practices of sound lending and responsible behavior vis-à-vis their clients.

The sub-prime crisis has raised pointed questions about the adequacy of financial policy, regulation and supervision. Perhaps the most obvious potential response is market conduct regulation to address the most egregious abuses. One key focus is “client suitability assessment,” that is, preventing reckless lending by requiring lenders to take reasonable steps to analyze borrowers’ ability to repay. The crisis has also spotlighted problems of fragmented regulation and regulatory arbitrage. The players in the sub-prime value chain are overseen by a wide variety of federal and state regulators, and crucial parts of the system, such as mortgage brokers, receive at best very light regulation. The melt-down has also revealed the limitations of self-regulation - the banks appear to have been happy to profit through their less-regulated mortgage affiliates while protecting the core brand.

Implications: The final shape of policy and regulatory responses in the U.S. are likely to influence the rules of the game in developing and emerging markets. Regulators and politicians will have a greater awareness of the havoc that reckless lending, predatory practices, and sub-prime players can wreak. They are also likely to recognize the strong potential downside of either inattention or laissez-faire approaches when market excesses begin to appear. Regulators and policy makers should be looking for “light-touch” solutions that strike a careful balance between promoting access and protecting consumers.

Conclusion

In some respects, microfinance is the sub-prime market in most developing and emerging countries. Expanded financial options can offer valuable services to low-income and unbanked people, but bad practices, products and even players can enter the marketplace, harming consumers, legitimate lenders, and the broader financial system and economy. As we seek to innovate and compete with aggressive consumer lending, the microfinance industry needs to ask tough questions about the longer-term viability of our new products, practices, risk management techniques and financing strategies. We should anticipate credit cycles and periodic crises, especially in fast-moving emerging markets. We need
to focus more attention on ensuring that clients understand their rights and obligations, in general, as well as the specific produce and all its features.

This spiraling crisis offers a chance to reflect on how to build a solid foundation and ensure the long-term health of our sector. While appropriate market rules can set the floor and define the boundaries of acceptable practice, voluntary “self-regulation” can set the bar higher and differentiate the “high-road” providers. We must define principles and practices of “responsible” finance that ensure client benefit as well as shareholder value. And our collective self-interest is served by meaningful, practical efforts to increase financial literacy and client capacity to use finance well. Finally, we should continue to explore innovative and appropriate housing finance products for low-end markets.

Related Documents

- **Bringing Pro-Consumer Ideals to the Client: A Consumer Protection Guide for Financial Institutions Serving the Poor (ACCION Monograph #14)**
- **Consumer Protection Principles in Practice: A Framework for Developing and Implementing a Pro-Client Approach to Microfinance (Progress Note No. 14)**

Related Links

- **Americans for Fairness in Lending**
- **Center for Responsible Lending**

We should embrace rather than resist “light-touch” market conduct regulation – by reining in the worst abuses, it protects the legitimate players.
Open Up Your Virtual Wallet

The Microfinance Gateway - 7 April 2008

The buzz about online microlending

With the media hype surrounding Kiva.org and the recent launch of eBay’s MicroPlace, the phenomenon of online microlending has taken off, creating a brand new virtual class of retail investors and lenders for microfinance institutions (MFIs) - perhaps changing the face of microfinance capital.

Hundreds of people sign up each day to provide loans to microentrepreneurs around the world through Kiva.org. In just two years, Kiva has provided over $25 million in microloans from Cambodia to Togo to Iraq. At their current growth rate, they are raising $1 million every 12 days. Similarly, in its first three months after launching, MicroPlace successfully raised more than half a million dollars in investment capital for MFIs.

How does this new internet-based microfinance funding model work? Are there differences between Kiva and MicroPlace? What are the advantages, critiques, and challenges ahead for online microlending?

The roots of online microlending

Both Kiva and MicroPlace, the two major players in online social lending to MFIs, were founded by young, California-based, socially-conscious entrepreneurs.

Kiva was created by newlyweds Matt and Jessica Flannery. Inspired by a 3-month trip to East Africa, they created a way for average people, with a thirst to make a difference, to lend to
microentrepreneurs around the world. “The real motivation behind Kiva was to blur boundaries between who we think of as wealthy and who we think of as people in poverty,” says Matt.

MicroPlace founder Tracey Pettengill Turner returned from a stint with Grameen Bank in Bangladesh with a dream to create opportunities for socially-minded people to invest in the power of microfinance to reduce poverty. Leveraging her experience as a social entrepreneur and business executive, Tracey established MicroPlace, an online platform for retail microfinance investments. “We want people to open their investment wallets, not their charity wallets,” explains Tracey, who believes this strategy accesses a much larger pool of capital than donations.

Kiva vs. MicroPlace - the differences

While both online platforms respond to the microfinance industry’s need for debt financing and desire for globally minded do-gooders to help alleviate poverty, their approaches are different.

MicroPlace is a for-profit online broker-dealer, wholly owned by eBay, that connects retail investors with MFIs. Investors purchase SEC-regulated debt securities from security issuers (currently Calvert and Oikocredit) on MicroPlace.com to finance specific MFIs. The cost of this MicroPlace financing to the MFIs is about 8% per annum. If an MFI defaults, security issuers bear the risk and utilize loan loss reserves and credit enhancements to protect investors. The investments provide a small rate of return (currently 1.25% - 3% per annum but soon up to 7%). The average maturity of the investments issued by Calvert and Oikocredit is currently 27 months. As of April 2008, MicroPlace offers 34 investments in MFIs in 22 countries.
Here's how it works:

<table>
<thead>
<tr>
<th>Kiva</th>
<th>MicroPlace</th>
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</thead>
<tbody>
<tr>
<td><strong>Kiva partners with an MFI</strong></td>
<td><strong>MicroPlace partners with a security issuer and MFI</strong></td>
</tr>
<tr>
<td><strong>MFI posts microentrepreneur profiles on Kiva.org</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Lender chooses a microentrepreneur to lend to and provides loan online by credit card</strong></td>
<td><strong>Security issuer sells debt securities on MicroPlace.com, to be directed to specific MFIs</strong></td>
</tr>
<tr>
<td><strong>Kiva aggregates online retail loans and wires funds to MFI, which in turn provides microloans to the microentrepreneurs chosen by lenders</strong></td>
<td><strong>Investor selects MFI to be funded and purchases online security from security issuers partnering with MicroPlace</strong></td>
</tr>
<tr>
<td><strong>Lender receives principal payment, without interest, at end of loan term; Also receives microenterprise status updates over course of loan</strong></td>
<td><strong>Security issuer uses funds generated to invest in selected MFIs</strong></td>
</tr>
<tr>
<td><strong>Investor receives interest and principal payments from security issuer over length of investment</strong></td>
<td></td>
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</table>

More on how Kiva works...  
More on how MicroPlace works...

On the other hand, Kiva is a non-profit that connects online lenders with microentrepreneurs through MFI partners - currently 88 MFIs in 42 countries. As of April 2008, Kiva’s 270,000 lenders have loaned a total of almost $27 million. The average loan term is 10.2 months. Kiva financing is offered to MFIs at 0% interest and lenders do not receive any interest on the loans they fund through Kiva, only repayment of the principal. Kiva lenders bear the risk if a selected microentrepreneur defaults on his loan. However, Kiva plans to add an option in the future in which MFIs can choose whether to cover entrepreneur default themselves or pass this risk on to Kiva lenders.
Challenges on the horizon

Awash in socially-conscious dollars, Kiva’s task ahead is to identify new MFI partners where these funds can be safely and responsibly managed. Staff is increasing as they build in-house due diligence expertise based in Latin America, Africa, Asia, and Eastern Europe to solidify microfinance partnerships beyond the traditional local and international networks. Kiva is also trying to integrate its technology platform with partner MFIs’ management information systems (MIS) to lessen the reporting burden on MFIs. The central database will further provide Kiva with more accurate, transparent, and extensive MFI financial data.

A fundamental challenge for Kiva is making its lending process more transparent to lenders. Currently, Kiva lenders select microentrepreneurs to finance from the website, Kiva loans are disbursed to MFIs, and then MFIs on-lend those funds to the selected microentrepreneurs. Kiva is trying to clarify this process by educating lenders about MFI partners and the interest rate spread, and ensuring that MFIs comply with directing funding to the lender-selected microentrepreneurs. Some industry experts are also concerned about the impact

Kiva vs. MicroPlace - A Summary

<table>
<thead>
<tr>
<th></th>
<th>Kiva</th>
<th>MicroPlace</th>
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</thead>
<tbody>
<tr>
<td>Launch date</td>
<td>October 2005</td>
<td>October 2007, Bought by eBay in 2006</td>
</tr>
<tr>
<td>Legal structure</td>
<td>Non-profit</td>
<td>For-profit, SEC-registered</td>
</tr>
<tr>
<td>Model</td>
<td>Lenders provide loans to microentrepreneurs and receive updates</td>
<td>Investors purchase investment securities of MFIs</td>
</tr>
<tr>
<td>User experience</td>
<td>Focus on individual microentrepreneur and peer-to-peer connection: Lenders engage with borrower stories on website</td>
<td>Focus on microfinance institution and investment terms, with prospectus available online</td>
</tr>
<tr>
<td>Who can lend or invest?</td>
<td>Anyone with a credit card or PayPal account; Lenders come from 71 countries (with 80% from the U.S.)</td>
<td>United States residents only, due to SEC regulations</td>
</tr>
</tbody>
</table>

“The ultimate question in the long term is whether Kiva positively fuels the growth and capacity of MFI partners to better reach new and unserved low-income clients.”

– Kiva president, Premal Shah

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of having short-term, hard currency denominated funding sitting on the balance sheets of MFIs. Kiva is exploring different ways to reduce the foreign exchange risk this creates for MFIs.

As a new site, MicroPlace’s main challenge is expanding its investor base as well as raising the average MicroPlace investment which is currently $350 (as compared to Kiva’s $96). To respond to this challenge, MicroPlace is launching a new marketing strategy to excite more socially conscious investors in the United States by raising awareness of microfinance.

At the industry level, critics question whether online microlending platforms offer a sustainable model to expand access to finance. They argue that increasing foreign funds could become a distraction, reducing MFIs’ interest in developing domestic capital markets and savings mobilization. Kiva’s interest-free loans to partner MFIs may further distort the market. To ensure that partner MFIs do not rely too heavily on Kiva loans, Kiva restricts funding to no more than 30% of an MFI’s gross loan portfolio. Kiva is initiating an incubator program to meet the financing needs of younger, riskier MFIs with fewer debt capital options. In this program, the 30% financing ceiling will be more flexible.

Alongside the challenges ahead for these innovative online microlending models is a tremendous opportunity to engage the public on microfinance – transparently and truthfully, create a new class of retail investors and lenders for the microfinance industry, and ultimately, generate greater access to appropriate financial services for microentrepreneurs around the world.

Related Links

- CFR: Interview with Kiva Cofounder Matt Flannery
- Kiva
- MicroPlace
- Nextbillion.net: Four Questions for MicroPlace Founder
- Nextbillion.net: Kiva vs. MicroPlace - What's the Difference?
What Are the Most Effective Staff Incentive Schemes?

Gramling, M. & Holtmann, M. – 14 April 2008

Results from two global surveys

Mattias Gramling, an independent microfinance consultant with expertise in staff incentives systems, and Martin Holtmann, head of the Microfinance Unit in the Global Financial Markets Department of IFC, co-authored the MicroSave Staff Incentives Toolkit. Gramling and Holtmann will co-moderate the microLINKS Speaker’s Corner on Staff Incentive Schemes.

Strong human resources (HR) are essential for successful and sustainable microfinance operations. Four of the five highest risks recently identified by microfinance institutions (MFIs) in the Microfinance Banana Skins Survey 2008 are HR issues:

- Management quality
- Corporate governance
- Cost control (personnel costs are still the largest component of operational costs)
- Staffing

Staff incentive schemes (SIS) are crucial to attract and retain high performers and encourage outstanding achievements. Designing such schemes appropriately is important since they frequently influence an MFI’s entire organizational culture. However, many MFIs have questions on how to do this:

- What incentives achieve high productivity levels, encourage savings or sell insurance policies?

Has your MFI employed the most effective staff incentive schemes?

Sign up for the microLINKS Speaker’s Corner

Staff Incentive Schemes
April 15-17, 2008

Discuss critical staff incentive issues! Topics will include:

- Effectiveness and efficiency of staff incentive schemes
- Staff incentives for different functional levels of staff
- Social performance dimensions in staff incentive schemes
• What are their effects on social performance, service quality or staff turnover?
• Can individual SIS undermine team spirit or staff loyalty? How much should MFIs incentivize staff?
• Should powerful SIS be used to encourage staff not directly engaged in lending activities?
• How should these schemes be designed?

The MicroFinance Network (MFN) and CGAP conducted two global surveys among MFI managers in 2004 and 2007. The objective of the surveys was to explore these questions and map the usage, design and perceived effectiveness of staff incentive schemes. The findings are primarily based on responses from the 238 MFI survey participants (147 respondents in 2004; 91 respondents in 2007). The surveys shed light on frequently asked questions about staff incentive schemes:

Who uses staff incentive schemes?
74% of the 238 responding MFIs utilize monetary incentives and widely perceive them as efficient. MFIs with SIS tend to be more advanced than MFIs without SIS. They are more likely to:

• Be regulated
• Have more than 50 employees
• Be profitable
• Have been operating for more than 8 years
• Maintain a high loan portfolio quality

The surveys further reveal regional differences: staff incentives are not as popular in South Asia and Sub-Saharan Africa as in other regions.

What are the perceived effects of staff incentive schemes on loan officers?
In the 2007 survey, MFI managers reported that loan officer incentives have strong positive effects on loan portfolio quality, loan officer productivity and organizational profitability. They also report that incentives can help to enhance staff loyalty, team spirit and the achievement of social goals (i.e. targeting the poor, impact on poverty alleviation), but these effects are weaker, as seen in the table below.
What types of staff incentive schemes are employed?
The two surveys suggest that monetary short-term individual bonus schemes are the most popular type of incentives. The graph below illustrates the percentage of MFIs using various types of SIS. Staff incentive schemes are most frequently used to boost loan officer productivity and healthy portfolio quality, however MFIs use a wide range of schemes, including:

- Bonus systems that reward individual or team performance
- Incentive schemes that accrue bonuses as a function of the entire MFI’s performance (typically annual profit or gain-sharing schemes)
- Annual salary increments (merit-based pay schemes)
- Employee stock ownership plans (ESOPs)
- Non-monetary incentives
What are the best types of incentives for loan officers?
The best type of incentive scheme depends on the organization’s culture. In some organizations, powerful staff incentives may not be the right approach at all. However, the 2007 survey revealed that certain SIS features have stronger effects than others on productivity, loan portfolio quality, team spirit, staff loyalty and staff retention:

*Short-term or long-term incentives?*
Short-term staff incentives with quarterly or monthly bonus accruals and payouts produce the best effects on loan officer productivity and loan portfolio quality. Incentives designed over a long-term period, with semi-annual or annual payouts, achieve higher team spirit, loyalty and staff retention.

*Individual or team incentives?*
Most MFIs use individual incentive schemes to enhance loan officer performance. Others use a mixture of individual and team incentives. Very few respondents indicated that they use only team incentives. The survey findings suggest that MFIs that design staff incentives to foster staff productivity or enhance loan portfolio quality should closely link the rewards to individual achievements. Factoring in team components produces greater results in team spirit and higher staff retention – but at the cost of productivity and loan portfolio quality.
Can staff incentive schemes balance social and financial goals?
Only a few organizations have designed special incentives to balance social and financial goals. Incentives work best when applied to loan officers who have little influence over that balance. The products they manage and geographic areas to which they are assigned generally determine the degree to which they are able to reach poor customers. However, pioneers such as PRIZMA in Bosnia and Herzegovina explicitly use achievements in social goals to determine staff bonuses.

When are staff incentives not the right management tool?
Approximately 1/4 of the participating MFIs in both surveys reported they don’t use any incentive schemes - mainly due to financial cost and lack of technical knowledge. Less cited reasons include legal issues and the perception that employees are already highly motivated. Around 75% of the MFIs not yet using SIS intend to in the near future.

Related Documents

- **MicroSave Briefing Note # 48 - Staff Incentive Schemes for Deposit Mobilisation**
- **A Toolkit for Designing and Implementing Staff Incentive Schemes**
- **Designing Financial Incentives to Increase Loan Officer Productivity: Handle with Care!**
- **Designing Staff Incentive Schemes to Balance Social and Financial Goals**
- **MicroSave Briefing Note # 15 : Designing Staff Incentive Schemes**
- **Principles for Designing Staff Incentive Schemes**
- **Staff Incentive Schemes in Practice: Findings from a Global Survey of Microfinance Institutions**
- **The Role of Staff Incentive Schemes in Balancing Social and Financial Goals: Evidence From Four MFIs**
- **We Aren't Selling Vacuum Cleaners: PRODEM's Experiences with Staff Incentives**
Related Links

- MFN Staff Incentives Working Group
- Microfinance Network
- microLINKS Online Discussion on Staff Incentives
- MicroSave Staff Incentive Toolkits
Investigating the Financial Lives of the Poor

Collins, D. – 28 April 2008

The Financial Diaries method

Daryl Collins is the Director of the South African Financial Diaries project, funded by FinMark Trust, the Ford Foundation and the MicroFinance Regulatory Council of South Africa.

A 50 year old single woman, Mambongo* lives with her three children and one grandchild in a crowded flat in one of the roughest areas outside Cape Town, South Africa. Her main source of income is a small business cooking sheep intestines. A government-sponsored child grant, income from a casual job and periodic small gifts from an aunt supplement this income. Her primary financial concern is making ends meet on a daily basis, and making sure her family enjoys a good Christmas each year.

How does Mambongo manage her money and try to meet these financial goals? The Financial Diaries, a data collection method initially conceived by David Hulme and Stuart Rutherford, author of The Poor and Their Money, answers such questions by tracking household cash flows over the course of a year. With its rich set of data, the Financial Diaries aims to help policymakers, the financial industry and donor agencies understand financial management practices of the poor so they can strategize on how to increase financial access for these households.
Finance: Where time and money intersect

Very little systematic research has been done into the precise methods that poor people use to manage their money. Many household surveys ask questions about loans and savings behavior, but most ignore or under-report informal services and often miss a fundamental element of finance - time. By taking into account time, the Financial Diaries method is able to capture two elements that are not observed in one-time household surveys:

1. **The complexity of a household’s financial transactions**: Talking to households over time allows us to unravel the details and capture the entire set of cash flows.

2. **The success or failure of financial management**: This can only be assessed by observing a build-up of savings or how quickly a loan is paid off over time.

Poor households in the study do not actually keep a “diary” themselves. They are interviewed by a team of skilled field researchers who record transactions and comments during home visits every other week. These field researchers ask respondents detailed questions about their financial flows during the prior two weeks - for example, did they take a loan, deposit money into an account, or take goods on credit?

**The South African Financial Diaries**

Building on the first Financial Diaries studies in Bangladesh and India in 1999 and 2000, the South African Financial Diaries were implemented in 2004-2005 using different techniques to collect a more complete set of cash flow and balance sheet data. A specially built database made it possible to improve data quality in two ways:

1. **Questionnaires specific to each household** were generated, based on data from the previous interview. This innovation simultaneously shortened the interview time, while facilitating a higher precision of recall, even for small financial transactions.

2. **Field workers** were able to calculate an on-the-spot reconciliation of household cash flow statements, which allowed them to easily target
small cash flows that households may have forgotten or avoided discussing.

The South African Financial Diaries method tracked, with high precision, a set of over 200 income, expenditure and financial transaction daily time series for each household. Aggregated across households and over time, the margin of error across the sample becomes an average of 6% of sources of funds after 6 interviews.

In addition to tracking a large amount of quantitative data, the Diaries simultaneously provides rich qualitative data. Part of the interview time is spent in open-ended conversations with households, allowing researchers to follow households’ financial dilemmas, opportunities, and strategies as they play out from week to week.

The case of Mambongo

To see how this method of data collection yields a complete set of ongoing financial accounts, let’s return to the story of Mambongo. Though she was illiterate and could not speak English, she was not intimidated by the detailed financial questions the research team asked her. A strong woman, solid in both appearance and personality, she could remember her cash flows for the previous two weeks and recall exactly how she made her financial decisions. She explained that in April, she took a loan from a moneylender to help the cash flow in her business. She also belonged to eight different savings clubs over the year. One club helped fund her cash flow requirements for business inventories (she received a payment in April), while the others were ear-marked savings for Christmas. The table below shows the complete set of cash flows for April 2004, the combined results of two interviews.
Mapping the Sources and Uses of Funds for a Financial Diaries household, April 2004

<table>
<thead>
<tr>
<th>Sources of funds</th>
<th>Uses of funds</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operational</strong></td>
<td><strong>Operational</strong></td>
</tr>
<tr>
<td>Casual wages</td>
<td>Food</td>
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<tr>
<td>Business revenues</td>
<td>$ 85</td>
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<tr>
<td>Child grant</td>
<td>Business inventory</td>
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<tr>
<td>Gift from aunt</td>
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</tr>
<tr>
<td><strong>Financial</strong></td>
<td>Business expenses</td>
</tr>
<tr>
<td>Received moneylender loan</td>
<td>$ 2</td>
</tr>
<tr>
<td>Savings club payout</td>
<td>Paraffin</td>
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<tr>
<td></td>
<td>$ 6</td>
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<tr>
<td></td>
<td>Electricity</td>
</tr>
<tr>
<td></td>
<td>$ 22</td>
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<tr>
<td></td>
<td>Household products</td>
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<tr>
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<td>$ 46</td>
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<td></td>
<td>Transport to work</td>
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<td>$ 12</td>
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<td></td>
<td>Newspapers</td>
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<td></td>
<td>Public phone</td>
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<td></td>
<td>$ 3</td>
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<tr>
<td></td>
<td>Penalties and fines</td>
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<td>$ 1</td>
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<td>Haircut</td>
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<td>$ 2</td>
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<tr>
<td></td>
<td>Savings club payment</td>
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</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>Total</strong></td>
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<tr>
<td></td>
<td>$437</td>
</tr>
<tr>
<td></td>
<td>$436</td>
</tr>
</tbody>
</table>

Margin of error ($437 – $436) = $1

Results: Better understanding financial management in poor households

Mambongo’s broad array of savings, credit and cash flow instruments is typical of the poor households surveyed using the Financial Diaries. Households in the 250 households surveyed in Bangladesh, India and South Africa used, on average, ten different types of financial instruments. Tracking the entire portfolio of financial instruments over time has yielded a number of insights across a broad spectrum of poverty-related questions, including:

- The median Diary household in South Africa saved an astonishing 21% of their income every month. However, those savings rarely accumulated for more than several months, and usually were tied to a specific purpose, leaving poor households with little savings to use for unexpected emergencies or opportunities.
• Although physical assets, like livestock and land, make up most of a household’s net worth, their median value over the year was virtually unchanged. Net financial assets (assets less liabilities) are far more dynamic. Households accumulated savings month by month and by the end of ten months, the median household had 14% more in net financial assets than they started with. This is a significant amount of asset accumulation, taken from small incomes, over a short period of time.

• Funerals provide frequent unexpected financial shocks in South Africa, often costing up to 7 months of income. Despite holding a portfolio of funeral insurance instruments, 61% of South African Diaries households are underinsured against the cost of a funeral. Eighty percent of these households would lose over half of their monthly income should the highest income recipient in the household die. Even by selling liquid assets, only 1/3 of the sample households would be able to maintain their pre-death living standards for a year or more.

• Households are also not prepared for long-term goals like retirement. Only 15% of single adults and 18% of married couples in the Financial Diaries sample would have more than 5 years of retirement support by the time they retired. While the middle and high income households benefit from employer-provided provident and pension plans, most low income South Africans depend on the small state-provided Old Age Grant for support in their old age.

A new book called Portfolios of the Poor, due to be released in Spring 2009, will bring together the findings of the Bangladesh, Indian and South African Financial Diaries.

* Names of respondents have been changed to protect their identities.

Related Documents

• Fine-grain Finance: Financial Choice and Strategy Among the Poor in rural North India
• Money Talks: Conversations with Poor Households in Bangladesh about Managing Money
• The Financial Diaries: Investigating the Financial Lives of the Poor in South Africa
• The Poor and Their Money
Microfinance Multiplied

The Microfinance Gateway – 3 June 2008

An interview with Fazle Abed, founder and chair of BRAC

Fazle Hasan Abed is founder and president of BRAC, a multi-sectoral NGO based in Bangladesh. Abed is widely recognized for his holistic approach to development and his vision of financial services as part of a broader range of development services. BRAC is a major Bangladeshi innovator, known for its leadership in a multitude of development sectors and ability to self-finance. BRAC offers a very wide range of services to over 110 million people, including microfinance, primary education, legal aid, health services, market development activities, a SME bank, and a university.

1. You describe BRAC as not just "microfinance-plus" but "microfinance multiplied." What do you mean by this? How does BRAC go beyond microfinance-plus?

At the heart of BRAC’s approach to development is organizing the poor. Organizing the poor into microfinance groups builds community and enables them to address the constraints they face. BRAC’s "multiplied" approach leverages the power within these groups to develop a sustainable, social entrepreneurial approach to deliver essential services to the poor. BRAC helps the group build essential linkages that integrate members into the society and market while ensuring they receive fair treatment, prices and practices. BRAC has used this approach in many areas such as health, agriculture, poultry and livestock, and legal education.

Microfinance Multiplied: Health Volunteers

BRAC trains one member from each of its village microfinance groups to be a health volunteer. 68,000 health volunteers have been trained to date. Volunteers treat basic and common illnesses and sell essential non-prescription medicines at competitive retail rates. They buy medicine from BRAC, which sources directly from pharmaceutical companies at bulk discount rates. Volunteers promote health awareness, encourage pregnant women to seek prenatal care, and help mothers immunize their children.

The volunteers do not receive a salary. Instead, BRAC health staff train them upfront and provide monthly refreshers and support. Volunteers are given a small revolving interest-free loan fund from which they can buy the medicine to sell.

Health volunteers are members of BRAC's microfinance groups. This is critical to the model because it ensures that the volunteer is someone who is known and trusted, and it gives the volunteer a group identity and peer support.
In health, a microfinance *plus* approach could range from simple measures such as using the group meetings to deliver health education, to linking up microfinance clients to a health facility on preferential terms, to providing services directly. We believe the problem is the lack of a well-functioning, pro-poor health *system* at the village level. So we set out to create a new system rather than implement unsustainable, stop-gap projects.

2. We often hear about BRAC’s ability to scale. What allows BRAC to reach so many people so quickly, even in those markets where other organizations have been unable?

BRAC analyzes a problem from a national perspective and searches for solutions from the grassroots. It pilots models to test effectiveness but always with a focus on establishing the management structure needed to go to scale. There is a big focus on not getting trapped in a pilot syndrome. We learn to solve the problems of scaling up through the process of scaling up itself. Learning and adjusting are not things we stop doing after a pilot, but are a central part of a continuous process of refinement and adaptation.

For international operations, the process is jumpstarted by a handful of implementation experts from BRAC Bangladesh, who mentor a cadre of fresh local staff through formal and on-the-job training. A Dhaka-based management team analyzes performance and has teleconferences with country management monthly in addition to quarterly face-to-face management meetings.

3. BRAC has been able to run a number of value chain projects that have blossomed into stand-alone businesses such as poultry, dairy, and iodized salt? How did these projects emerge? And how do you see them evolving in the future?

These projects emerged to address value-chain bottlenecks for the enterprises of the poor. BRAC set up poultry hatcheries to ensure timely supply of quality,
disease-free, day-old chicks as inputs for rural micro poultry rearers. At the time the project started, a reliable supply of day-old chicks was not available because the sole supplier was the government’s poultry and livestock department. Similarly, BRAC set up poultry feed mills in response to the shortage of quality poultry feed, and started maize seed production when quality inputs for the poultry feed were not available.

BRAC also set up a dairy project to facilitate better prices for milk for rural, small-holder livestock rearers. The project collects milk directly from small-holder cattle rearers in rural areas through a network of chilling plants, and transports the milk to a central pasteurization plant. By aggregating the goods of many small producers and conducting quality control, we are able to get the rearers a better price for their goods.

The original landscape in which many of these enterprises were set up has changed dramatically. The private sector has entered the poultry and poultry feed markets in a major way. For these enterprises, BRAC will increasingly use a more, but not wholly, commercial approach moving forward.

New enterprises will be needed to develop frontier markets. One example is bull stations to produce high-breed livestock semen that our livestock artificial insemination workers can take to the small-holder livestock rearers to improve breed and yield over time.

4. How are these social enterprises managed in relation to the microcredit department since they hire many microcredit clients?

The concept behind these social enterprises is to strengthen the livelihoods of microcredit clients, but operationally they are separate and they serve the whole community.

For instance, BRAC dairy project collects milk from anyone within the operating area of the chilling plant. The project may use BRAC microfinance group
meetings to publicize the plant. BRAC microfinance program staff may encourage livestock investment in these areas by promoting livestock loans and BRAC’s Livestock Artificial Insemination (AI). In turn, the AI program may focus on training more AI workers in these areas. Each program will take into account the other program’s activities in its operating area to take advantage of opportunities. However, these social enterprises are managed and accounted for separately. Importantly, BRAC clients also perceive these activities as separate.

5. How has BRAC needed to adjust and adapt to be successful in new markets like Africa and Afghanistan? How has your model changed?

Our experience has been that the core of our model is quite robust and only requires small adjustments. In Afghanistan, we had to start with community infrastructure projects rather than microfinance to gain acceptance and understand community dynamics. We set up tailoring training centers to get women out of their homes and into group settings. This form of training already had community acceptance. Organizing women into microcredit groups began as a follow-on service to tailoring centers and quickly gained acceptance. Since we were targeting women for microcredit clientele, we recruited women credit officers - a principle we are replicating in our programs in Africa.

In Africa, we start a group with 20-25 members, compared to 30-35 in Bangladesh. Our branches in Africa are smaller, typically covering a 3-4 kilometer radius rather than a 7-8 kilometer radius as in Bangladesh. Trading activities are more common among our African clients, so we responded to their demand for shorter duration loans. As the women themselves are more directly involved in business compared to Bangladesh, we focus more on the income generation aspects of health volunteers.

6. Is post-conflict microfinance different from regular microfinance? How do you approach post-conflict areas?
In post-conflict settings, population clustering tends to happen around urban centers. Expanding microfinance in rural areas of these countries needs to be coupled with a strong agricultural component. In addition to capital constraints, skills gaps prevent the poor from benefiting from a range of livelihood opportunities, especially in urban areas. A focus on market-responsive skills development is also important. Value chains in post-conflict countries tend to be fragile and expensive, and act as major constraints to the growth of enterprises and uptake of new technologies by the poor. All these constraints restrict microfinance and require a holistic, integrated, and entrepreneurial response.

Related Documents

- [Assessing the Poverty and Vulnerability Impact of Micro-credit in Bangladesh: A Case Study of BRAC](#)
- [Beyond Lending: How Microfinance Creates New Forms of Capital to Fight Poverty](#)
- [Crafting a Graduation Pathway for the Ultra Poor: Lessons and Evidence from a BRAC Programme](#)
- [Delivering the "Fashionable" [Inclusive Microfinance] With an "Unfashionable" [Poverty] Focus: Experiences of BRAC](#)
- [Promoting Health Knowledge Through Micro-Credit Programmes: Experience of BRAC in Bangladesh](#)
- [Targeted Development Programmes for the Extreme Poor: Experiences from BRAC Experiments](#)
- [The profitability of BRAC financed projects: A study of seven microenterprises in Matlab](#)

Related Links

- [BRAC - Bangladeshi Rural Advancement Committee](#)
- [BRAC International](#)
- [BRAC Research](#)
A Primer on Microfinance in India

George, M. – 5 June 2008

History, Challenges, Impact: The Building Blocks of Indian Microfinance

Manju George is Vice President at Intellecap and directs the company’s consulting practice. Established in 2002 in India, Intellecap facilitates investments into socially motivated businesses and provides consulting and advisory services. Intellecap is also the Content Management Partner of the Microfinance Gateway.

Indian microfinance is dominated by two operational approaches: self-help groups (SHGs), and microfinance institutions (MFIs), in addition to a few cooperative forms. The SHG model was initiated by the National Bank for Agriculture and Rural Development (NABARD) through the SHG-Bank Linkage Programme in the early 1990s. Today the SHG model, which links informal groups of women to the mainstream banking system, has the largest outreach to microfinance clients in the world. MFIs emerged in the late 1990s to harness social and commercial funds available for on-lending to clients. Today there are over 1,000 Indian MFIs.

According to estimates from Intellecap's Inverting the Pyramid: The Changing Face of Indian Microfinance (2007), SHGs and MFIs have together disbursed USD3.7 billion in microloans through March 2007 (See Figure 1). While the SHG model provides the majority of disbursements, the MFI model has demonstrated a higher growth rate. From 2003 to 2007, the MFI disbursement share rose from

Box 1: Estimating the Annual Microfinance Demand in India

Assuming the entire poor population of India is potential microfinance clientele, the market size for microfinance in India is in the range of 58 to 77 million clients. This translates to an annual credit demand of USD5.7 to 19.1 billion (INR 230 to 773 billion) assuming loan sizes between USD100 and 250. If we assume that the low-income but economically active population including small and marginal farmers, landless agricultural laborers, and micro-entrepreneurs, are also potential microfinance clients, the annual credit demand goes further up to an estimated 245.7 million individuals and USD51.4 billion (INR 2.1 trillion) in annual on-lending requirements.

Source: Inverting the Pyramid - The Changing Face of Indian Microfinance
28% to 47% of all Indian microfinance loans - a value of USD1.7 million. Despite such growth, estimates suggest that the current supply of microcredit amounts to only about 7% of potential demand.

**Self-Help Groups**
According to NABARD, almost 3 million SHGs have linked to nearly 500 banks since the program started, reaching over 11 million households across.

**SHG Federations**
Some NGOs such as MYRADA and Dhan Foundation have promoted federations. These apex institutions aggregate savings from SHGs and act as intermediaries between financial institutions and SHGs. SHG Federations were envisioned as an exit strategy for the promoting agencies and a means of ensuring SHG sustainability. However, most federations have yet to demonstrate operational self-sufficiency, the ability to mobilize sustained financial resources and most importantly, the institutional capacity to run without the promoting agency’s support.

**Financing Strategies**
Commercial banks, regional rural banks (RRBs) and cooperative banks primarily fund the SHG-Bank Linkage Programme, and NABARD in turn re-finances them. Credit lines to SHGs are critically limited, as they are based on a certain multiple of SHG members' savings accounts within banks. While the cumulative savings of SHGs could serve as a low-cost source of funds for onlending, their potential is limited by the lack of aggregated savings across SHGs. Commercial equity investments are not available to for SHGs due to their informal status.
**Illusive socio-economic impacts**

SHGs form a critical link for poor women to access a variety of financial services. They are effective platforms for women to participate in politics through awareness campaigns and community action. SHGs have also emerged as "last mile" channels for government to distribute financial benefits and for corporations to retail their products through member-entrepreneurs. Even so, questions remain about the ability of SHGs to attain a primary objective - economic empowerment of poor women.

**Microfinance Institutions (MFIs)**

Indian MFIs range from Grameen-replicator NGOs to for-profit entrepreneurial ventures to developmental NGOs which moved from SHG promotion to direct financial intermediation. Based on asset sizes, MFIs can be divided into three categories:

- **Category 1:** 5-6 institutions which have attracted commercial capital and scaled up dramatically over last five years. These MFIs, which include SKS, SHARE and Spandana, were initiated in the 1990s as NGOs promoting SHGs or Grameen-style programs but after 2000, converted into for-profit, regulated entities, mostly Non-Banking Finance Companies (NBFCs).

- **Category 2:** Around 10-15 institutions with high growth rates, including both NGOs and recently formed for-profit MFIs (mostly NBFCs). Many NGOs have transformed into regulated, for-profit structures recently or are in process now, and seek commercial equity investments. Examples include Grameen Koota, Bandhan and ESAF.

- **Category 3:** The bulk of India’s 1000 MFIs are NGOs struggling to achieve significant growth. Most continue to offer multiple developmental activities in addition to microfinance and have difficulty accessing growth funds.
MFI Mainstreaming and Commercialization

While SHGs tend to have a multi-sectoral development approach and are challenged by sustainability. Most MFIs focus on scaling up microcredit operations while creating a sustainable legal structure and business model. The MFI approach is generally more attractive to commercial capital and mainstream market players.

**High growth rates and business efficiency**

According to an Intellecap study, as of March 2007, the 60 largest MFIs in (by number of clients) had close to 10 million clients and a cumulative outstanding portfolio of USD 769 million. These 60 MFIs included all MFIs from Category 1 and Category 2 and prominent Category 3 MFIs. These MFIs account for an estimated 95% of total MFI loans in . From 2003 to 2007, these MFIs demonstrated impressive annual growth rate was over 70%, the average operating cost ratio moved from 20% to 11% and average return-on-equity (ROE) increased from 2.2% to 33.2%. The efficiency and profitability indicators of Indian MFIs are highly favorable as compared to Asian benchmarks. (See Box 2)

**Amenable financing environment**

Access to finance has played a critical role in helping Indian MFIs achieve such growth. Donors including Cordaid and Ford Foundation have extended grants and quasi-equity to support institutional capacity building and cover early-stage losses. Organizations such as Grameen Foundation have extended guarantees to

<table>
<thead>
<tr>
<th>Indicator</th>
<th>India (Intellecap Sample)</th>
<th>Asia (MBB Sample)</th>
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<tr>
<td>Total Assets (USD Mln)</td>
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</tr>
<tr>
<td>Loan Portfolio (USD Mln)</td>
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<td>5.10</td>
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<tr>
<td>Active Borrowers</td>
<td>45822</td>
<td>32869</td>
</tr>
<tr>
<td>Portfolio/ Assets Ratio</td>
<td>89%</td>
<td>76%</td>
</tr>
<tr>
<td>Average Loan Outstanding (USD)</td>
<td>204</td>
<td>121</td>
</tr>
<tr>
<td>Operating Cost Ratio</td>
<td>14%</td>
<td>19%</td>
</tr>
<tr>
<td>Cost per Borrower</td>
<td>11</td>
<td>29</td>
</tr>
<tr>
<td>Return on Assets</td>
<td>2.08%</td>
<td>2.4%</td>
</tr>
<tr>
<td>Return on Equity</td>
<td>15.8%</td>
<td>10.8%</td>
</tr>
<tr>
<td>Profit Margin (after tax)</td>
<td>2.4%</td>
<td>1.3%</td>
</tr>
<tr>
<td>Yield on Portfolio</td>
<td>30.7%</td>
<td>29.3%</td>
</tr>
</tbody>
</table>

*Source: Inverting the Pyramid - The Changing Face of Indian Microfinance*
leverage additional loan funds. Apex institutions like Small Industries Development Bank of India (SIDBI), Friends of Women’s World Banking (FWWB) and Rashtriya Mahila Kosh (RMK) provided early stage onlending capital.

Leveraging these resources, many MFIs accessed market-rate lending capital from commercial banks such as ICICI Bank, ABN Amro Bank and HDFC Bank. Since 2006 commercial equity investments have entered the market, mostly into Category 1 MFI capital structures. Between 2004 and 2007, the microfinance sector received an equity infusion of almost USD43 million, USD38 million of which flowed in during the first four months of 2007 (See Box 3).

<table>
<thead>
<tr>
<th>Box 3: Recent equity investments in Indian microfinance</th>
</tr>
</thead>
<tbody>
<tr>
<td>MFI</td>
</tr>
<tr>
<td>Investment Size</td>
</tr>
<tr>
<td>Investor</td>
</tr>
</tbody>
</table>

Compiled by Intellecap

This high growth period was also marked by new and innovative delivery channels. The ICICI Bank Partnership Model allows MFIs to grow their client base and enjoy large financial leveraging. SHARE and BASIX are selling their portfolios to mainstream banks to fuel growth.

From credit-only to diversified services
Though many MFIs formally mobilized client savings as NGOs, deposit mobilization is prohibited once MFIs transform into for-profit legal entities. Proposed policy reforms on the horizon, are expected to allow non-profit MFIs to function as business correspondents for commercial banks and offer savings services to clients, but this is not an avenue open to most of the scaled-up, for-profit MFIs.
NGO-MFIs are also partnering with mainstream insurance providers to offer insurance services. Remittances are another emerging area of interest for Indian MFIs as well. For example, Spandana has partnered with Western Union to provide remittance services to its clients.

**Increasing outreach**
Many Indian MFIs are increasingly becoming national players. As of 2008, at least 12 MFIs operate in more than one state. There is an increased focus on urban market and a new generation of MFIs, such as Ujjivan and Swadhaar, operate solely in urban areas.

**Scaling up Indian Microfinance: Opportunities and Considerations for the Future**
While Indian microfinance has grown substantially over the last decade, future success will require informed decisions and proactive strategies by key stakeholders, taking advantage of emerging opportunities and mitigating potential risks.

**Funder coordination for retail microfinance**
Most investors, apart from a few funds such as Bellwether, Lok Capital, and Aavishkaar-Goodwell, tend to focus on the established Category 1 MFIs, leaving plenty of room for more early-stage MFI investments. Complementing this, the space can benefit from specialized microfinance debt financing vehicles that provide an alternative to commercial bank funding and an increased participation from capital markets through mechanisms such as bond issues and securitization.

**Supporting infrastructure needed**
As in any industry, microfinance can expect to see a period of consolidation with mergers and acquisitions, innovative financing mechanisms as well as unfamiliar risks such as competition and inadequate growth management. To complement this, parallel investments need to build a supporting ecosystem. Specialized advisory assistance is particularly relevant for MFIs that plan IPOs and bond
issues and experiment with technology interventions such as mobile banking. Human resources for microfinance, both in terms of quantity and quality, will prove to be a key challenge, especially with a booming Indian economy and increasing competition for good quality human resources. Adoption of good governance practices and quality monitoring and reporting will be critical to ensure balanced growth and satisfied stakeholders.

**Policy**
Recognizing that SHGs and MFIs can form key actors in the pursuit of an inclusive financial system, the Indian policy makers have tried to adopt many promotional and regulatory measures over time, the latest being the proposed [Microfinance Bill](#). The bill is expected to identify a specialized regulator and guidelines for NGO-MFIs while the for-profit entities will be governed by the [Reserve Bank of India](#) regulations. Their legal status will determine their future scope of services, ability to mobilize various types of finance and to be part of the mainstream financial system.

**Related Documents**

- [A Study of the Regulatory Environment and Its Implications for Choice of Legal Form by Microfinance Institutions in India](#)
- [India Microfinance Review 2007](#)
- [Inverting the Pyramid - The Changing Face of Indian Microfinance](#)
- [SHG-Bank Linkage Program in India: An Overview](#)
- [Side by Side - A Slice of Microfinance Operations in India 2006](#)

**Related Links**

- [Microfinance Business to Touch $2 bn by 2009](#)
- [Mix Market India Country Environment Page](#)
- [National Bank for Agriculture & Rural Development (NABARD)](#)
- [Sa-Dhan: The Network of Community Development Financial Institutions](#)
- [The Self-Help Groups Gateway](#)
Governments Give Credit


New study examines the increasing trend of government funding of retail microfinance

“Government plans to set up two funds on Microfinance” (October 10, 2007, The Indian Express)
“Govt has P90B for microfinancing” (May 9, 2008, Inquirer.net, Philippines)
“Govt to Set Up Microfinance Bank” (July 14, 2008, This Day, Nigeria)

Recent headlines such as these show an increasing trend of developing country government commitments to fund retail microfinance. The amount of government funding announced is often staggering, with Nigeria’s declaration to fund $400 million for microfinance topping the list.

Government announcements are generally made in high-level speeches or press releases, which means details on how the money will be channeled, over what time period, or even whether these funds are actually disbursed are difficult to find. Information on the performance or impact of these government-sponsored programs is rarely disclosed.

To investigate the trend of governments directly funding retail microfinance, CGAP conducted a small study in early 2008. This study focused on government-sponsored initiatives destined for retail microfinance funded through national budget resources, rather than development aid from donor countries. The review combined desk research with interviews of 18 regional experts from donor agencies, networks and independent consultants. Self-reported data on government-funded programs around the globe was also collected.

Technology Fund and Financial Inclusion Fund Launched in India

At the 2007-08 budget presentation of Indian Finance Minister P. Chidambaram, it was announced that the government would set up a Financial Inclusion Fund (FIF) and a Financial Inclusion Technology Fund (FITF), with a total outlay of approximately $100 million for the next five years.

The FIF will focus on economic improvement for the poor, while the FITF will invest in information technology to promote financial inclusion.

Read the press announcement.
The results confirmed that governments are a substantial source of funding in microfinance, possibly at levels equal to or much higher than other sources such as developed country donors.

**Where are governments funding microfinance?**

The easy answer is everywhere. CGAP’s research revealed that there are at least 51 developing country governments that directly fund retail microfinance. Within each of these countries, most governments fund several programs. In some countries, funding passes through local or regional government agencies, so capturing national-level information is difficult. One of the most intriguing players is Mexico, with over 30 different government programs. Many Asian countries fund an equally impressive number of programs. There are at least five government programs in China, six in Nepal and Bangladesh, seven in India and eight in Pakistan.

![Bar chart showing government funded microfinance programs by region](chart.jpg)

**Source:** CGAP Research on Government Funding of Retail Microfinance, 2008

**Why do governments fund microfinance?**

Most governments fund microfinance for a specific social or policy objective. CGAP research revealed that the most commonly cited objective was to combat poverty. Rural development was the second most frequently cited objective. Regional differences emerged around this issue. While poverty reduction was most frequently cited Africa and South Asia, employment creation was predominantly cited in the Middle East and North Africa (MENA) region. In East Asia and Central & Eastern Europe (C&EE) and the Newly Independent States (NIS), rural development was cited as the primary...
objective. Diverse motivations were cited in Latin America, with poverty reduction at the top. Local elections, the global debate on poverty and the Year of Microcredit also triggered programs in various regions.

What channels do government funds use to reach poor people?

State Banks: The “tried and true” state bank is still a favorite channel for government microfinance funding. The CGAP study identified 26 state banks, both old and new, that channel microfinance funds. Older institutions included Bank Pertinian in Malaysia, which started in the 1960s and the Agriculture Development Bank of Nepal created in 1975. Newer institutions included Yemen’s upcoming Bank Al Amal and the solidarity banks in Mali, Senegal, and Guinea Bissau, which have opened since 2004.

Apexes: Local wholesale facilities (apexes) were the next most common channel for government microfinance funding. The study found at least 19 apexes receiving direct government funding for microfinance. The main purpose of these facilities is to channel funding in the form of debt or grants to microfinance institutions. Apex institutions, which are sponsored by both national governments and international funders, usually serve as both technical assistance providers and wholesalers of capital to MFIs.

Independent Programs: The newest type of government microfinance program is the stand-alone model, independently administered through one or more government agencies. The study revealed at least 16 programs, mainly in Africa, C&EE and NIS, and Latin America built on this model. Examples include:

- **Ecuador:** The “5-5-5 Plan” launched in 2007 offers low-income people loans of US$50 for 5 years at 5% interest.
- **Kenya:** The “Youth Enterprise Fund” helps youth groups set up enterprises through small loans at concessionary rates and without collateral. The Fund was announced in early 2008 and is administered by the Ministry of Women and Youth Affairs.
- **Tanzania:** The “Mwananchi Empowerment Fund” was announced in January 2008 allocating nearly US$350 million with the aim to increase the number of small enterprises by offering guarantees to small enterprises seeking commercial loans from bank.
What does this all mean?

Government funding for retail microfinance is not new in Latin America and Asia. But in Africa and C&EE and NIS, donors have traditionally been the main microfinance funders with almost no direct government funding, except for Ethiopia. These regions are now witnessing a significant rise in government support for retail microfinance.

The recent publicity around government funding in microfinance has re-opened the debate on the appropriate role of government in providing financial services, especially credit.

Optimists in the microfinance community point out that governments are taking responsibility to address poverty, unemployment and inequity. These issues were largely neglected over the past several decades when the general focus was on economic growth. There is also hope that governments will design programs building on lessons learned from other initiatives and players.

A prime example is India’s new government-sponsored technology funds which try to apply new ideas based on commercial technology funds in the UK. In Colombia, Banca de las Oportunidades has expanded the state bank’s traditional focus on credit to offer insurance, small balance savings accounts, remittance and payment services.

Overall, however, the microfinance community is still largely skeptical about government funding for retail microfinance. The big concern is that governments will only repeat the mistakes they made in the past and not apply the good practices and standards established by the microfinance industry. Will governments impose financial discipline given the multitude of political pressures and goals? The impact of government programs has clearly been

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**Banca de las Oportunidades in Colombia**

**Banca de las Oportunidades** (BDO) is a network of financial institutions set up by the Colombian Government in 2006 to help reduce poverty, promote social equality and stimulate economic development through access to financial services. The banks specifically target those not reached by the financial system, offering services such as payments and transfers, credit, savings and insurance.

The network also aims to instigate regulatory changes, coordinate financial education initiatives and provide incentives such as technical assistance for financial institutions to tap the unmet demand for banking services.

BDO has pushed for the use of retail agents, an important element in branchless banking. BDO estimates that, as a result of the regulatory changes in the works, banking services will be available in each of Colombia's 1,119 municipalities by 2010. (Today, 132 municipalities lack bank presence.)
negative in some countries. For example, the Uzbek government imposed high tax charges forcing the closure of several strong NGO-MFIs and then opened its own MicroCredit Bank after hearing that several donors were considering the creation of a start-up microfinance bank.

**Conclusion**

It is too soon to know the effect of government funding for retail microfinance, in part because government declarations are not the same as actual loan disbursements. So the question remains -- will government funding to retail increase outreach, or will it detract from the move to commercialization and sustainable access which has been a hallmark of the modern microfinance industry? This first scan of government funding for retail microfinance certainly calls for taking a better pulse of the phenomenon.

CGAP welcomes your thoughts on this question and any further information you may have.

**Related Documents**

- [Financial Inclusion 2015: Four Scenarios for the Future of Microfinance (Focus Note No. 39)](#)
- [Good Practice Guidelines for Funders of Microfinance (Microfinance Consensus Guidelines)](#)
- [National Microfinance Strategies](#)
- [The Role of Governments in Microfinance (Donor Brief No. 19)](#)

**Related Links**

- [CGAP](#)
- [Governments Give Credit (French)](#)
After the Earthquake in China

Song, S. & Isern, J. – 26 August 2008

What is the role for microfinance institutions?

Read this Highlight in Chinese

The Earthquake’s Devastation

On May 12, 2008, an 8.0-magnitude earthquake hit southwestern China. The epicenter was in Wenchuan County of Sichuan Province. Given the magnitude of the quake, tremors were felt throughout Asia. So far, it has claimed 69,207 lives, injured 374,216, displaced 1.49 million people, and affected more than 34 million people. According to the World Bank quarterly update, the quake affected crops on 224,000 hectares of farmland, wrecked 22,000 km of road and tunnels, and damaged 11.4 million houses and 21 million buildings.

Just after the quake, the most urgent priority was rescue operations and food and shelter for the survivors. In an outpouring of generosity, many individuals, businesses and organizations joined the Chinese disaster relief efforts.

“Let the dead be at peace; let the living be strong”

This banner hangs around thousands of refugee tents and temporary houses in the quake zone. Now, four months later, people are turning to rebuilding their lives. According to Mr. Yuan Yue (read interview), CEO of Horizon Research Consultancy Group, more than 80% of quake survivors would like to resume prior income-generating activities.
“Traditionally, Chinese people’s savings are mainly stored in their homes. With their houses shattered and relatives injured or dead, they lost almost all of their assets, and fell into the trap of poverty,” reports Mr. Wu Peng (read interview), Deputy Director in Monitoring & Research Development of CFPA. With about 97% of houses in the rural areas destroyed in the earthquake, rebuilding is a priority. As CFPA planned a special housing finance project for quake victims, they found the average family’s repayment capacity in the rural areas of Sichuan Province to be 10,000 Yuan (US$1,500) per year.

<table>
<thead>
<tr>
<th>Microentrepreneur Profiles</th>
</tr>
</thead>
<tbody>
<tr>
<td>In Ningqiang County of Shaanxi Province, a farmer Mr. Wu used to make a living by growing mushrooms. However, the earthquake shattered his house, and there are no laborers to help him at the crucial time of mushroom planting. Mr. Wu faces the prospect of heavy losses this year.</td>
</tr>
<tr>
<td>In Mianzhu County near Deyang—-one of the worst hit areas, where most houses were damaged, there is a village that produces “New Year Pictures”. This is a traditional Chinese folk art that has brought tourism and wealth to the village. With no supplies and little access to the village, the artists have not been able to resume their economic activities.</td>
</tr>
</tbody>
</table>

In this post-disaster situation, residents need normal financial services, including deposits, cash withdrawals, money transfers, and other services to facilitate daily life and business operations. Microentrepreneurs and small business owners were deeply affected by the quake. When shops collapsed, business operations were completely disrupted--they could not purchase supplies, and customers were unable to purchase goods and services.

According to Mr. Jinchang Lai, Head of IFC Chengdu Office (read interview), the Chinese government is moving quickly to promote reconstruction and stimulate economic recovery. These efforts may assist microfinance institutions (MFIs) to begin operations in Sichuan Province. Already, microfinance is changing rapidly throughout the country given recent policy changes, new interest in launching MFIs, and more domestic and international funders willing to invest.

The Response by MFIs

MFIs in Sichuan province have been active in disaster relief. There are two government-authorized microfinance pilot programs in Sichuan Province with two Microcredit Companies (MCCs) and four Village and Township Banks (VTBs). MFIs located directly in the quake zone were forced to rescue staff and struggled to stay open despite damages. They worked quickly to protect
funds and data archives. Many MFIs provided relief funding and mobilized to provide clients access to their deposits and receive remittances from friends and family.

**Beichuan Village Bank**
Beichuan County experienced devastating losses, and most buildings and roads were destroyed. Beichuan Village Bank was especially affected, suffering the death of personnel and clients, its building shattered, and operations completely disrupted. Over 3 million Yuan (US $440,000) in outstanding loans have been written off. Mr. Jinchang Lai of IFC met the MFI’s manager, who was injured in the earthquake, and he is determined to rebuild the institution and continue serving clients.

**Microcred Nanchong**
Launched in December 2007, Microcred Nanchong is an MCC funded by the Microcred Group, IFC, AIG, and Kfw. To date, they have disbursed 14.5 million Yuan (US$2.1 million) in loans to 630 clients. Many Microcred Nanchong clients reported damaged property, business disruptions, and financial strain from the earthquake. In response, Microcred Nanchong visited clients to enquire about their safety and reconstruction needs, waived late fees for quake-affected clients, and rescheduled loans for the most severely impacted clients. Read interview with Mr. Min Chen from Microcred Nanchong

**Chengdu Small Enterprise Guarantee Credit Company (CGC)**
Established in 2001 with a focus on small and medium enterprise (SME) finance, CGC has provided 6.2 billion Yuan (US$904 million) in loan guarantees to 780 SMEs and more than 1,000 individuals. CGC has provided loans to disaster-relief companies, such as factories that produce building materials for tents and temporary houses. CGC has also accelerated loan reviews and reduced monthly interest rates.

**China Foundation for Poverty Alleviation (CFPA)**
From 1996 to 2006, CFPA disbursed more than 150 million Yuan (US$21.9 million) microlaons to 330,000 clients. After the quake, CFPA planned the following expansion activities in the disaster zone:

- Microfinance projects with potential partners like Asian Development Banks
• Comprehensive rural program to rebuild homes, hospitals, roads, and water systems
• Counseling programs for local residents with international organizations
• Funding and assistance to special groups of quake-afflicted people, such as students whose schools were destroyed or children orphaned as a result of the earthquake.

The Role of Government and Donors

Financial regulators, policy makers, and international organizations have tried to help quake survivors reconstruct their lives.

State Council Leading Group Office of Poverty Alleviation and Development
In July 2008, the China State Council Leading Group Office of Poverty Alleviation and Development announced a program with Grameen Trust and Danone Co. Ltd. to establish a 20 million Yuan (US$2.92 million) microfinance trust fund for people to restart business operations. The fund will be distributed and managed by Grameen Microcredit Company in Sichuan province.

China Banking Regulatory Commission (CBRC)

After the earthquake, CBRC accelerated the review of banks planning to open new branches in quake-stricken areas, according to Mr. Zang Jingfan, director of the CBRC Supervision Department. CBRC has already approved several new bank branches such as Pudong Development Bank in Mianyang County, Shanghai Bank in Chengdu, and Ya’an Commercial Bank (transformed from Ya’an Credit Cooperatives). CBRC will assist rural credit cooperatives (RCCs) in the quake zone by providing them grants of 10 million Yuan (US$1.46 million) to help finance reconstruction.

IFC Chengdu Office

IFC has concentrated its reconstruction support to Sichuan’s private sector and MSMEs. “We are working through the local financial institutions which have business lines serving these clients,” said Mr. Jinchang Lai (read interview), Head of IFC Chengdu Office. Two investment projects have just been approved by the Board to provide financial assistance to disaster-affected MSMEs through two Sichuan-based financial institutions.
Lessons from International Experience after Natural Disasters

Although it is neither possible nor advisable for a “one size fits all” approach for disaster management, experiences from other natural disasters, such as the Asian tsunami and the Pakistan earthquake, may provide guidance for MFIs, government agencies and donors working in the quake zone of China.

Related Documents

- After the Earthquake in China (Chinese)
- After the Earthquake in China: Interview with CFPA
- After the Earthquake in China: Interview with HRCG
- After the Earthquake in China: Interview with IFC
- After the Earthquake in China: Interview with Microcred Nanchong
- Disaster Management for Microfinance Institutions in Mozambique: Reflecting on Lessons Learnt for Future Directions
- Microfinance and Disaster Management
- Sustaining Microfinance in Post-Tsunami Asia (CGAP Brief)

Related Links

- CGAP, Relief Agencies, MF Networks: Joint Statement - From Tsunami Relief to Recovery
- Highlight on China, Part 1: A View of the Landscape
- Highlight on China, Part 2: Financial Service Providers
- Highlight on China, Part 3: Development Partner Perspectives
- Highlight on China, Part 4: The Policy Perspective
- Highlight: Sustaining Microfinance in Post-Disaster Asia
- Red Cross China
Reflecting on Kenya’s Post-Election Crisis

Jena, F. – 19 September 2008

An update on MFI Jamii Bora and its clients

Following the December 30, 2007 results of Kenya’s presidential election, the opposition party led by Raila Odinga rejected President Mwai Kibaki’s declaration of victory. Kenya suffered a crisis which degenerated into ethnic violence as tribal differences spiraled out of control. Homes and businesses were destroyed, mainly by gangs of youths, leading to about 1,200 deaths and 600,000 internally displaced people. Slums and low-income residential areas were impacted the most.

Jamii Bora is the largest MFI in Kenya. Many of their clients live in the Kibera and Mathare slums of Nairobi - two of Africa’s largest slums, with 1.2 million and 800,000 residents respectively. The slums are divided along tribal lines, making certain groups more vulnerable to attacks when clashes occur. Jamii Bora’s clients were heavily affected by the post-election violence. Nine months later, many of them are still in the process of reconstructing their lives. This article provides an update on Jamii Bora’s operations and how it has been dealing with the effects of the crisis.

Living in the slums

While the post-election crisis further destabilized the day-to-day lives of Jamii Bora’s clients and spotlighted their precarious living conditions, conflict is no stranger to them. It is common for landlords to evict tenants without warning and resistance can be met aggressively. Most families share one cramped room from which they may also run their microbusiness. Fires can break out and spread easily, as only thin walls separate neighboring homes.
Helping clients to save

Founded by Ingrid Munro with a group of 50 beggars in 1999, Jamii Bora (which means "Good Families" in Swahili) now has 180,000 clients, 87 branches, and 140 outlets across Kenya. “You can reach them and get them out of poverty the right way,” explains Munro emphatically. She attributes Jamii Bora’s success at reaching extremely poor clients to the time they spend getting to understand them and gain their trust before they become clients. Every bank branch Jamii Bora opens is in a slum or poor neighborhood, ensuring that they serve the poorest.

From the beginning, Jamii Bora has placed huge emphasis on helping clients to save. Their products have evolved as they’ve grown to meet the increasingly complex client needs. Products include group-based savings, school fees, agriculture, microbusiness, asset and housing loans, health and life insurance, and other social services.

Responding to the post-election crisis

About 50% of Jamii Bora’s clients were affected by the crisis following the December 2007 elections. “The only reason I could go outside to buy food and collect water is because I speak nine languages -- they couldn’t tell which tribe I belonged to,” says Kadidi, a Jamii Bora client. During this period, many businesses and homes were burned, looted, and destroyed. Businesses suffered severe losses as customers were either confined indoors or displaced. Some internally displaced people have yet to return to their homes.
Keeping clients

When violence broke out, it became unsafe for loan officers to visit their clients’ microbusinesses and follow up on loan repayments. Several clients say that after being displaced, they could have disappeared and defaulted on their loans. Rather, they chose to stay and informed Jamii Bora of their new whereabouts. “They (clients) knew Jamii Bora had products they could benefit from even though they were not in a position to repay their loans on time because of the crisis,” explains Susan Saiyorri, Jamii Bora’s national outreach manager.

Setting up a disaster fund

After the post-election crisis, those affected were able to avail of Jamii Bora’s disaster fund, which was first introduced in response to a violent eruption following the establishment of a new government in 2002. Slum residents were predominantly affected in the 2002 crisis as well. Jamii Bora soon realized that this fund could be used for other disasters faced by clients. They expanded the fund to encompass flood and fire disasters.

Today clients contribute a one-time amount of US$ 1, followed by monthly contributions of US$0.20. Approximately US$300 is credited into a client’s savings account to borrow against if they are affected by a disaster. Non-clients get up to US$60 if they join Jamii Bora after a disaster has hit.

Health insurance

Many clients injured during the post-election crisis benefited from the health insurance product. Clients pay less than US$1 a week to get coverage for themselves and up to four children. Treatment is available at all Jamii Bora’s partner hospitals across Kenya. If a client needs immediate care and is close to a partner hospital, they can seek treatment elsewhere, and have their expenses reimbursed.
Forging strategic partnerships

The institution’s success in reaching extremely poor clients has attracted unique partnerships. Jamii Bora is now one of the distribution centers for the World Food Programme. After the crisis, they distributed 11,000 blankets, 2,500 mattresses, 3,000 metric tones of food, and clothing to those affected.

The municipal government and donors collaborated with Jamii Bora to rebuild the ravaged Toi market, a microentrepreneur market which had 1,774 traders before the crisis. The partnership has resulted in 2,563 new market stalls for displaced clients to restart their businesses.

Engaging youth

“Even the youth who triggered violence can now come and start businesses at this market so they do not remain in that state of unemployment which causes them to be violent,” explains Andrew Otieno, branch manager of Jamii Bora Kibera branch.

Jamii Bora is making special efforts to reach out to unemployed youth by offering them start-up business loans - something they feel will help alleviate youth crime - a widespread phenomenon in the slums.

Rescheduling loans

Jamii Bora had to reschedule many loans and disburse new loans to enable clients to pay back old ones and restart businesses. Their portfolio outstanding was KSh 387 million (US$7,740,000) at the end of 2007. In February 2008 alone, new loans totaling KSh 40 million (US$ 800,000) were disbursed.

Though the post-election crisis created a significant challenge for Jamii Bora and its clients, it served to strengthen the institution’s commitment to its clients. While many financial institutions denied new loans to internally displaced people, Jamii Bora continues to attract and serve the poorest of the poor - those disqualified by other institutions.
Related Documents

• A Rapid Review of the Initial Impact of the Post Election Crisis in Kenya on the Microfinance Industry in Kenya and Some Potential Responses

Related Links

• Jamii Bora
• Kenyan Insurance Company to Cover Losses from Post-Election Violence
• Kenyan MFIs Struggle with Displaced Clients and Staff
• Political Violence in Kenya Affects Small Businesses and MFIs
When Macro Hits Micro


How the global food crisis is affecting Kashf Foundation, a Pakistani MFI

Rising food prices around the world have potentially disastrous implications for low-income households and for the microfinance institutions (MFIs) that serve them. By the end of August 2008, food prices in Pakistan had increased by 34% since the previous year.

Kashf Foundation, a leading MFI in Pakistan, has taken a proactive stance in tackling the issue of food price inflation. They conducted a survey of 100 households in August 2008 to gauge the impact of the food crisis on clients’ daily lives in an effort to devise strategies to protect clients from future food price volatility. This article describes their clients’ coping strategies and their implications for Kashf and other MFIs operating in high food price inflationary environments.

Lessons from a microfinance client food survey in Pakistan

Ninety percent of clients in Kashf’s recent survey said current food prices have placed a significant financial burden on their families. The average client household has seven family members and a monthly household income of Rs. 9,469 (US$123). The survey showed that client households spend an average of Rs. 6,250 (US$81) per month on food expenses, amounting to roughly 66% of average household income.

Rapid inflation can simultaneously 1) increase the demand for loans, as more and more people are pushed below the poverty line; and 2) decrease loan quality as households’ ability to service loans deteriorates due to competing demands on income and savings. However, inflation can also generate opportunities to earn more since many clients sell

<table>
<thead>
<tr>
<th>Coping Mechanism</th>
<th>% of Clients</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eat less</td>
<td>78%</td>
</tr>
<tr>
<td>Cut back other expenses</td>
<td>56%</td>
</tr>
<tr>
<td>Take a loan</td>
<td>42%</td>
</tr>
<tr>
<td>Work longer hours</td>
<td>19%</td>
</tr>
<tr>
<td>Start another business</td>
<td>16%</td>
</tr>
<tr>
<td>Pull children out of school to work</td>
<td>10%</td>
</tr>
</tbody>
</table>

Source: Kashf Food Security Survey, August 2008
perishable goods and can raise prices in line with food inflation. Regardless of
the impact, MFIs attempting to tackle food price inflation need to be extremely
prudent to avoid potential pitfalls like compromised portfolio quality and high
client exit rates.

Coping Strategy #1: Clients eat less

Seventy-eight percent of clients surveyed said they now eat significantly less
than before the current inflationary trend began. Twenty-nine percent reported
that they had gone hungry for one to four days. Ninety-seven percent of
respondents said their families were facing lower levels of nutritional intake,
especially reduced consumption of fruits and vegetables. Malnourishment and
undernourishment lead to poorer health, lower productivity, and other
problems.

Implications for MFIs:

- Poor and declining nutrition translates to lower productivity and less
efficient client-run businesses. In the extreme, clients may be unable to
work. These impacts can increase the risk of delinquency for MFIs and
ultimately lead to portfolio deterioration.
- MFIs need to be more proactive in designing and delivering affordable
and innovative services in response to declining nutrition among poor
households. Examples of services include micro-health insurance and
social investment alliances such as the Danone and Grameen Alliance.

Coping strategy #2: Clients work harder

Clients are working hard to make ends meet. The food price spike has forced many Kashf
clients (99% of which are women) to take on
new jobs in addition to running their own
businesses, in order to increase contribution to
the family income. Fifteen percent of
clients surveyed have even established a new
business to increase cash flow. This trend will certainly increase loan
demand. Kashf’s survey further showed that 19% of client households
surveyed are working extra hours to supplement household income. Sadly, six
percent of clients surveyed have removed their children from school so they can work and increase the household income. This detrimental phenomenon may increase over time as households face more pressure to meet the dietary needs of family members.

**Implications for MFIs:**

- Increased client participation in the labor force increases the opportunity cost of attending mandatory, weekly group meetings - the mainstay of most solidarity lending programs in South Asia. A concurrent Kashf study of 450 female clients shows that the opportunity cost of attending a weekly meeting varies from Rs.80 to Rs.300 (US$1-4). Client absenteeism at group meetings reduces an MFI’s ability to monitor payments as contact between clients and loan officers is reduced.

- Demand for loans may increase as clients are pushed deeper into poverty and try to increase household income by expanding their existing businesses or starting new ones.

**Client Coping Strategy #3: Clients save less and borrow more**

Rising food prices reduce client households’ ability to save. Savings data from Kashf’s MIS reveals that 46% of clients suffered a net decrease in their savings over the past year. In addition, the food crisis survey indicates that 44% of respondents have taken out additional loans to meet immediate food-related expenses. This situation can quickly lead to over-indebtedness!

**Implications for MFIs:**

- The probability of client default increases as clients’ disposable income and accumulated savings dry up. This has direct consequences on MFIs striving to maintain a healthy portfolio. If portfolio quality decreases too much, MFIs may go out of business, jeopardizing the long-term impact of microfinance on poverty.

- MFIs which rely on locally mobilized deposits through mandatory (rather than voluntary) savings will be impacted. Locked-in savings can create
tension between clients and MFIs, especially if clients are unable to withdraw savings at will due to MFI policies.

The Way Ahead

Against the backdrop of food inflation, Kashf is attempting to better align products and services with the pressing needs of clients. Kashf’s strategy is to:

• Offer more demand-oriented financial products including savings and long-term pension products. Kashf is working to introduce commitment savings products to enable low-income households to build up their asset base incrementally.
• Explore how to reduce client transaction costs innovatively. This includes limiting group meeting times and reviewing appropriateness of group versus individual lending methodology.
• Build alliances by offering health insurance products to tackle health-related contingencies that require hospitalization.
• Better tailor overall services to client needs. Kashf aims to reduce processing times for establishing groups and enhance entry loan sizes.

Related Documents

• Food Security Study: Identifying Trends of Food Consumption of Group Lending Microfinance Clients

Related Links

• Food Crisis Taking a Toll on Microfinance Clients
• Kashf Foundation
• The Food Crisis and Its Threat to Microfinance
Global Economic Meltdown

*Microcredit Summit – 4 November 2008*

Is the financial crisis affecting MFIs around the world?

*Has your institution been affected by the global financial crisis? Share your experience and strategies with the global microfinance community by writing to the Microfinance Gateway at webmaster@microfinancegateway.org.*

Recent headlines suggest the varying effects of the global financial crisis on the microfinance industry:

- **Indian MFIs Face Challenge Due to Global Financial Crisis** (3 Nov 2008)
- **Global Economy Tests African Microcredit Channels** (29 Oct 2008)
- **Remittances to Latin America Decline as Global Economy Sours** (22 Oct 2008)
- **What MFIs Can Teach Wall Street** (14 Oct 2008)
- **Cambodian MFIs Fear Cash Drought** (9 Oct 2008)

The [Microcredit Summit Campaign](#) surveyed members to find out what MFIs are actually experiencing. Leaders of nine MFIs in countries spanning Asia, Africa and Latin America responded during the week of October 13, 2008. Excerpts taken from the [MCS newsletter](#) provide a snapshot of what the field is confronting.

Some MFIs have not yet felt the impact of the crisis, yet others are witnessing sharp increases in costs of funds and direct effects on clients’ well-being. Shafiqual Haque Choudhury, President of ASA in Bangladesh and John de Wit, Managing Director of the Small Enterprise Foundation in South Africa, both report that their organizations have not yet faced difficulties in managing their loan funds. Other microfinance leaders are already seeing the effects of the financial crisis.
Liquidity crunch

M. Udaia Kumar, Managing Director of Share Microfin Limited in India writes:

SHARE is facing reduced access to funds due to the liquidity crunch. Though in principle, SHARE has sanctions to the tune of US$155.6 million with lower interest rates, we face a peculiar situation from bankers and financial institutions trying to bring in new covenants like raising interest rates exorbitantly and asking for personal guarantees from our directors. The situation is alarming since it affects our credibility and strains the trust built over a period of two decades with our clients, a development which could result in clients not making timely repayments.

Roshaneh Zafar, President of the Kashf Foundation in Pakistan writes:

The first impact has been the lack of liquidity in the capital markets - curtailing our ability to raise additional funds this year. In March of 2008, we revised our growth plans from 500,000 to 350,000. Over the past 9 months the Foundation has actually grown at 6%.

The second impact has been a substantial rise in the cost of doing business. Due to constrained liquidity, the cost of funds has increased by over 450 basis points. At the same time, the energy crisis has spiked the cost of transport and electricity, creating the expectation that salaries will increase in line with inflation. A recent staff survey showed that over 50% of our current staff are not happy with the salary structure and expect cost of living adjustments. This will impact loan officer productivity and overall efficiency and sustainability.

The third impact is on portfolio quality. This is linked to increased client exits as businesses fail and our clients’ ability to service loans is constrained.
Kashf’s strategy to deal with these impacts is:

- Be prudent and grow slowly during this period
- Remain in close touch with clients
- Enhance efficiency to counteract rising prices
- Improve overall compliance and monitoring
- Remain liquid

Decline in exports affecting clients

Santa Isabel de Euceda, Executive Director of Organizacion de Desarrollo Empresarial Femenino (ODEF) in Honduras writes:

The global financial crisis is affecting ODEF’s clients and the institution itself because many of our clients live in areas dominated by assembly plants. This sector has been one of the first to feel the effects of the crisis because the products these plants make are for export to the U.S. The crisis has caused a decline in incomes as well as layoffs, diminishing sales in the micro and small businesses that these workers support. This reduces our borrowers’ capacity to pay off loans and has caused ODEF to make adjustments to existing loans.

The crisis will continue to impact export sectors such as furniture, art, and agriculture, causing a significant drag on the Honduran economy. To reduce the effects of this crisis on our clients we have adjusted loans at risk, eliminated consumption-based loans, and are more closely analyzing new loan requests.

Still waiting for the storm to hit

Tony Fosu, Executive Director of Sinapi Aba Trust (SAT) in Ghana writes:

Although the effect of the crisis seems very minimal, we expect it will have a significantly negative effect on the availability of funding for Sinapi Aba Trust going forward. We expect an impact on both commercial loans and grants from donors.
Mekonnen Yelewem Wessen, Managing Director of Amhara Credit and Savings Institution (ACSI) in Ethiopia reports:

Though there are no clear indications yet as to the effect of the crisis on ACSI’s operations, given the current state of affairs, some risks are likely and require us to prepare for potential turmoil. Maturity mismatches between our lending and savings withdrawals is one risk. This requires ACSI to diversify our loan structure to avoid a bank run.

Carmen Velasco, Executive Director of ProMujer Bolivia writes:

Pro Mujer hasn’t been affected yet by the financial crisis, but we will soon be seriously affected. We are augmenting reserves in anticipation of a possible increase in loan defaults.

Our clients will be affected as their sales decline and inventory costs rise. Profit margins will diminish, causing clients to reduce the size of their businesses. As a result, they may take out smaller loans. Clients whose businesses would have previously needed a $1,000 or $2,000 loan, may now only need $500. However, clients may be inclined to continue taking out larger loans to maintain current personal consumption levels. This may negatively impact their businesses and Pro Mujer’s growth.

Related Links

- Microcredit Summit Campaign
- Microcredit Summit Campaign Financial Crisis Survey
Microfinance in Uniform

The Microfinance Gateway – 17 December 2008

The challenges of civil-military cooperation in Iraq

This Microfinance Gateway article was developed in collaboration with Lene M. P. Hansen and Mayada El-Zogbhi. Hansen is an independent financial services consultant specialized in microfinance, and has been working in Iraq since 2006. El-Zogbhi is managing partner of Banyan Global, a private sector development enterprise firm. She has worked in conflict environments including Iraq, Afghanistan, and the Balkans and led a USAID-funded research project on microfinance amid conflict.

In Iraq, 12 microfinance institutions (MFIs) reach over 38,000 clients. Most experts would have assessed this active military zone as too insecure for microfinance organizations to operate. Yet these MFIs continue to receive both donor and military funding and are seen as important actors by the military. In fact, economic development is now part and parcel of the Army’s counterinsurgency manual.

Good Funding Practices for microfinance state:

- Take a patient, long-term perspective and design flexible, longer-term funding mechanisms;
- Select experienced partners and have sufficient, qualified in-house staff;
- Avoid targeting client groups or geographic areas without market research;
- Avoid disbursement pressures;
- Collaborate for coherence; locally, with government and with other funders.
However, in Iraq, this advice is difficult to follow. The reality of microfinance funding there is:

- The US political need to demonstrate short-term impact makes it difficult to put a long-term perspective in place.
- There is a lack of experienced partners and qualified local staff.
- Security issues, combined with the short time-frame of US military-led projects, makes market research almost impossible.
- The US government’s need to show impact results in strong disbursement pressure on MFIs.
- Suspicion of US intervention makes broad collaboration difficult.

The US military brings significant resources to the microfinance field in Iraq, but its influence also creates a host of questions and concerns for the microfinance industry. This Highlight provides a glance at the sector’s development in Iraq, the key players, and the myriad challenges facing civil-military cooperation in such a fragile and dynamic environment.

**A snapshot of the industry**

Microfinance in Iraq is new. Prior to 2003, state-owned banks were the only formally recognized financial institutions. Private sector development was repressed in favor of state-run enterprises. Five years after the US-led invasion of Iraq, a microfinance industry has developed and now over 38,000 low-income people have access to microcredit. Delinquency remains surprisingly low for such a difficult climate, and financial viability is increasing. On the other hand, institutional sustainability is weak. Most institutions rely heavily on international assistance and have not established sound governance or local management structures. In fact, these MFIs would unlikely survive without significant donor and military assistance to finance security costs or provide protection in the areas where they operate.
Overview of Iraq Microfinance Sector (as of September 2008)

<table>
<thead>
<tr>
<th></th>
<th>9 Local MFIs</th>
<th>3 Int'l NGOs</th>
<th>Total Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average age of MFI</td>
<td>13 months</td>
<td>3.9 years</td>
<td>1.8 years</td>
</tr>
<tr>
<td>Loans outstanding</td>
<td>6,967</td>
<td>29,913</td>
<td>36,880</td>
</tr>
<tr>
<td>% Loans to females</td>
<td>12.6%</td>
<td>14.8%</td>
<td>14.4%</td>
</tr>
<tr>
<td>Loans disbursed to date</td>
<td>8,240</td>
<td>90,850</td>
<td>99,090</td>
</tr>
<tr>
<td>Average loan size</td>
<td>1647</td>
<td>1355</td>
<td>1469</td>
</tr>
<tr>
<td>Average loan officer caseload</td>
<td>119</td>
<td>206</td>
<td>150</td>
</tr>
<tr>
<td>Average PAR (&gt;30 days)</td>
<td>4.6%</td>
<td>0.1%</td>
<td>3.2%</td>
</tr>
<tr>
<td>Average Operational Self-Sufficiency</td>
<td>110.8%</td>
<td>175.5%</td>
<td>143.1%</td>
</tr>
</tbody>
</table>

Key supply side market players

The US military is directly involved in microfinance in Iraq, working primarily through Provincial Reconstruction Teams (PRTs). These small civil-military units, composed of up to 70 people including US military and civilian personnel and local Iraqi staff, serve as intermediaries with local MFIs. Since the security situation prevents MFIs from easily meeting clients to verify businesses or follow up on loan repayments, PRTs assist with these functions. PRTs also help to promote microfinance services within local communities. In 2007, Embedded PRTs (ePRTs), made of even smaller groups of US civilian government officers and experts, were created to operate more freely. They are located at military bases and integrated within US Army brigades or Marine Corps regiments. PRTs are funded by the US Department of Defense (USDOD) and the US Department of State (USDOS). The operational requirements of these
agencies create a need to demonstrate quick impact on economic recovery funds. The development outlook is therefore short-term to be able to report high numbers of loan volumes.

**USAID**, the main donor agency supporting microfinance in Iraq, has committed US$55 million to private sector development, including microfinance programs. USAID works closely with the US military to provide funding, training and technical assistance to establish local MFIs. USAID’s expected result of microfinance support is impact in terms of client outreach and sustainable Iraqi MFIs. The operational requirements include quick disbursements of funds and intensive documentation of progress and impact.

Three international NGOs operate lending programs in different areas of Iraq. [CHF International](http://www.chfinternational.org/) is the largest provider with over US$100 million in loans disbursed since 2003. ACDI/VOCA, with USDOS funding, has supported SME lending in Iraq for almost five years. [Relief International](http://www.reliefinternational.org/) joined their ranks in August 2006.

### The implementation minefield

It is a tall order in itself to develop a microfinance industry in an environment with high security threats, scarce human resources, limited financial infrastructure, and significant aversion to self-employment due to the formerly state-run economy. Added to this challenge is the military’s agenda for short-term high-impact success, which is perceived to help neutralize the insurgency.

It is interesting to note that other quick impact reconstruction efforts have not become the main tool to win hearts and minds in Iraq. Is this a result of the microfinance industry’s success at self-promotion - that it has captured the hearts and minds of donors and the military instead? Perhaps the industry should be more cautious and expand its vocabulary to better communicate to the military and other new and would-be entrants.

While microfinance industries have flourished in many post-conflict countries,
the drive to leverage microfinance as part of stabilization efforts in Iraq probably over-estimates the ability of microfinance to function in extremely volatile environments.

Can MFIs provide a valued community service when the linkages to clients cannot (or only with military protection) be established? Would reconstruction of physical infrastructure, local community projects, utility maintenance and training have achieved higher local approval, greater beneficiaries and longer-lasting impact for the dollars invested than microfinance at this moment in Iraq? The industry continues to struggles with these questions.

Despite the extreme challenges, a nascent microfinance sector has emerged in Iraq. The hope is that over time, with greater stability and reduced security concerns, the opportunity for a broader, more long-term development approach that adheres more closely to good practice microfinance principles will grow.

Related Documents

- [Conflict-Affected States (RAFI notes: Issue 10)](#)
- [Good Practice Guidelines for Funders of Microfinance (Microfinance Consensus Guidelines)](#)
- [Managing Up, Down and Around: An Initial Gathering to Identify Lesson Learned from Implementing USAID Microenterprise Development Programs in Crisis and Post-Crisis Environments (FIELD Brief No. 2)](#)
- [Post-conflict Microfinance: Assessment and Policy Notes for Iraq](#)
- [Synthesis Report (microREPORT #131)](#)
- [The State of Microfinance in Iraq (Note from the Field)](#)

Related Links

- [Iraq Microfinance Industry](#)
- [microLINKS: Microenterprise Development and Conflict](#)
- [Provincial Reconstruction Teams: Afghanistan vs. Iraq](#)
- [Provincial Reconstruction Teams: Lessons and Recommendations](#)
- [Speaker's Corner: Civil-Military Cooperation](#)
• USAID Civil-Military Cooperation Policy
• USAID Iraq: Tijara Provincial Economic Growth Program
• USAID Note from Afghanistan
• USAID Publication on Iraq PRTs
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