

Case Study

The Foundation for International Community Assistance FINCA INTERNATIONAL

Small Loans, Big Changes



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December 16^h, 2008

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Executive Summary

Microfinance has been the “buzz word” for the last decade. Why the sudden growth and interest? It is because microfinance works as a solution to poverty alleviation. The Foundation for International Community Assistance (FINCA), one of the top 50 microfinance institutes in the world, according to a Forbes report¹, is helping lead the way to reducing poverty through microcredit loans. Communities around the globe suffer from credit fragmentation, lack of collateral, rejection by formal lending institutes, among other ailments perpetuating the cyclical nature of poverty. Fortunately, FINCA International has taken on this social mission and works around the world to help fight injustice.

FINCA’s efforts have helped mothers like Sherida Mkama, who had a small tomato business but was not able to expand and invest because all her income went to school tuition for her 10 kids. After taking a loan out from FINCA, Mkama was able to purchase fertilizer and seeds for her tomato business and set aside savings for her family.² Sherida Mkama is one of many examples of women who have benefited from the Village Banking method at FINCA. The 1.3 billion poor in the world, 70 percent of which are women,³ presents a tremendous opportunity for social entrepreneurship, and one that FINCA International has capitalized on.

This report will analyze FINCA International through a social entrepreneurial lens. In addition, the final section of this report contains a comparative analysis between FINCA and the National Bank for Agriculture and Rural Development (NABARD).

FINCA International has found that women hold the key to reducing poverty. According to John Hatch, founder of FINCA,

It has been proven time after time that increasing the incomes of poor mothers’ results in an almost immediate improvement in the diet of their children. The greatest benefit is that, when a woman's income grows, the first thing she does is to send her children to school. And when a child is educated, he or she has better opportunities to live outside of poverty.⁴

Hatch’s point recognizes generational poverty and how FINCA has found a solution to help reduce the cycle of poverty from parents and children. Additionally, a woman’s chance of receiving credit in the developing world is much lower than a man’s, yet the

¹ Matthew Swibel, “The World’s Top 50 Microfinance Institutions,” *Forbes*, (December 20, 2007), http://www.forbes.com/2007/12/20/top-philanthropy-microfinance-biz-cz_1220land.html (accessed December 15, 2008).

² *FINCA International*, “Our Clients,” http://www.villagebanking.org/site/c.erKPI2PCIoE/b.2630021/k.A6B6/Our_Clients.htm (accessed December 15, 2008).

³ *Ibid.*

⁴ *FINCA International*, “Key Findings,” http://www.villagebanking.org/site/c.erKPI2PCIoE/b.2628689/k.8870/Key_Findings.htm (accessed December 15, 2008).

return from women has a greater impact on reducing overall household poverty.⁵ FINCA has also found that the type of client business varies from commerce businesses like mall convenience stores, fruit stands, selling cosmetics, food, and other goods, to service-based businesses such as hair salons and bicycle repair shops, to agricultural communities with small-holder farmers, clients who re-sell farmers crops, those raising livestock, and others engaged in agricultural production and marketing.⁶

Significant achievements in 2007 for FINCA include

- Reaching out to 700,000 clients
- Programs on 4 continents in 21 countries
 - o Eurasia: Clients increased by 50 percent to 210,000, while the portfolio grew 85 percent to \$169 million in loans outstanding
 - o Africa: focused on building capacity for future growth by implementing a new Management Information System (MIS) in Uganda and strengthening human resource policies and procedures across the region
 - o Latin America: FINCA Mexico rose to first place in the network in client outreach with 87,428 active clients.
 - o Greater Middle East: New program FINCA Jordan
- Strategic partnerships with AIG, VISA, and GE Money among other Foundations⁷

Several assessment methods will be used to analyze FINCA. The Environmental Assessment will cover FINCA's strategies, partnerships, and clients in Oster's analysis and will discuss possible opportunities for FINCA. Organizational Structure and Strategy includes analyses such as Kellogg's Logic Model Development, Cultural Analysis, Innovation Diffusion and Communication Strategy Plan, and Social Impact and Accountability. The case study analysis will conclude with recommendations for FINCA and areas of strengths and weaknesses.

The comparative case study analysis will conclude this document. In tangent to the case study on NABARD, this framework will compare and contrast in diagram and word the major areas of difference between FINCA and NABARD.

This analysis recommends that FINCA *scale up*, increasing its depth and adding more services to its already established programs, and *scale deep* to make a greater impact in the home community. To come closer to reaching the Millennium Development targets and FINCA's 2010 goals, this analysis recommends that FINCA work to evolve and expand its microcredit practices to incorporate other areas of development such as healthcare and insurance.

⁵ Paul Winters, "Lecture on Gender and Intra Household Allocation," (September 8, 2008).

⁶ FINCA International, "Key Findings,"

http://www.villagebanking.org/site/c.erKPI2PCIoE/b.2628689/k.8870/Key_Findings.htm (accessed December 15, 2008).

⁷ Rupert W. Scofield, FINCA International, 2007 Annual Report, (2007), 3,

<http://www.villagebanking.org/atf/cf/%7BF69F69E6-275A-4FA1-BC75-649E1EDCD1A4%7D/Annual%20Report%2007.pdf> (accessed December 14, 2008).

Environmental Assessment

FINCA International, before it became international, began work in Latin America. Starting with a small microenterprise program in El Salvador, FINCA *now* reaches out to 21 countries globally!⁸ Headquartered in Washington D.C., FINCA is working to achieve a “global network collectively *servicing more poor entrepreneurs* than any other microfinance institution, while operating on commercial principles of performance and sustainability.”⁹

Hosting most operations in Latin America and Eurasia, FINCA has helped spur growth and development of social entrepreneurs worldwide. Within Latin America 500 social entrepreneurs have been elected Ashoka Fellows.¹⁰ Regional operations in Latin American, Eurasia, Africa, and the Middle East are all ripe with opportunities for social entrepreneurial success.

Varying Environmental Conditions

Due to the diverse nature of FINCA’s operations the environmental conditions present vary immensely. Country by country the political, economic, and social climate will be different. The relationships between countries within the same region, say African countries, can be more fairly compared than a comparison of an African country and a Latin American country. A comparison certainly can be made, but the contextual factors within each region add so much diversity that it can be like comparing apples and oranges.

FINCA operates in 7 Latin American countries including Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico and Nicaragua. Despite the cultural differences in these countries they all operate under republic or democratic republic systems of government.¹¹ FINCA’s programs extend also to Armenia, Azerbaijan, Georgia, Kosovo, Kyrgyzstan, Russia, and Tajikistan. One noticeable similarity is that 6 of these countries used to be former Soviet blocs, Yugoslavia the only country that was not. In Africa, FINCA works in the Democratic Republic of Congo, Malawi, Tanzania, Uganda, and Zambia. In the Middle East FINCA extends into Afghanistan and Jordan.

The distinct languages, monetary systems, and ethnic make up of each region, let alone each country by itself, demonstrates FINCA’s tremendous ability to replicate their approach, honing in on country specifics, but not forming an entirely new concept.

⁸ *FINCA International*, “Mission and Vision,” http://www.villagebanking.org/site/c.erKPI2PCIoE/b.2603941/k.BBB2/Mission_and_Vision.htm (accessed December 9, 2008).

⁹ *FINCA International*, “Frequently Asked Questions,” http://www.villagebanking.org/site/c.erKPI2PCIoE/b.2394157/k.8161/Frequently_Asked_Questions.htm (accessed December 9, 2008).

¹⁰ *Ashoka*, “South America,” <http://www.ashoka.org/southamerica> (accessed December 8, 2008).

¹¹ *CIA World Factbook*, “Country,” (December 2008), <https://www.cia.gov/library/publications/the-world-factbook/> (accessed December 10, 2008).

Oster's 6 Forces

Sharon Oster provides a framework for further environmental analysis. She breaks her assessment into six categories:

1. **Relations Among Existing Organizations**
2. **Threat of New Entrants**
3. **New Substitutes**
4. **Users, Clients or Customers**
5. **Suppliers**
6. **Donors/Funding Organizations including Potential Donors**¹²

Relations Among Existing Organizations

What tends to happen especially with larger development institutions is that relationships between organizations are often reciprocal and partnering. While competition does exist and is necessary for efficient, innovative solutions, the competition for poverty alleviation is slightly different than competition in a profit maximizing firm. Therefore, FINCA's relationship with organizations like the Inter American Development Bank (IDB) is one of mutual support and cooperation. For example, the IDB named FINCA Mexico the number one microfinance institute (MFI) in the category "Greatest Depth in the Market."¹³ In recognition of the mutual respect FINCA and IDB have for one another, Gonzalo Puente, the Mexico Country Director, said, "FINCA Mexico has set as a goal, in the Mexican market, of truly serving the poorest of the poor. When the IDB comes and tells us that we are doing just that, it signals that we are doing it very well."¹⁴ Similar reciprocal relationships exist with FINCA and other microfinance institutes (MFI) and NGOs worldwide.

Threat of New Entrants/Competitors/New Substitutes

Unlike country specific organizations, FINCA's operations are regionally diverse, thus comparing FINCA's over all operations to a more specified organization is not the best analysis. Other regional organizations such as the Inter American Development Bank (IDB), the Asian Development Bank (ADB), or the World Bank are fair comparisons because these organizations have programs running in either multiple regions, or cover an array of countries similar to FINCA's number. The cross-regional banks do exist and one's with similar regional interest to FINCA, such as the IDB could pose competition and new entrance of their firm.

¹² Sharon Oster, "Oster's Six Forces," *Levinson Power point Sessions X*: slide 15.

¹³ *FINCA International*, "FINCA Honored by Inter-American Development Bank," <http://www.villagebanking.org/site/c.erKPI2PCIoE/b.2611153/apps/s/content.asp?ct=3690547> (accessed December 12, 2008).

¹⁴ *Ibid.*

Substitute programs at a local level do happen. For example, the Village Banking strategy, while pioneered by FINCA has been applied and used in other organizations. Dr. John Hatch, founder of FINCA, said he was in no position to go country to country to spread his *village banking* idea, so, he decided to share his ideas and run workshops helping to train other organizations with resources to practice the same effective strategy. Hatch comments, “My colleagues at FINCA have, for years, criticized me for having given away the technology and having created the **competition** that FINCA now has today.”¹⁵ Consequently, today, worldwide there are roughly 800 village banking programs that use the exact same methodology cultivated by Hatch.¹⁶ Therefore, the substitute program is one that uses the same methodology applied at a localized level. However, on the same global scale village banking is primarily used by FINCA.

FINCA does not exist in India. Why? It is likely because there is too much competition as many microfinance institutes exist already. Also, the National Bank for Agriculture and Rural Development (NABARD) is one of the main providers of credit to the rural poor and has a long standing relationship with the government of India and the people; therefore, it is unlikely FINCA would be able to compete well with such an established entity. Though, a partnership between both of these microfinance providers may encourage innovation. For similar reasons FINCA is not present in Bangladesh either, likely because Grameen has too big of a hold on the market. However, a relationship does exist between FINCA and Grameen as each supports the others efforts and recognizes each others importance.

Users, Clients or Customers



FINCA’s clients, users, and customers span across the globe. As indicated in this picture, FINCA’s operations are on 4 continents in 21 different countries serving 700,000

¹⁵ *MicroCapital*, “Pioneers in Microfinance: Village Banking Innovator Dr. John Hatch of FINCA,” (May 12, 2008), <http://www.microcapital.org/pioneers-in-microfinance-village-banking-innovator-dr-john-hatch-of-finca-foundation-for-international-community-assistance/> (accessed December 12, 2008).

¹⁶ *Ibid.*

clients!¹⁷ Latin America, where FINCA got its start, is still the largest region of operation, though new programs are continually being initiated.

FINCA's clients work in commerce-businesses such as "small convenience stores, fruit stands, selling cosmetics, food, and other goods. Other clients work in production: preparing food for sale or catering, sewing and tailoring, and making crafts. A smaller number of clients run service-based businesses such as hair salons and bicycle repair shops."¹⁸ Agriculture, FINCA recognizes employs many individuals as well as traps numbers of people in poverty. Therefore, FINCA reaches out to small-holder farmers, clients who re-sell farmers' crops, those raising livestock, and others engaged in agricultural production and marketing.¹⁹ This client network extends to individuals who purchase or use some product that FINCA's clients are producing. Thus, FINCA indirectly impacts more than its clientele, as the community at large is able to benefit from services and products provided by FINCA's clients, as a result of FINCA's financial support.

FINCA focuses much attention on its **women** clients. The opportunities and evidence is endless for supporting women and offering women financial services as means to increasing family welfare and poverty alleviation. Muhammad Yunus' Grameen Bank made famous the successes of lending to women, elevating them from destitute poverty.²⁰ Another unfortunate reality, revealing even more the absolute need to lend to women, is that, "of the 1.3 billion people living in the most severe poverty worldwide, women account for 70 percent."²¹ Dr. John Hatch, founder of FINCA indicates that when women's income increases she tends to spend it immediately on her children, in part for education helping provide a pathway out of cyclical poverty.²²

Opportunities

Areas of opportunity are immense. Given that FINCA operates globally, each region has its own set of opportunities. In Latin America areas of opportunity include land and agricultural development. In Eurasia and Africa, the war-torn communities and refugees need tremendous help. In the Greater Middle East gender is a concerning cultural area and has potential for serious change with FINCA's emphasis on women as economic factors of change. The demographic, socio-economic, health, and environmental

¹⁷ *FINCA International*, "FINCA Country Programs," http://www.villagebanking.org/site/c.erKPI2PCIoE/b.2591249/k.695B/FINCA_Country_Programs.htm (accessed December 12, 2008).

¹⁸ *FINCA International*, "Key Findings," http://www.villagebanking.org/site/c.erKPI2PCIoE/b.2628689/k.8870/Key_Findings.htm (accessed December 13, 2008).

¹⁹ *Ibid.*

²⁰ Muhammad Yunus, *Banker to the Poor*, (Public Affairs, New York, 1999): 71; 40-71.

²¹ *FINCA International*, "Our Clients," http://www.villagebanking.org/site/c.erKPI2PCIoE/b.2630021/k.A6B6/Our_Clients.htm (accessed December 12, 2008).

²² *Ibid.*

situations, among other contextual factors in each of these areas is different, leaving much opportunity for FINCA to exploit.

Influential Recent Suppliers/Donors/Funding Organizations



FINCA is funded by a variety of sources including “borrowings from commercial capital sources; interest income from the programs themselves; and donations.”²³ Donated funding comes from both public and private sector funding. “By partnering with government-funded bilateral and multi-lateral development assistance organizations, FINCA has accessed millions of dollars in grants to advance its operational and strategic goals over the last two decades.”²⁴

FINCA’s public funding is generated by

- United States Agency for International Development (USAID)
- United States Department of Agriculture (USDA)
- Microfinance Investment Support Facility for Afghanistan (MISFA)
- Department for International Development (DFID)
- European Bank for Reconstruction and Development (EBRD)
- Kreditanstalt für Wiederaufbau (KfW)²⁵

The **diversity** of supply organizations is critical to ensuring FINCA’s sustainability and success for the future. Not only does this indicate the vastness of FINCA’s operational scope, but also the growing importance of their work at many levels. To help ensure the continued diversity of funding, FINCA has a **Capital Markets Group (CMG)**. This role of this group is to “to diversify and expand the funding base of FINCA's 21 wholly-

²³ *FINCA International*, “Frequently Asked Questions,” http://www.villagebanking.org/site/c.erKPI2PCIoE/b.2394157/k.8161/Frequently_Asked_Questions.htm#funds (accessed December 12, 2008).

²⁴ *FINCA International*, “Partners in Development,” http://www.villagebanking.org/site/c.erKPI2PCIoE/b.2607347/k.678C/Partners_in_Development.htm (accessed December 12, 2008).

²⁵ *Ibid.*

owned subsidiaries to include debt, equity and other financial instruments.”²⁶ CMG offers financial and financial risk services to FINCA’s subsidiaries to help keep their operations effective and able to reach the poor.

FINCA’s most important corporate providers include American International Group (AIG), VISA, and General Electric (GE) Money.²⁷ The business partners are increasingly important because along with monetary support they provide their services such as efficiency strategies, technology, and offer advice on entering markets.²⁸ AIG has created micro insurance schemes specifically for rural and poorer clients. Gearing their insurance strategies to bring health and asset insurance to impoverished villages, FINCA and AIG as partners have effectively reached more households and spurred greater opportunity for advancement. Providing life insurance helps mitigate financial strains when a family member dies. For example, “the insurance coverage provides families with a death benefit, makes a one-time payment to defray funeral costs, and repays the borrower's outstanding loan to FINCA.”²⁹ Therefore, the social safety net helps keep individuals from returning or sinking deeper into poverty with the loss of a family member.

Just as individuals in the U.S. swipe their credit or debit cards to purchase or acquire money, VISA has made this possible for even the most agrarian nations. Nicaragua is the first site where FINCA clients received “Visa-branded loan disbursement cards, reducing transaction times for both clients and for FINCA, lowering transaction costs associated with loan processing, and providing FINCA's clients more secure access to their loan capital by reducing the possibility of cash theft.”³⁰ This intuitive idea and partnership is one way in which FINCA acts as a bridge between the formal sector and technological availability and poorer communities. GE Money is one of FINCA’s newer partners and started out by contributing 1.5 million dollars to support the *Village Banking Campaign*'s goals of reaching “1 million poor micro entrepreneurs through 100,000 Village Banks by 2010, while raising awareness of the power of microfinance to end poverty.”³¹ Importantly, this year GE Money’s financial contributions helped launch FINCA Jordan, one of FINCA’s newest Greater Middle East programs.³²

²⁶ *FINCA International*, “FINCA Capital Markets Group,” http://www.villagebanking.org/site/c.erKPI2PCIoE/b.2605761/k.A590/FINCA_Capital_Markets_Group.htm (accessed December 12, 2008).

²⁷ *FINCA International*, “Business Partners,” http://www.villagebanking.org/site/c.erKPI2PCIoE/b.4128621/k.A72D/Business_Partners.htm (accessed December 12, 2008).

²⁸ *Ibid.*

²⁹ *FINCA International*, “AIG,” http://www.villagebanking.org/site/c.erKPI2PCIoE/b.4128629/k.3955/American_International_Group_AI_G.htm (accessed December 12, 2008).

³⁰ *FINCA International*, “Visa,” <http://www.villagebanking.org/site/c.erKPI2PCIoE/b.4130353/k.BEA7/Visa.htm> (accessed December 12, 2008).

³¹ *FINCA International*, “GE Money,” http://www.villagebanking.org/site/c.erKPI2PCIoE/b.4130425/k.CDF7/GE_Money.htm (accessed December 12, 2008).

³² *Ibid.*

Acting as both **business and philanthropic partnerships**, the corporate partnerships are vital to helping to increase its sustainability as well as increase awareness and action for microfinance across the globe. Especially now in times of worldwide financial peril, strong relationships with these organizations and corporate companies is crucial for survival and continued impact. For example, AIG is one of the big-name companies hit by the financial crisis, will hopefully not decrease its philanthropic giving.

FINCA recently launched a new website with an online donation option. From this option, FINCA received \$955,000 in 2007.³³ This option allows individuals to contribute to FINCA with relative ease. These donations involved larger funders but was supported also by individual efforts.

FINCA formed a **strategic partnership** with John's Hopkins University Bloomberg School of Public Health's Center for Communication Programs (CCP) working to help integrate HIV/AIDS prevention into village banking. This partnership with funding from the **Bill and Melinda Gates Foundation** wants to reduce HIV/AIDS in Malawi, one of its partners, and one of the poorest countries in Africa. The strategic partnership allows for FINCA's microfinance expertise to expand to other areas well, enabling the experts from CCP to take their medical expertise to FINCA's partners.³⁴

FINCA receives significant support from the **Templeton Foundation**. This Foundation enables FINCA to conduct its *Annual Microfinance Research Symposium Field to Function: Harnessing Social Data to Empower Change*.³⁵ Additionally, FINCA received important funding for its FINCA-Jordan program from **Citi** and the **UPS Foundations**. Furthermore, support for outreach in rural areas of Tanzania and Nicaragua came from two **USDA Food for Progress Awards** that generated 12 million dollars.³⁶

FINCA has participated in the **Clinton Global Initiative** where it announced its Village Banking Campaign and received praise by former President Clinton for its commitment to bringing services to the poor. President Clintons' recognition of FINCA increases their credibility, as well as increases their scope and networks through the backing of the Initiative. This important connection and Foundation provided a stage that opens

³³ Rupert W. Scofield, *FINCA International*, 2007 Annual Report, (2007), 3, <http://www.villagebanking.org/atf/cf/%7BF69F69E6-275A-4FA1-BC75-649E1EDCD1A4%7D/Annual%20Report%2007.pdf> (accessed December 14, 2008).

³⁴ *FINCA International*, "Strategic Partnership with John's Hopkins University," http://www.villagebanking.org/site/c.erKPI2PCIoE/b.2613809/k.FD9A/Strategic_Partnership_with_Johns_Hopkins_University.htm (accessed December 13, 2008).

³⁵ *FINCA International*, "Annual Symposium and Research Papers," http://www.villagebanking.org/site/c.erKPI2PCIoE/b.2628761/k.6A65/Annual_Symposium_and_Research_Papers.htm (accessed December 15, 2008).

³⁶ *FINCA International*, "FINCA International 2007 Annual Report," (2007), 16-17, <http://www.villagebanking.org/atf/cf/%7BF69F69E6-275A-4FA1-BC75-649E1EDCD1A4%7D/Annual%20Report%2007.pdf> (accessed December 15, 2008).

tremendous new opportunities for partnership with participating organizations and social entrepreneurs.³⁷

FINCA International has many sources of funding and for a complete list see **Appendix “Major Donor Gifts.”**

Potential Donors

FINCA has such a vast constituency in which it loans to that increasing donors and funders can happen on a global scale. FINCA does receive assistance from developing country’s governments; however, more developed nations could contribute similar to US AID’s support. Forming regional alliances with the EU could play a significant role in development, and is especially important for regional stability. Thus, FINCA’s Eurasia programs may be of interest to the EU, seeing as “Eurasia” involves parts of Europe and connection of Asia. Even the Association of Southeast Asian Nations (ASEAN) could be a beneficial partner for FINCA and perhaps bring an opportunity for program expansion into Southeast Asia.



Organizational Structure and Strategy

FINCA’s leadership consists of FINCA International’s Board of Directors, the Village Banking Campaign’s International Steering Committee, and FINCA International’s Management Team. Including the Hatch brothers, John and Robert, the 17 total Board Members ensure administrative costs, including fundraising, do not exceed 25 percent of total FINCA expenses.³⁸ The International Steering Committee participates in the Village Banking Campaign, helping to advise the campaign on international issues and relations. Prominent individuals including Jeffrey Sachs sit on the International Steering Committee.³⁹ The Management Team includes 11 unique individuals with regional expertise as well as diverse educational backgrounds. **(More specific information on**

³⁷ *FINCA International*, “Clinton Global Initiative Unveiling,” (September 22, 2006). http://www.villagebanking.org/site/c.erKPI2PCIoE/b.2394127/k.6411/Clinton_Global_Initiative_Unveiling.htm (accessed December 13, 2008).

³⁸ *FINCA International*, “Frequently Asked Questions,” http://www.villagebanking.org/site/c.erKPI2PCIoE/b.2394157/k.8161/Frequently_Asked_Questions.htm (accessed December 13, 2008).

³⁹ *FINCA International*, “International Steering Committee,” http://www.villagebanking.org/site/c.erKPI2PCIoE/b.2615407/k.4DAF/International_Steering_Committee.htm (accessed December 13, 2008).

Village Bank organization is provided in the “Innovation Diffusion section” as well as in the Appendix. See “John Hatch Primer on FINCA”).

FINCA’s leadership teams provide a great deal of expertise and connections to the organization. The diverse backgrounds and connections each individual brings to the organization, expands the networks available for FINCA’s partnerships as well as increases FINCA’s regional knowledge.

Kellogg Logic Model of Development **(See Appendix “Kellogg Logic Model of Development)**

The Kellogg Logic Model is a diagram method for assessing an organization based on 6 categories:

- Problem or Issue
- Community Needs/Assets
- Desired Results
- Influential Factors
- Strategies
- Assumptions

Problem or Issue/ Community Needs/Assets

1.3 billion people are severely poor and 70 percent of which are women. FINCA’s strives to target this impoverished group and work to provide financial services to the poor to help them rise from poverty. Refugees are doubly challenged in that they are nomadic without a home country to provide support, and they lack basic assets and resources similar to what other non-refugee poor are without. To help with the varying regional difficulties, “FINCA launched its Kosovo program immediately after the cease-fire, moved into the Democratic Republic of Congo in the wake of its bloody civil war, and opened its doors in Afghanistan in 2003, soon after the Taliban regime was defeated.”⁴⁰

Desired Results

Through FINCA International’s efforts various impoverished and developing regions are able to see increases in credit and insurance availability for their poorer individuals. FINCA provides financial services and institutionalized support through the Village Banks, thereby increasing accessibility of credit and of banking institutes for struggling individuals and households. Helping to break cycles of poverty and integrate traditionally excluded individuals to the formal sector, FINCA strives to reach one million of the world’s working poor by 2010.⁴¹

⁴⁰ *FINCA International*, “FINCA Country Programs,” http://www.villagebanking.org/site/c.erKPI2PCIoE/b.2591249/k.695B/FINCA_Country_Programs.htm (accessed December 13, 2008).

⁴¹ *FINCA International*, “To Change the World Start Here,” http://www.villagebanking.org/site/c.erKPI2PCIoE/b.2604817/k.39B5/To_change_the_world_start_here.htm (accessed December 13, 2008).

Influential Factors

Factors that influence FINCA's ability to be successful in their goals include the continued financial backing and support from FINCA's public and private partners, as well as foundation funders like the Bill and Melinda Gates Foundation. The ability to maintain FINCA's core mission despite the tremendous diversity and variability within each region is vital for the sustainability of FINCA as well as keeping alive its founding principles. FINCA's ability to withstand the current financial crisis and the continued support for global microfinance are other influential and important factors to FINCA's future accomplishments.

Strategies

FINCA's primary strategy is to provide financial services to the world's poorest entrepreneurs. To help do this FINCA plans on creating 100,000 Village Banks in the world's most destitute neighborhoods.⁴² These destitute neighborhoods also include refugee communities and communities in countries in turmoil. FINCA places much emphasis on supporting women as a key factor in poverty alleviation and future generation success. The Village Banking Campaign is both a promise and a strategy to increase visibility to poverty issues and spread FINCA's village banking methodology as an effective microfinance solution to aid the poor. FINCA hopes to continue to expand village banking, allowing microfinance to serve its clients in broader ways.⁴³

Assumptions

In order to carry out its mission FINCA must assume several factors. The relative successes of previous models or institutes, such as the Grameen Bank, play an important role in FINCA's strategies and viability of success. Global interest in microfinance and the reputability established by Yunus' winning of the Nobel Peace Prize must continue in order for FINCA, along with other MFIs, to carry out their operations and maintain sustainability. FINCA's financial partners both public and private must continue to support its mission, allowing FINCA to establish new projects and increase their scope. Also, the recognition by foundations like the Clinton Global Initiative and the Bill and Melinda Gates Foundation are necessary for FINCA's sustainability and further financial support. Assuming FINCA is able to prevail throughout the financial turmoil the world is currently facing their global efforts can continue reaching more and more individuals.

⁴² Ibid.

⁴³ *FINCA International*, "Strategic Partnership with John's Hopkins University," http://www.villagebanking.org/site/c.erKPI2PCIoE/b.2613809/k.FD9A/Strategic_Partnership_with_Johns_Hopkins_University.htm (accessed December 13, 2008).



Culture Analysis

FINCA International is a culture of many cultures. Each of its regional programs has its own unique culture due to the diversity of each participating country. It is remarkable then that one idea could be spread to differing areas across the globe where different cultures, languages, demographics and more exist.

FINCA is fortunate to have an inspirational visionary, so dedicated to the cause that his soul permeates all levels of work. Dr. Hatch plays an important role in unifying his organization so that his ideas and influence infuse the sub cultures of each program all over the globe. John Hatch says in his annual report letter,

When I think about the possibilities that microfinance provides, I remember the joy of each Village Banker I met during my career; when she received her first loan; when she discovered she was able to manage a profitable business; when she learned she could improve her family's diet, vaccinate her babies, buy medicines, and keep her children in school; when she knew she had won greater respect within her community; and when it became clear there existed a ladder out of poverty that she was capable of climbing.

Multiply this joy by the nearly 700,000 FINCA families being served today in 21 countries on four continents, and you'll get a sense of the joy I feel when I think about how much we can do together. This joy is real for me. It is palpable, and it energizes me. I hope that it is contagious, that it motivates you to put aside the distractions of the every day, and determine how you can create joy—and opportunity—for yourself and others.⁴⁴

Through his experiences and first-hand interaction with the poor, he is able to explain his vision and generate excitement for others about his obvious passion. Trickle down to even his researcher fellows, Hatch's vision radiates. Megan S. in Mozambique, research fellow, writes in a field blog "I believe that microfinance is a dynamic part of what John Hatch called a 'poverty vaccine,' with which my generation can break the generational poverty cycle."⁴⁵ Her statement reveals the way in which Hatch is highly respected and has helped shape a culture of his vision that exists in his absence. Hatch continues as a FINCA board member, advisor, speaker, lecturer, and fundraiser. He is also continuing his research on the impact of Village Banking and is active in FINCA's annual student

⁴⁴ John Hatch, "Letter from Founder," FINCA Annual Report 2007, (2007), 1, <http://www.villagebanking.org/atf/cf/%7BF69F69E6-275A-4FA1-BC75-649E1EDCD1A4%7D/Annual%20Report%202007.pdf> (accessed December 14, 2008).

⁴⁵ Megan S., "Megan's Blog from the Field," *FINCA International*, (Mozambique), http://www.villagebanking.org/site/c.erKPI2PCIoE/b.4201837/k.707B/Megans_Blog_from_the_Field.htm (accessed December 14, 2008).

symposium and research awards competition. John Hatch has been inspiration for FINCA but for the rest of the world as well.

Innovation Diffusion Through Structured Management

Though initially started in Bolivia working with farmers, John Hatch and FINCA have now expanded globally reaching out to 700,000 clients worldwide. To maintain its competitive edge FINCA has initiated new projects keeping all 21 subsidiaries up-to-speed on FINCA's new strategies for success.

New Innovations

The core practice is still microfinance services, though recently as FINCA has become more sustainable, they have begun to expand their services to include healthcare, and health and life insurance, like the AIG example mentioned earlier. Through *strategic partnerships*, like VISA, FINCA has been able to innovate new ways of providing credit access. Mentioned earlier, the electronic payments cards (VISA cards) technology is “*reducing transaction times for both clients and for FINCA, lowering transaction costs associated with loan processing, and providing FINCA's clients more secure access to their loan capital by reducing the possibility of cash theft.*”⁴⁶

Program Management and Diffusion of Innovation

John Hatch explained in a lecture given at Berkley's Haas School of Business, FINCA's operations and the way in which ideas are transferred between segments of his organization.

In every country where it sets up a program FINCA creates a (usually non-profit) host-country financial institution. These institutions are normally called FINCA-Ecuador, FINCA-Uganda, etc. Typically, FINCA brings in an experienced expatriate executive director—i.e., one who has already created a village banking program in another country—to design the new institution, legally register it, recruit host-country staff, and manage it for 2-3 years until it reaches its break-even point. *Back-office staff* will include a financial director, credit manager, human resources manager, internal auditor, an MIS/IT manager, accountants, and appropriate clerical staff, drivers, guards, etc. More mature FINCA's will add a training officer and/or a social performance manager, the latter responsible for monitoring client poverty status and social impact of the program on its clients. *Front office or field staff* will consist of credit officers—each of whom will supervise some 10-15 village banks and 250-300 clients. In many FINCA programs a specialized group of credit officers is trained to do nothing else but promote the organization of new village banks. For every 8 credit officers there is a field supervisor.⁴⁷

⁴⁶ FINCA International, “Visa,” <http://www.villagebanking.org/site/c.erKPI2PCIoE/b.4130353/k.BEA7/Visa.htm> (accessed December 14, 2008).

⁴⁷ John Hatch, “A Brief Primer on FINCA,” *Lecture* (University of Berkeley's Haas School of Business, July 21, 2004), 3, http://docs.google.com/Doc?id=dg32dcx2_32d5t2p3fx (accessed December 14, 2008).

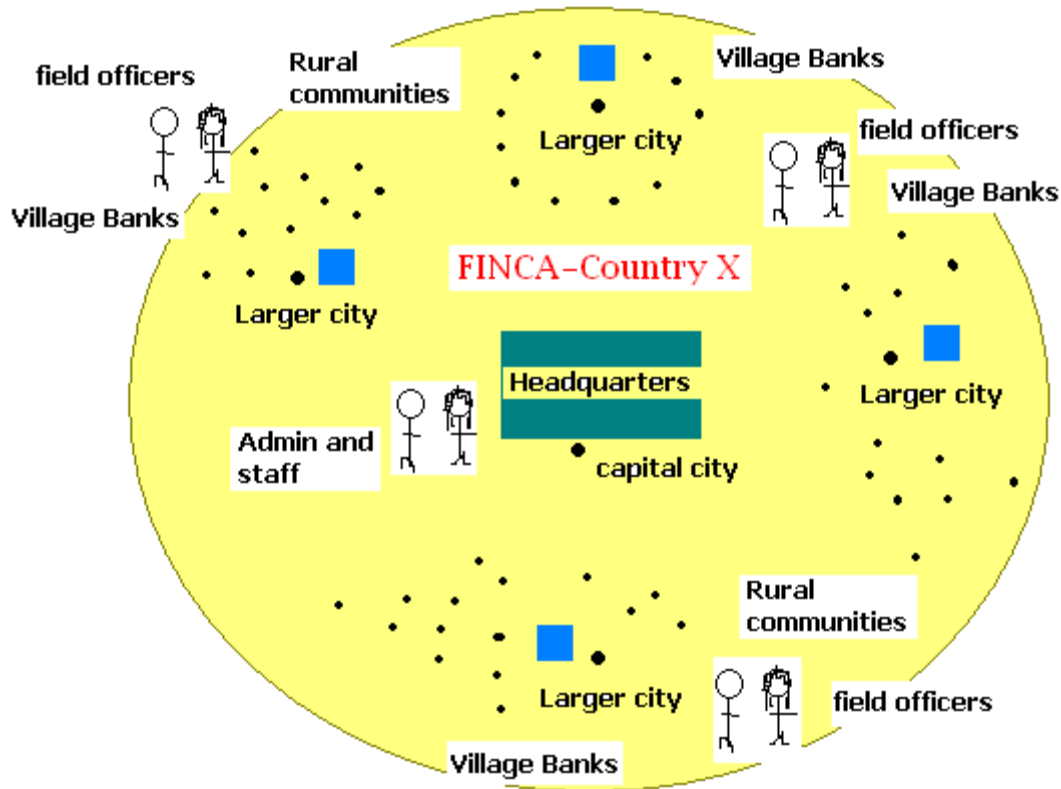
Organized in this manner, with a clear chain of instruction and role-specific positions allows FINCA's mission to be carried out all levels. The intercommunication between roles is vital for the maintaining FINCA's purpose. Thus, **transfer of innovation** and idea sharing is enabled through this **process**.

The country program specifics are important details helping to provide the framework in which FINCA's **process** enables it to communicate and diffuse ideas effectively. The program headquarters is where administrative and program staffs are based. The last leg of outreach is to the rural communities. The program starts decentralizing operations to the branches. The credit officer, located at the field level, is required to establish their own coverage sub-region containing 10-15 village banks. "The credit officer organizes village banks along specific "routes"—each route corresponding to a different day of the week—and schedules village bank meeting days and times so she can attend several (2-4) meetings each day on the same route."⁴⁸

This **geographic proximity** is important so that FINCA's ideas are properly diffused and transferred at the local level. The field officer plays an extremely important role in this diffusion. Through interaction at the local level, FINCA's models can be more easily **adopted**, as the field officers are on site to initially train members. Each FINCA program is structured in a similar manner, thus helping to **codify its practices**, transfer ideas from **one context to the next**, and emulate its mission. Each new program acts like a **sponge**, absorbing the ideas from previous models and programs.

⁴⁸ Ibid, 5.

FINCA Organization Visual



Communication Strategy Plan:

The Village Banking Campaign- *give a little, change a lot*

One of FINCA's best methods of communicating its strategy is through the **Village Banking Campaign**.⁴⁹ This campaign is designed to spread awareness and visibility as well as generate new partnerships and potential donors for the organization. The Campaign is also a promise to FINCA's network that it will carry out its mission and is setting goals to reach now and in the future. The campaigns combined efforts contribute to the successes in the villages and correct utilization of *village banking* methodology.

FINCA makes use all of streams of communication such as internet technology, print, and television media to attract new partnerships and spread its ideas globally. FINCA is well connected to networking sites such as MySpace or LinkedIn. MySpace actually allows FINCA to raise money on their website. Using the most cutting edge technology

⁴⁹ FINCA International, "To Change the World Start Here," http://www.villagebanking.org/site/c.erKPI2PCIoE/b.2604817/k.39B5/To_change_the_world_start_here.htm (accessed December 14, 2008).

FINCA can channel its ideas to variety of audiences ranging in age, job, or location. FINCA even has videos playing in Times Square, on the Times Square Geoffrey Tron.⁵⁰

Additionally FINCA sends out their *Newsbrief* or e-letter to keep individuals and other organizations informed about their activities and successes.⁵¹ FINCA also writes a quarterly newsletter called *Village Bank Notes*, containing information about their work in the 21 different countries.

Like David Bornstein says,

*An idea is like a play. It needs a good producer and a good promoter even if it is a masterpiece. Similarly, an idea will not move from the fringes to the mainstream simply because it is good; it must be skillfully marketed before it will actually shift people's perceptions and behavior.*⁵²

FINCA uses its media mediums allow ideas to **disseminate and institutionalize** its concepts, spreading its message, and gaining support.

Accountability

FINCA has several assessment methods for reviewing its programs and providing reports on their efforts. These documents are made available to the public. One example of an assessment method is the FINCA Client Assessment Tool (FCAT). The FCAT “allows FINCA to accurately measure client poverty through a detailed picture of living standards and to better tailor their financial services products to meet client needs.”⁵³ In addition, the FCAT measures clients’ business performance and their satisfaction with the microloans provided. The FCAT is an important and fairly accurate measure because the assessment is geared specifically to the context of the clients. So, information on the assessment includes client socio-economic conditions, such as nutrition, housing, education, and health (including maternal health).⁵⁴ Once the report is conducted for each of FINCA’s various programs it is then distributed to each program for analysis at the regional and network-wide levels. FINCA also shares this report with the Templeton Foundation.⁵⁵

⁵⁰ *FINCA International*, “Video Resources,” http://www.villagebanking.org/site/c.erKPI2PCIoE/b.2913715/k.A716/Video_Resources.htm (accessed December 14, 2008).

⁵¹ *FINCA International*, “News briefs (FINCA e-news),” http://www.villagebanking.org/site/c.erKPI2PCIoE/b.2607027/k.5050/Newsbriefs_FINCA_eNews.htm (accessed December 14, 2008).

⁵² David Bornstein, Nanette Levinson’s Power Point, Class VI, slide 7.

⁵³ *FINCA International*, “Dispatches from the Field,” http://www.villagebanking.org/site/c.erKPI2PCIoE/b.2628747/k.5407/Dispatches_from_the_Field.htm (accessed December 15, 2008).

⁵⁴ *Ibid.*

⁵⁵ See John Templeton Foundation for more information on the Foundation. <http://www.templeton.org/>

FINCA conducts an annual report on the organization as a whole. This document includes a letter from the founder, John Hatch, as well as a letter from the executive director and chairman. FINCA also provides yearly financial reports which, again is public information. In addition, FINCA has made available on their website their IRS 990 Form which indicates their tax exemption status among other necessary financial details to be considered a non-profit organization.⁵⁶ Charity Navigator's report on FINCA is also made available (See Appendix "FINCA International 2007 Financial Report" or "Charity Navigator Report.")

In 2007, FINCA's Board decided to pursue regional Management Information Systems (MIS), to increase the transparency and efficiency of each program. Additionally, internal controls and risk management solutions became an important priority and FINCA distributed a risk management survey to each affiliate. Hopefully, the responses will help inform FINCA policies and procedures as well as ensure greater transparency across FINCA's expansive network.⁵⁷ The Charity Navigator's award on sound fiscal management was given to FINCA for the 6th time emphasizing FINCA's ability to maintain accountability, even to **outside evaluation**. Also, FINCA has an internal audit which is conducted yearly.

The Village Banks also have a system of monitoring, which John Hatch explains. He says,

Each credit officer (CO) attends the weekly meeting of each of her 10-15 village banks to coach its leadership committee and monitor the bank's activities. In addition to motivation and adult education, the CO supervises client attendance, monitors bookkeeping accuracy, checks the accuracy of the current week's loan and savings collections, and checks when the deposit receipt of the previous meeting.

In turn, each village bank is managed by its elected officers—a president (who leads the bank's democratic decision-making process), secretary (who takes attendance and keeps minutes) and a treasurer (responsible for accurately handling all cash transactions). Finally, each village banker has her own passbook, and her recorded balances of loan payments and savings deposits must always be the same as those recorded in the treasurer's record for each client.⁵⁸

Through this mechanism of monitoring, FINCA can be sure the Banks are carrying out the responsibilities and adhering to the mission. Additionally, the ardent book-keeping required allows **external verifiers** an opportunity to keep track of a Banks' successes, as well as keeping the Bank fiscally responsible. Especially in today's times of fiscal

⁵⁶ FINCA International, "Financial Statements and Reports," http://www.villagebanking.org/site/c.erKPI2PCIoE/b.2590169/k.4CED/Financial_Statements_and_Reports.htm (accessed December 15, 2008).

⁵⁷ FINCA International, "FINCA International 2007 Annual Report, (2007), 17, <http://www.villagebanking.org/atf/cf/%7BF69F69E6-275A-4FA1-BC75-649E1EDCD1A4%7D/Annual%20Report%2007.pdf> (accessed December 15, 2008).

⁵⁸ John Hatch, "A Brief Primer on FINCA," *Lecture* (University of Berkeley's Haas School of Business, July 21, 2004), 3, http://docs.google.com/Doc?id=dg32dcx2_32d5t2p3fx (accessed December 14, 2008).

irresponsibility, FINCA’s monitoring efforts can ensure greater accountability and sustainability in the future.

Contact information for each department representative is provided. Including contact information, is an important way for FINCA to reach out to its clients, stakeholders, and interested individuals, making FINCA available to concerns. These combined efforts contribute to FINCA’s **completeness** in their assessment and accountability. Providing the information in a transparent and accessible fashion is a main element to FINCA’s ability to achieve **inclusivity**.

Social Impact

“FINCA does the right thing helping women—they are always the main bread-winners in the family.”



Mrs. Panova, the main bread winner

Mrs. Tatyana Panova, involved in the FINCA-Russia program was receiving financial loans from FINCA to help her family come through their crisis. After Mrs. Panova’s husband was laid off, she was the only source of income for her family bringing in small, inconsistent money from her pie sales in the market. This income was not enough to feed a family of four. So, Mrs. Panova enrolled in the FINCA program and received loans, the first of which she used to invest in meat, sugar, and other raw materials, and started cooking full lunches to deliver to the market. With a second loan, Mrs. Panova expanded her business and was able to attract cafes to sell her products where she sells 200-250 pastries and 40 lunches a day.⁵⁹

Mrs. Panova is one of the many lives touched by FINCA’s outstanding commitment to poverty alleviation. Her loan helped her family through financial duress and enabled Mrs. Panova to send her daughter to school. Thus, the loans are not only a temporary solution to financial duress but also can help make investments for the future.

In more recent news FINCA has received several outstanding awards demonstrating their **social impact**. FINCA’s recent awards and milestones include:

⁵⁹ *FINCA International*, “Client Stories: Eurasia,” <http://www.villagebanking.org/site/c.erKPI2PCIoE/b.2611153/apps/s/content.asp?ct=3412103> (accessed December 15, 2008).

- February 25, 2008 FINCA launches FINCA Jordan making its first loans to clients in Jordan November 18.
- February 28, 2008 FINCA Receives *Charity Navigator's* 4 star ranking for the 6th consecutive year. Only 2% of charities have ever received this award 6 consecutive times, FINCA now one of them.
- August 2007 FINCA's program touches 3 million children and adults in the families of their clients
- Wall Street Journal Highlights FINCA's Pioneering Micro insurance Strategic Alliance with AIG
- FINCA Unveils Village Banking Campaign at Clinton Global Initiative
- Natalie Portman serves as FINCA's co-chair of the Village Banking Campaign as well as FINCA Ambassador of Hope
- Strategic Partnership with Johns Hopkins University for HIV/AIDS Reduction⁶⁰

With many other accomplishments FINCA has had an incredible impact on the world's poor. FINCA's social impact can be felt globally with their multi-region programs and Hatch's sharing of Village Banking methodology has increased FINCA's direct and indirect impact on the world.

⁶⁰ *FINCA International*, "FINCA News," http://www.villagebanking.org/site/c.erKPI2PCIoE/b.2606799/k.284E/FINCA_News.htm (accessed December13, 2008).



Recommendations

Weaknesses, Set Backs, and Challenges

Working to reduce errors of omission and inclusion are fundamental challenges and also set backs of development organizations like FINCA. The Village Banks while highly inclusive can reject individuals who may be credit worthy and should be accepted into a group. Village banks also exclude men. This can be problematic in many cultures where men fear women's ability to control finances and women empowerment. More training and emphasize should be placed on including men and integrating them into the process as well. Though some men do realize the benefits to the household, it is important to offer both women and men incentives to embark in healthier investment opportunities.

A weakness but also a challenge includes FINCA's ability to reduce its client withdrawal rate, making them less dependent in the long run. This is more of a general criticism that can be applied to development banks and microfinance aside from FINCA. Another challenge of microfinance institutes including FINCA is too reduce the high cost structure. The amount of monitoring, regulation, and assistance provided to individuals is all quite costly, thus the organization ends up falling short or having to charge higher interest rates on loans to the poor. However, in FINCA's case, based on its financial reports it appears some programs actually generate more revenue than costs incurred.

One challenge FINCA is currently facing is the worldwide financial crisis. Many of its strategic partnerships, notably AIG, have been seriously affected by the financial difficulties pressing their organization. The ability to sustain during this crisis and mitigate future risks is essential for FINCA's long term commitment to ending poverty.

A possible set back or disadvantage FINCA may have over other development banks is its strong connection with Western principles, ideas, and source of funding. FINCA's headquarters is in Washington D.C., capital city of the United States. Purely speculating, developing nations could see FINCA's actions as imperialistic. Governments do not generally like to be told what to do, hence FINCA's cooperation and policy recommendations may be misinterpreted. FINCA, is a largely U.S. run and sponsored program, thus some countries may view FINCA's policies with similar contempt to the World Bank and IMF programs, holding that they are merely extensions of western imperialism.

Strengths

The numerous success stories should depict enough the immense strength and social impact of FINCA's organization and promise to the poor. This organization is able to succeed and carry on into the future because of several important components.

FINCA's **strategic partnerships** with companies like AIG or VISA, and their support from large Foundations such as the Bill and Melinda Gates Foundation, enables FINCA to carry out its social mission. This is a tremendously important aspect of FINCA's success. Not only do the partnerships ensure financial stability, but the recognition from an array of sources is a tribute to FINCA's credibility and social accountability. Furthermore, the Foundation givers and other partnerships must **trust** that FINCA will and is able to carry out its mission. These partnerships also expand FINCA's network, broadening their connections and in turn their social impact.

Celebrity support has also increased FINCA's visibility and drawn new audiences to its cause. Natalie Portman and Her Majesty Queen Rania of Jordan are chairs of the Village Banking Campaign. With these prominent figures heading FINCA's microfinance efforts FINCA is able to obtain new resources and address more individuals as a result of the networks created from the celebrity support.

The **leadership team** with their diverse backgrounds, regional expertise, and well connected networks contributes to FINCA's dynamic ability find cutting edge solutions to poverty alleviation. Founder John Hatch has played a crucial role to the organization's success and continues to inspire new generations of microfinance leaders.

FINCA's **regional experience and work** implies the ability of their design to be replicated. Village Banking appears in 21 different countries in 4 continents, making it truly remarkable that one concept could apply to these varying circumstances. The adaptability is a crucial component as well as the cross cultural understanding. While Village Banking is somewhat universally applied, the individual programs still have to adapt to local context.

Use of **cutting edge** technology enables FINCA to stay ahead of the curve and continue to promote microfinance and its strengths through various media mediums. An example of technology use according to FINCA's 2007 Annual report is a partnership with iTunes.

iTunes launched its first-ever, celebrity-produced charity album in November— *Big Change: Songs for FINCA*—featuring 15 tracks selected by Natalie Portman and donated by the artists and production companies. More than 15,000 copies of the album sold during November and December 2007, generating revenues to FINCA in excess of \$75,000.⁶¹

⁶¹ FINCA International, "FINCA International 2007 Annual Report," (2007), 16, <http://www.villagebanking.org/atf/cf/%7BF69F69E6-275A-4FA1-BC75-649E1EDCD1A4%7D/Annual%20Report%2007.pdf> (accessed December 15, 2008).

FINCA's ability to stay with the times, using the most recent technological advances is a strength helping spread consciousness and awareness, and will contribute to sustainability in the future. FINCA's experimentation with microfinance into other realms of development such as health insurance is another way in which FINCA is at the cutting edge of development organizations, working towards a world without poverty.

Trust and social accountability play vital roles in FINCA's outreach and success. The transparency and number of partnerships signals that the world **trusts FINCA**, and individuals like Mrs. Panova, demonstrate why the **world needs FINCA**.

Scaling Up and Scaling Deep

FINCA could work on *scaling up*, increasing its depth and adding more services to its already established programs. One way which FINCA is experimenting with *scaling*, is working to extend its microcredit services and expand its methodology to other fields. For example, the partnership with AIG using microcredit methodology to work on an insurance scheme for the poor is one way which FINCA could *scale up* its microfinance practices.

FINCA could also work on *scaling deep* or making a greater impact in the home community. FINCA has regional diversity and expertise, thus right now it should concentrate on making sure efforts in each of these communities are as productive and efficient as possible.

One of the Schwab Criteria is "replicability."⁶² FINCA has already been replicated world wide by other FINCA programs, and by other organizations adapting the concepts of Village Banking. John Hatch's concept has been shared around the world and used to spur new innovation to other opportunities. By scaling up its efforts, FINCA can replicate the original idea to address other social problems. In order to reach the Millennium Development Goals and achieve FINCA's goals for 2010, the Village Banking Campaign will have to evolve to meet new challenges as well as focusing on suggestions made here and by other constructive critics.

⁶² Schwab Foundation for Social Entrepreneurship, "Who is a Social Entrepreneur," <http://www.schwabfound.org/sf/SocialEntrepreneurs/index.htm> (accessed December 15, 2008).

Microfinance and Microfinance Institutes and Development Banks Brief Recap

Microfinance has both tremendous potential and has led to waves of improvement in the impoverished communities. However, criticisms of this model as a viable source for poverty alleviation also exist.

In every country the context to which poverty is incased in is so critical for the appropriate poverty alleviation strategy. It is not a coincidence that Muhammad Yunus, the pioneer of microfinance, that his efforts have not been replicated in all countries. The successes of the Grameen Bank should not be interpreted as a quick fix for all poverty situations. For example, Grameen operations work less effectively in the neighboring country of India. Why? Malcolm Harper argues that Self Help Groups, more similar to Village Banking, work better in Indian culture than Grameen style system because they “reflect the scale and organizational diversity of the Indian financial system.”⁶³ Harper continues to argue that context plays a large role in the types of development institutions that are feasible in country, influential factors such as tradition of democracy or traditions of military governments play an important part in the type of development organizations established.

According to the Columbia Encyclopedia,

Some critics see microcredit misguided, because it is too limited to alleviate poverty in general, especially in societies where many causes other than restricted access to credit have resulted in pervasive impoverishment, but it has nonetheless improved the lives of millions of individuals and their families. The development of for-profit micro lending, on the other, disturbs nonprofit microcredit lenders because the need for profits shifts microcredit lending to those who are less poor while diminishing the resources available and the willingness to lend to the very poorest.⁶⁴

Poverty is caused by numerous factors as the context shapes the types of poverty. There is a trade off between making some profit for future savings and advancement, and targeting the extreme poor, who are less likely to accrue the profit needed for the organization to increase its revenues from loans.

Jeffrey Tucker is one critic who holds that the Grameen Bank is in fact perpetuating macro-welfare and its successes are a myth. He argues that money is not the solution to poverty, thus loans result in higher debt and dependence on institutional support. Also, the financial capital required often does not equate to the profit recouped from the loan.

⁶³ Malcolm Harper, “Self Help Groups and Grameen Bank Groups: What are the Differences”? Chapter 7, 6, <http://www.iimahd.ernet.in/~mssriram/beyondmc-chap7.pdf> (date accessed November 30, 2008).

⁶⁴ *Columbia Encyclopedia*, “Microcredit,” <http://www.answers.com/topic/microcredit-1> (accessed December 15, 2008).

He explains that poverty programs are still highly subsidized and only cover about 70 percent of their costs.⁶⁵

Yet, Yunus does not say that money is the solution to poverty. It is more that the money provided offers empowerment and strength to endure. Perhaps, loans do not offer financial independence, but the sheer enjoyment of work, turning ones human and productive capital into a product in which others would want to buy, is the satisfaction that Yunus is aiming for. Improving the overall quality of life is the goal, and microfinance loans can help raise the relative quality of life of individuals; and therefore, while not a perfect model, microfinance is a worthy and viable solution to improving the quality of life, making each day a little more enjoyable.

Hence, microfinance institutes and development banks still play a significant role in reducing poverty world wide. FINCA International is a microfinance institute aimed at becoming the largest microfinance network serving poor entrepreneurs. The National Bank for Agriculture and Rural Development (NABARD) is a development bank also operating with microcredit principles targets the rural poor in India. Both of these organizations are addressing the opportunity niches with microfinance. While one is considered a bank and the other an institute, the principle application of microcredit is the same. Also, FINCA has its form of banking in the Village Banks. The role of these types of institutes to address poverty now and in the future hinges on their ability to be sustainable and evolve their practices to changing times. Microcredit, the foundational principle has to be applied to other areas as well. Since the context of the poor is an influential factor as to how and why people are poor, microcredit solutions must be able to address the contextual factors of being poor. FINCA's health insurance scheme has realized the opportunity and need and thus, is working on a scheme to target that component of poverty. NABARD can use its credit lending principles, as well as its dominant role in India to address other areas of poverty such as environmental degradation.

Microfinance is used to generate greater wealth by having the credit necessary to invest in productive assets and to help mitigate risk. Poorer individuals can hope to see their incomes rise, and with rising incomes, poorer individuals also become more consumer based and are able to take part in consumer society.⁶⁶ Of course, arguments exist about whether consumption is a good goal and what type of consumption is going to reduce poverty. Nonetheless, C.K. Prahalad explains the importance of conversion to consumers:

⁶⁵ Jeffrey Tucker, "Microcredit or Macrowelfare: The Myth of Grameen," *Ludwig Von Mises Institute*, (November 8, 2006), <http://www.mises.org/story/2375> (accessed December 15, 2008).

⁶⁶ The Marginal Propensity to Consume (MPC) refers to the Keynesian principle of the proportion of an aggregate raise in pay that is spent on the consumption of goods and services, as opposed to being saved. *Investopedia*, "Marginal Propensity to Consume," (2008), <http://www.investopedia.com/terms/m/marginalpropensitytoconsume.asp> (accessed December 10, 2008).

When the poor are converted to consumers, they get more than access to products and services. They acquire the dignity of attention and choices from the private sector that were previously reserved for the middle-class and the rich.⁶⁷

Microfinance is not the only solution to ending poverty, nor the only way to help increase incomes. But, it is a viable and tested solution, and one which can prevail into the future. Yunus is not arguing that money ends poverty nor is that his intention. Prahalad's statement is the result of a series of actions. Microfinance is a tool used to bridge economic disparities and acts as a stepping stone to the end result of improved quality of life.

⁶⁷ C.K. Prahalad, *Fortune at the Bottom of the Pyramid*, (Wharton School of Publishing, 2006), 20.

Comparative Case Study Analysis NABARD and FINCA

The comparative case study analysis can help highlight the interconnectivity within the field, the relationships among existing organizations, and the potential for collaboration. Importantly, comparative studies indicate the possibility of a worldwide epidemic. Using the previous case study on NABARD, the comparison between NABARD and FINCA will be assessed. The primary components of both analyses included an environmental assessment utilizing Oster's principles, an organizational overview using the Kellogg Logic Model of Development, and recommendations section including strengths and weaknesses.

Microfinance is the primary solution and strategy implemented by both NABARD and FINCA. Both organizations realize the potential opportunity microfinance offers and applies it to their various constituencies. However, this alludes to a worldwide problem of lack of credit and/or credit access. Though NABARD is state based, meaning it operates only in India, poor individuals in India face similar circumstances as the poor communities in Latin America. Despite their geographic distance, the poor communities provide an opportunity for any organization that realizes them as potential market participants. Hence, NABARD and FINCA took the initiative and started working to empower these individuals.

NABARD's context is a bit different than FINCA. First, the emphasis is on the rural and agricultural poor, likely because these individuals constitute a significant portion of India's population. The political situation since Independence has been a democratic style of rule, whereas in FINCA's participating countries some have had longer democratic traditions than other countries. The cultural differences are vast between India, and FINCA's programs in Ecuador, Afghanistan, or Tanzania. Therefore, FINCA and NABARD must do their part in honing in their microcredit practices to the specifics of the involved culture.

Organization layout is significantly different between these two organizations. NABARD acts as an apex bank loaning to other MFIs, NGOs, and organizations. NABARD plays a more indirect role in financial services. FINCA, on the other hand, is the MFI. The loans come directly from them. While FINCA has a headquarter office usually in the capital city, the smaller more localized offices still fall under the umbrella of FINCA organizations.

The above mentioned are the main areas of difference between the organization. Each organization has its areas of improvement and strengths, as highlighted in the chart below. NABARD for example, should work on a more globalized appeal, whereas FINCA needs to work on keeping all its programs worldwide efficient and spend more time in the individual countries. Strategic partnerships have helped gain FINCA worldwide respect and visibility, as well as ensure its sustainability. The diverse partnerships allow FINCA to still have a strong influence on how the money should be

used. Though, some supporters probably have their conditions, it is easier for FINCA than NABARD to work with the funds provided. Coincidentally, Kreditanstalt für Wiederaufbau (KfW) is a partner organization for both NABARD and FINCA. NABARD is constrained by the fact that its major provider is the Indian Government. Though the benefits in collaboration with the government are certainly important, the conditions and potential bureaucratic influence makes their money handling more tied down. However, collaboration with governments is inevitable and necessary for both organizations.

A comparative study can help determine what the best practice may be for a certain issue, such as credit access. Though, it is important to remember that neither is necessarily right or wrong, the culture and context to which the practices are implemented helps determine why an organization may operate a certain way. When the issue is seemingly a worldwide phenomenon, collaborative efforts on the part of all development organizations is crucial. John Hatch and Muhammad Yunus have allowed their ideas to be shared, and this has been an important factor in more efforts toward worldwide poverty alleviation.

The most important element to take away from a comparative analysis is the root issue being addressed and the solution posed. In this comparison the fundamental problem is poor communities and a solution is providing individuals with credit as a means for poverty alleviation. Looking at the methods and strategies each organization poses can give a more comprehensive view of the problem as well as possible solutions. Furthermore, because this comparison was done with organizations operating in different regions, the emphasis is on the fact that the issue is not localized. The surge and emergence of MFIs worldwide is an indicator that the problem is felt on a global scale. Even in the United States, the Grameen Bank opened an operation in New York called Grameen America. One of the important components of this comparison is the selection of NABARD and FINCA. Both do operate on a large scale, and in the field of microfinance are well known. Given this circumstance, the organizations operations are more credible, and thus, readers are offered the best-of-the-best that's out there.

Microfinance institutes can be seen as perpetuating inefficient behaviors, behaviors that in the long run won't exist. However, in the famous words of John Maynard Keynes, *in the long-run we're all dead*. Thus, Keynes' statement supports the idea that microfinance institutes and development banks are necessary at the short run level as where poverty exists. Without these types of organizations many people would be starving now, and in the long run. The importance of this research is to increase awareness of the poverty situations, explain how they are being addressed, and describe the organizations or individuals that are cultivating new solutions. Involvement of more individuals, governments, and organizations into the field of microfinance is so crucial for its success and for visibility of the disenfranchised populations.

Microfinance institutes and development banks serve as connecting platforms, integrating the neglected communities of the world to the markets in which modern societies are most familiar. The role of MFIs and development banks is likely to evolve. As stepping

stones for successes in the formal market, these organizations may see their operations change when their constituency reaches the break-point. When the world is truly without poverty will MFI and development bank employees be without jobs? Probably not. As long as an opportunity niche exists some organization or individual will find it. Therefore, as the years continue and poverty is slowly eradicated, the MFIs and development banks will have to evolve finding new opportunity niches and new ways in which to make the world a more peaceful and equitable place.

Comparative Case Study Chart

The following chart is a condensed version of main differences and similarities

	Comparative Case	Study	Analysis
	NABARD		FINCA
Type	For-profit		Not-for-Profit
State/Regional/ Global	India		Latin America, Eurasia, Africa, Greater Middle East
Need Niche	Poor rural communities Credit constrained households		Poor communities Credit constrained households
Solution/Strategy	Provide credit through microfinance Support MFIs, NGOs		Provide credit through microfinance Village Banks
Environmental Conditions	Democracy		Emerging Democracies, Former Soviet Bloc, Former Militant Governments
Head Leadership	Board of Directors, Chairman, Managing Director, Executive Director		Board of Directors, International Steering Committee, Management Team
Major Source of Funding	Government and Reserve Bank of India		Private-companies, Foundation givers
Scaling	Scaling Out Scaling Deep		Scaling Up Scaling Deep
Key Strengths	Formation of Self Help Groups Infiltration of credit into market		Strategic Partnerships, Regional vastness Use of technology
Main Weakness	Interconnected relationship with Indian Government Location constrained		Exclusivity of Village Banks- loan to women Client Withdrawal rate

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