

# Microfinance

## – part of an integrated solution

Lisa Jackinsky

### MICROFINANCE HAS PROVEN

to be an effective tool in the fight against poverty. Access to financial services that are otherwise unavailable or prohibitive enables many of the enterprising poor to expand their businesses, increase household income, pay for family necessities, and employ others in the community. And as clients graduate to larger loans, their thriving businesses create a spiral of escalating impact.

The microfinance industry is now united and energised around the goal of rapidly and massively scaling up microfinance services to reach vast numbers of the world's poorest.

Recognising its transformative power for the lives of the poor, World Vision has focused heavily on microfinance, our total loan portfolio growing by an average of 42% in each of the past four years. World Vision-affiliated microfinance institutions (MFIs) operating in 46 countries around the world have a combined loan portfolio of US\$115 million, with 98% of loans repaid.

Impact evaluations have verified that people are better off after receiving these loans. A study of a US Government grant that funded World Vision's MFIs in Tanzania, Uganda and Peru, conducted by George Washington University, showed increased spending on education, improved health status and diet, increased savings and business earnings, and an improved sense of empowerment among clients.<sup>1</sup>

### The need for integration

This is very good news. But microfinance alone is not enough. For maximum impact, it must be part of an integrated solution to poverty.

A holistic and integrated approach to development recognises that people's



*Rose Mueni of Kongemi, a poor area near Nairobi, Kenya, received a KADET loan and set up her business Modern Typing Services. On a good day, she types some 20 documents (invoices, letters, resumes, etc.). She also teaches students to type. She dreams of expanding her business and opening Kongemi's first cyber cafe.*

physical, emotional, social, intellectual, spiritual, and economic needs are inter-connected. Working on a community basis to provide such necessities as clean water, education, food security, health care, peace-building and spiritual nurture multiplies the impact to all members of the community. Microfinance is an essential part of this integrated model since it addresses the economics of poverty and enables communities to sustain their development over the long term.

What about the devastating impact of HIV/AIDS? What about weather fluctuations that destroy the livelihoods of rural families? What about people in remote locations, or those at the lowest income levels who can't afford the risk of taking a loan? There is evidence that people facing

these major challenges have benefited from microfinance as part of an integrated approach.

**Microfinance and HIV/AIDS.** The HIV/AIDS pandemic has a widespread and devastating impact on the economics of a community. Breadwinners become debilitated, lose capacity to provide for their families, and must be cared for by others. Children are orphaned with little or no source of income. Local economies shrivel as businesses close, jobs are lost, and available goods and services diminish.

Providing microfinance integrated with an HIV/AIDS response can reduce such economic vulnerabilities. In Uganda, World Vision's MFI affiliate MED-Net works in partnership with World Vision Uganda to integrate

PHOTO - ELLEN BRICKKON KLIPP / WORLD VISION

HIV/AIDS training with microfinance operations. Care and Education Training Teams (CETTs), made up of microfinance clients selected by their peers, receive intensive training in HIV/AIDS prevention and care. The CETTs members facilitate linkages with AIDS service providers and share information with those in their groups and with the wider community.

World Vision's MFI affiliate in Malawi, Finance Trust for the Self-Employed (FITSE), also provides HIV/AIDS education to its clients using a methodology developed by Freedom from Hunger. According to an evaluation conducted by Jill Donahue, clients felt they had increased knowledge of HIV/AIDS, demonstrated a change in attitude toward people living with HIV/AIDS (PLWHA), and felt they were better able to care for PLWHA and orphans. In addition, "business income enabled clients to respond to crises, to pay for school fees for the children under their care and to cover food, medicine and hospital expenses when a family member is bed-ridden."<sup>2</sup>

### **People's physical, emotional, social, intellectual, spiritual and economic needs are inter-connected**

Even microfinance alone in high-prevalence HIV/AIDS areas seems to have a significant impact. The Kenya Agency for Development of Enterprises and Technology (KADET), World Vision's MFI affiliate in Kenya, found that 45% of clients interviewed care for orphans. Microfinance clients often become the community's social security safety net, caring for those infected and affected by HIV/AIDS.

**Microfinance and disaster recovery.** Poor people live on the economic margins, strained in their capacity to meet livelihood needs. Disaster, be it natural or man-made, can bring tragic results. The immediate and necessary humanitarian response is to provide the essentials of clean water, shelter, food aid and health care. But when livelihoods are lost, such as in the

devastating tsunami in Asia, it is crucial to build a continuum of economic development activities that will support and not undermine the local economy. These may include cash or food for work, cash or in-kind grants to restart businesses, reconstruction of economic infrastructure, vocational training and microfinance. This continuum can enable people to move from dependency to dignity.

Even in times of disaster there are usually opportunities for economic activity, however small; the key is to diversify income sources. In Ethiopia, repeated drought and chronic food shortages have left many people destitute and vulnerable. World Vision's Ethiopian MFI affiliate, Wisdom, began lending in areas that were severely affected by the drought yet were supported by World Vision's integrated delivery of services. An impact evaluation conducted through Johns Hopkins University<sup>3</sup> revealed some encouraging findings. Microfinance clients had more sources of income available to them than non-clients, allowing them to better cope with problems or disasters. Moreover, female client-headed households seemed to benefit more from access to loans compared to male clients. Those within their homes had better diets and their children showed a decreased prevalence of malnutrition. They were also significantly less likely to receive food aid than male clients, suggesting that "microfinance programmes may decrease the need for extended food aid which is both costly and unsustainable".

**Microfinance and the poorest.** Many of the world's poorest live in rural areas. Because of the high operating costs, MFIs can find it difficult to lend to these highly dispersed and extremely vulnerable populations while at the same time covering the costs of doing business. For their part, very low-income families cannot usually afford the risk of taking a loan.

To reach the most vulnerable households, in the course of its wider transformational development work World Vision organises community

savings groups, made up of people interested in starting a business. Each member saves an agreed amount (which may be tiny) and contributes this regularly to a group fund. Members borrow from the fund to start up or expand their tiny businesses. With loans as small as \$10 (much too small for an MFI to manage sustainably), these savings groups serve as incubators for business start-ups.

As businesses grow, members find that their capital needs begin to exceed the lending capacity of the group. That is where the MFI comes in – when client demand and loan revenue potential are large enough to allow the MFI to operate sustainably. Group members graduate from the savings group to become MFI clients. Integrating microfinance with organised savings groups enables a combined effort to reach people at deeper levels of poverty and creates an economic ladder for their families and communities to climb toward success.

Studies abound of the impact of microfinance on the lives of the poor. Yet in the context of the devastating reality of HIV/AIDS, frequent disasters, and entrenched poverty, microfinance alone is not enough. An integrated response is required. Linking microfinance with other interventions multiplies impact and produces sustainable results for clients, their children and communities. ■

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<sup>1</sup> Final evaluation report World Vision Enterprise for Health Project, internal report from evaluation conducted for World Vision by George Washington University Center for International Health on a USAID matching grant project, May 2001. <sup>2</sup> Forward-looking review World Vision's approaches to integrating micro-enterprise development and HIV/AIDS response, internal report from evaluation conducted for World Vision by consultant Jill Donahue, August 2005. <sup>3</sup> See the summary findings of this impact assessment by Shannon Doocy, Johns Hopkins School of Public Health, Dan Norell, World Vision, and Shimeles Teferia, Wisdom Microfinance Institution, "Progress Note no. 4", January 2004, for the Small Enterprise Education and Promotion (SEEP) Network. The quotation is from a powerpoint presentation by Shannon Doocy on the assessment.

# International Year of Microcredit 2005 – celebrating success

Christina Barrineau



PHOTO: ADAM ROGER, UNITED NATIONS CAPITAL DEVELOPMENT FUND

**RESPONSE TO THE UNITED Nations International Year of Microcredit 2005** has exceeded all expectations and demonstrated the immense world-wide demand for increased access to financial services.

Microfinance is a powerful and invaluable tool for low-income people, providing credit, savings, insurance, remittances, pension plans and other financial services. Given access to microfinance, people can build assets, increase income, stabilise consumption levels and protect themselves from potential losses. Through the marked success of the Year, microfinance has been recognised as an effective way to help meet the Millennium Development Goals (MDGs) and achieve sustainable development worldwide.

While the MDGs do not include a specific financial sector access target, microfinance must be recognised as an integral part of development if domestic private sector growth and wealth creation for those in poverty

are to be attained. Microfinance's power to catalyse positive change and development has made it a fundamental part of major international initiatives to achieve the MDGs.

### **The Year's initiatives and key outcomes**

Created by UN Member States to assess the challenges that poor people confront in accessing financial services, the International Year is a critical opportunity to highlight the enormous momentum behind and potential of microfinance. Under the guidance of global financial sector leaders as advisers and sponsors, the Year has successfully rallied the world to build inclusive financial sectors through several initiatives.

**National Committees widely supported.** The Year provided a platform to engage countries in aligning their financial sectors to achieve the MDGs by 2015. A remarkable **101 countries** pledged support by October 2005, forming National Committees or Focal Points

comprising high-level representatives from 57 governments, 41 local UN offices, 59 multi-national agencies, 265 microfinance networks, 93 central banks and bank associations, and key members of the private sector and civil society.

### **The Year has rallied the world to build more inclusive financial sectors**

**High-level participation in The Blue Book.** Initiated by the Year, and led by the United Nations Capital Development Fund and the Office of Financing for Development of the United Nations Department of Economic and Social Affairs, *The Blue Book on Building Inclusive Financial Sectors*<sup>2</sup> created an innovative international dialogue among a unique array of financial sector experts to address the question of **why so many bankable people are unbanked**. The ground-breaking result is a companion guide to national dialogues that centres on creating and strengthening national strategies for financial inclusion.

**The Data Project initiated.** Although there is a broad consensus that microfinance is widely and increasingly used, there is little hard data about who provides it, in what forms it is provided, who receives it and at what cost. In the second half of 2004, the Year brought a small group of expert statisticians and researchers together with governments and the private sector to address current data gaps and anticipate future needs.

As a result of this pioneering process, the World Bank and the UK's Department for International Development (DFID), along with the International Monetary Fund and the Central Bank of West African States

(BCEAO), have moved forward to develop critical new indicators on the quality of financial access, as a vital step in dramatically extending the outreach of financial services to poor people around the world.

**Global Micro-entrepreneurship Awards.** In addition to addressing the serious task of increasing access to financial services, the Year celebrated the passion, dedication, and tremendous hard work of poor and low-income entrepreneurs worldwide. To pay tribute, more than 30 countries participated in the Global Micro-entrepreneurship Awards, bringing together thousands of microfinance clients, students, private and public sector professionals, senior government officials, and UN staff.

In November 2005, GMA contestants rang the opening bells of more than

30 stock exchanges around the world, sending a strong message that inclusive financial sectors play a pivotal role in poverty eradication.

### Looking forward

The International Year of Microcredit marks a pivotal milestone in the evolution of microfinance. The foundation for critical developments in the field have been firmly established: poor clients, heads of state, the private sector, central banks, students, professors, NGOs and poor clients have joined together to propel microfinance to the forefront of development and the achievement of the MDGs.

The road to building inclusive financial sectors around the world is long and arduous, but, as the Year has clearly demonstrated, we are poised to revolutionise access to finance for poor people everywhere.

Access, in the words of John Bati Kalinga, a micro-entrepreneur in Kenya, means: "I want to eat by the sweat of my own brow. If I'm out begging on the street, it won't help my children at all. I want my children to learn from me. I want them to say: 'My father did this.' That is why I do all of this...I'm building a foundation for the future." ■

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[www.unctf.org/](http://www.unctf.org/) [www.un.org/esa/ffd/](http://www.un.org/esa/ffd/)  
[www.unctf.org/bluebook/overview.php](http://www.unctf.org/bluebook/overview.php)



*A young girl in Kosovo, with one of her family's prized milk cows. After the war, her father received one cow as a grant, then when the family was back on its feet he took a micro-loan of 200 euros to buy a second cow. He now has six cows, and intends to seek a new loan to modernise his barn and begin servicing a commercial dairy.*

# Case Study: VisionFund Cambodia –

**SINCE 1990, PROVIDING FUNDS FOR CREDIT** has always been an integral component of World Vision Cambodia's ministry. As at September 1998, World Vision had invested a total of US\$691,010 for credit capital, managed in a decentralised way through its Area Development Programs (ADPs). Yet performance using this approach was mixed: credit programmes were managed by staff who didn't possess the necessary expertise and focus in credit delivery and although the programmes helped a lot of people, they were unsustainable. Learning from this experience, a new, separate microfinance programme was launched in 2001. World Vision Cambodia started to streamline its credit management, organised a market-based microfinance study, overhauled systems and procedures and pilot-tested methodology and products.

## **A decade of growth**

Expansion to 12 ADP areas immediately followed in 2002. Performance has remained strong, with vigorous client and portfolio growth during 2003 and 2004. In compliance with local laws and the World Vision Partnership's standards for MED, VisionFund Cambodia (VFC) was registered as a separate commercial company owned by World Vision in 2003, and in 2004, VFC secured a microfinance institute (MFI) licence from the National Bank of Cambodia.

As at September 2005, VFC has more than 25,000 clients (80% of them women) with a total portfolio of over US\$3 million in seven provinces. In spite of the rapid expansion, portfolio quality remained healthy: arrears, portfolio at risk and loan loss rates have remained within Partnership standards throughout the past five years of operation. Six VFC clients have been honoured by the United Nations for "Best Micro-entrepreneurs" during the UN Year of Microcredit. VFC was also recognised by the Consultative Group to Assist the Poorest (CGAP) Microfinance Information Exchange market<sup>3</sup> for its accuracy in financial disclosure and reliability. VFC has now gained the momentum for institutional permanence and has excellent infrastructure, trained personnel and dynamic systems in place to support increasing demand for microfinance services. In just five years, it has become one of the largest sustainable pro-poor microfinance institutions in Cambodia and in the World Vision Partnership.

## **Impact on poverty**

Cambodia is one of the poorest countries in the world, with 36% of the population living on less than US\$1 a day and 70% of the population with no or limited access to affordable and convenient financial services. Provision of microfinance services has allowed some of the poorest Cambodian micro-entrepreneurs to pursue and sustain income-generating activities to support their families – a task otherwise extremely difficult, due to money-lenders' exorbitant interest rates or complete absence of financial capital. It has promoted clients' ability to hope and dream for a better future, and unleashed their entrepreneurial spirit.

What makes VFC unique among other credit providers in Cambodia is that it operates in and around areas where World Vision works in broader community development. Clean water, agricultural training for secure food production, primary education, health care and vocational skills training are some of the macro foundations on which micro-businesses begin to flourish. Microfinance services in such contexts have created synergies for poverty alleviation.

***80% of VFC clients have moved up the poverty ladder, and there is a new sense of community***

An impact evaluation conducted in December 2004 concluded that 80% of VFC clients in World Vision ADPs have moved up the poverty ladder, as evidenced by:

- ◆ growth in capital and business
- ◆ growth in number and diversity of businesses
- ◆ increase in number of children attending school
- ◆ growth in job intake (jobs created)
- ◆ increase in productive assets
- ◆ increased skills for business; and
- ◆ increased self-esteem/confidence and improved health.

VFC has fuelled the local economy, delivering financial services to between 15% and 50% of the ADP populations, depending on the maturity of operations, level of demand and availability of loan capital. Through the joint efforts of World Vision Cambodia and VFC, development messages on topics such as HIV/AIDS, child rights and gender equality are promoted in community bank meetings, helping to empower the community's most vulnerable and disadvantaged. The impact study has revealed that there is a perceived reduction in domestic violence as a result of education campaigns and of improvements in community and family economic situations. Another significant impact of VFC's community banking is that it helps foster people's trust, mutual support

# quality portfolio despite rapid expansion

and sense of community among members. The community bank structures in many instances have fostered mutual help beyond just guaranteeing each other's loans. One ADP manager remarked that it's far easier to mobilise community members for other development projects in areas where VFC has strong community banks.

## Factors in rapid expansion with quality

- **Governance and leadership vision.** Both World Vision Cambodia's and VFC's leadership are determined that microfinance be an organisational core competency, realising that it is an indispensable component of transformational development. The business plan provides a clear sense of the MFI's nature, mission, goals and strategies, and guides each aspect of operations.
- **Hiring and training the right staff for the job.** VFC has invested in hiring and training people who have a sense of calling to help the poor through microfinance and possess the needed competencies.
- **The right operating environment.** There is tremendous demand for financial services in Cambodia; the government has provided relatively favourable legislation for microfinance institutions to thrive; and World Vision Cambodia as a parent organisation has been supportive with policies and leadership.
- **Synergy of services with World Vision.** Since VFC operates in areas where World Vision works, it benefits significantly from existing development investments in an area. Greater efficiency in operations is also achieved through sharing of resources, information and contacts (such as office spaces, avenues for staff spiritual nurture, or baseline data) to achieve a common goal.
- **Availability of funding support.** Although VFC has found itself short of loanable funds every year due to massive demand, the availability of funding from World Vision ADPs, Support Offices and VisionFund International has allowed the institution to accumulate substantial assets. The bigger the asset base, the more poor people it can assist; more than 80% of assets are invested as loan portfolio, while others are invested in systems that make lending work effectively.

## Challenges and hopes

Scaling up VFC into a premier, nation-wide MFI dedicated to serving Cambodia's poor will require significant funding and capacity-building investments in coming years. Governance needs to be further enhanced; processes, systems and structure need to continue evolving to meet changing customer needs, growing organisational complexity and difficult socio-economic conditions in Cambodia. Sustained relationships with ADPs should lead to VFC providing financial services to even more of the vulnerable poor within these communities.

VFC's plan is to provide financial services to 72,000 clients by the year 2009. The whole organisation, from the board down to credit officer trainees, is passionate about helping liberate the poor from poverty. It is this that has been fuelling VFC's remarkable growth. ■

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The national government of Cambodia passed a law (*Prakas B 7-02-49*) mandating licensing of larger institutions engaged in credit and savings services. Licensing is compulsory for all microfinance institutions having a portfolio of 1,000 million riel (US\$250,000) or 10,000 borrowers. World Vision International, MED Program Quality Standards, which mandates MED programmes to attain separate, specialised and sustainable institutions outside of World Vision programmes or departments. CGAP ([www.cgap.org](http://www.cgap.org)) is a consortium of 28 public and private development agencies working together to expand access to financial services for the poor.



*For noodle-maker Bo Phan, of Kandal province, Cambodia, access to VisionFund loans has not only expanded her business but enabled her to maintain the quality of her noodles, a matter of great pride for her. "This is the cleanest place in the village," she boasts.*