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Microfinance and Development

Microfinance and Tuberculosis

Research suggests that socioeconomic interventions, in the form of cash transfer and microfinance, can reduce tuberculosis risk factors and improve health behaviors.[1] Microfinance providers are moving to integrate health services, including TB, into their programs, given the close link between poverty, illness, and financial stability.[2] BRAC, the largest nonprofit in the world, started offering TB services to the poor in Bangladesh when they realized the primary reason microfinance clients defaulted was because they or someone in their family fell ill with TB. Samic Microfinance, a Cambodian microfinance institution, implements a rural credit program known as Cambodian Health Committee Credit Program as part of an effort to reduce tuberculosis prevalence by reducing poverty.[3]

Microfinance and Health

HIV/AIDS

Access to microfinance is also especially crucial in communities devastated by HIV/AIDS by providing income that helps caretakers deal with the financial impacts of the illness on their families and communities. For example, an estimated eighty percent of borrowers of the FINCA program in Uganda are caring for AIDS orphans. In Uganda, nearly 70 percent of World Vision's microfinance clients, already with children, welcome into their homes an average of three HIV/AIDS orphans.[4]

Child mortality and maternal health[5]

Many microfinance institutions actively promote health education. These activities may take the form of a few simple, preventive health care messages on immunization, safe drinking water, and pre-natal and post-natal care. Some programs provide credit products for water and sanitation that directly improve clients' living conditions.

- In Bangladesh, a study of BRAC clients found that fewer members suffered from severe malnutrition than non-clients and that the extent of severe malnutrition declined the longer clients stayed with BRAC.
- In Bangladesh, Grameen clients showed a higher rate of contraceptive use (59 percent) than non-clients (43 percent). This is attributed to clients' increased awareness of contraceptive programs (from attending group meetings), and from increased mobility, which allowed women to seek out such services.
- In Bolivia, a study found CRECER clients had better breast-feeding practices, responded more with rehydration therapy for children with diarrhea, and had higher rates of DPT3 immunization for children.
- In Ghana, Freedom from Hunger clients also demonstrated better breast-feeding practices, and their one-year-old children were healthier in terms of weight-for-age and height-for-age, compared to children of non-clients.
- In CARE microfinance programs in Mali, members are selected and trained as community health agents to reach out to local women. In the first phase of the project, 4,000 local women were reached with health and family

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[1] Boccia D, Hargreaves JR, Lonnroth K, et al. Cash transfer and microfinance interventions for tuberculosis control: review of the impact evidence and policy implications. *Int J Tuberc Lung Dis* 2011; **15** (suppl 2): S37-S49. PubMed

[2] Sheila Leatherman, Christopher Dunford, Marcia Metcalfe, Myka Reinsch,
Megan Gash and Bobbi Gray. "Integrating Microfinance and Health." Available at:
http://www.globalmicrocreditsummit2011.org/userfiles/file/Workshop%20Papers/S_%20Leatherman%20-%20Integrating%20Microfinance%20and%20Health%20Benefits,%20Challenges%20and%20Reflections%20for%20Moving%20Forward.pdf

[3] Inter-American Development Bank, "The Sound of Microfinance 2.0." Available at:
http://www.iadb.org/micamericas/section/detail.cfm?language=English&id=9074

[4] World Vision. Impact! HIV/AIDS: Uganda Microenterprise Development. Available at:
http://www.worldvision.org/worldvision/appeals.nsf/stable/im_uganda_v7.

[5] Taken whole from: CGAP, What Do We Know About Microfinance? http://www.cgap.org/p/site/c/template.rc/1.26.1306/

planning information and services, including contraceptives to sell. Women who participated in microfinance groups were more than twice as likely to use contraception as those who were not members.[6]

Microfinance and Education[7]

Increased incomes, savings and education loan products provide poor people with the ability to invest in their children's future, particularly in their education. Empirical evidence indicates that, in poor households with access to financial services, children are not only sent to school in larger numbers, but they also stay in school longer. Even where children help out in family enterprises, the poverty-induced imperative of child labor decreases, and school drop-out rates are much lower in client households than in non-client households. Studies on the impact of microfinance on children's schooling show that:

- In Bangladesh, almost all girls in Grameen client households had some schooling, compared to 60 percent of girls in non-client households. The schooling rate for boys was significantly higher — 81 percent of boys in client households received some schooling, compared to 54 percent in non-client households. Basic competency in reading, writing, and arithmetic among children 11 to14 years old in BRAC member households increased from 12 percent in 1992 to 24 percent in 1995, compared to only 14 percent for children in non-member households.
- In Honduras, Save the Children clients increased earnings, which enabled them to send children to school and to lower dropout rates,
- In Peru, Acción Communitaria del Peru-borrower households spent 20 percent more on schooling for their children than non-borrower households.

> Seven years ago, Bosede Ogunleye of Nigeria only earned about 26 cents a day selling small satchels of filtered water on the street. Not only was Bosede unable to feed her two small children with the money she made, but she was also in an abusive marriage. At the very least, she needed a way to bring in more income to support her family. Bosede took out a loan for 10,000 Nara (US$90) at Self-Reliance Economic Advancement Programme (SEAP), a microfinance intuition, with which she was able to invest in other products to sell and grow her clientele. In 2007, she purchased a freezer and generator and began selling frozen fish and meats. However, Bosede's husband was outraged at his wife's success —and at SEAP for empowering her to start her new venture. He even visited SEAP's offices, threatening loan officers and demanding to know why they lent her money. Soon after, he abandoned Bosede and their children. Nonetheless, she is proud of her accomplishments. She's grown her household income more than six-fold, earning nearly $4.50 per day and placing her family squarely in the Nigerian middle class. Bosede can now pay her children's school fees with ease and is free from worrying about their next meal.
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> *— Grameen Foundation, "Our Stories"*

Microfinance and Women's Empowerment[8]

According to the UNDP, women represent 60 percent of the 1.4 billion people living on less than $1.25 a day, but own only 1 percent of the world's wealth.[9] Across the world, young girls and women are faced with limited opportunities. 75 percent of the world's women cannot get formal bank loans because they often lack permanent employment and capital and assets, such as land. [10]

There is strong evidence that access to financial services and the resultant transfer of financial resources to poor women, over time, lead to women becoming more confident and assertive. Access to finance enables poor women to become

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[6] CARE. Building the Linkage Between Maternal Health and Financial Services for the Poor, Community Action and Women's Empowerment

[7] Take in whole from: CGAP, What Do We Know About Microfinance? http://www.cgap.org/p/site/c/template.rc/1.26.1306/

[8] Except for first paragraph, excerpt from: CGAP, What Do We Know About Microfinance? http://www.cgap.org/p/site/c/template.rc/1.26.1306/

[9] United Nations Development Programme. International Women's Day Special: Faces of Strength and Courage (Press Release). March 8, 2009. Available at: http://content.undp.org/go/newsroom/2009/march/international-womens-day/international-womens-day-special-faces-of-strength-and-courage.en.

[10] United Nations Development Programme. International Women's Day Special: Faces of Strength and Courage (Press Release). March 8, 2009. Available at: http://content.undp.org/go/newsroom/2009/march/international-womens-day/international-womens-day-special-faces-of-strength-and-courage.en.

economic agents of change by increasing their income and productivity, access to markets and information, and decision-making power.

This empowerment is very real and can take different forms:

- In Indonesia, female clients of BRI were more likely than non-clients to make joint decisions with their husbands concerning allocation of household money, children's education, use of contraceptives, family size, and participation in community events.
- In Bangladesh, a survey of 1,300 clients and non-clients showed that credit clients were significantly more empowered than non-clients in terms of their physical mobility, ownership and control of productive assets (including land), involvement in decision making, and awareness of legal and political issues.
- In Nepal, 68 percent of Women's Empowerment Program members said that they made decisions on buying and selling property, sending daughters to school, arranging children's marriages, and family planning.

> In the course of Afghanistan's turbulent past, Homiara's husband was killed in an explosion. She was forced to take her six children and flee her home. When she returned, her home was gone. Now living in the capital, Kabul, Homiara joined CARE's poultry program. With the money she earns selling chickens and eggs, Homiara sends her children to school. Rona, her 15-year-old, wants to become a doctor. "I hope my children become educated and have a good life," Homiara says. "Before, women had to hide their faces and could not work. Now, I feel very positive about the future."
> — *CARE, microfinance stories*

In India, SEWA clients have lobbied for higher wages, the rights of women in the informal sector, and resolution of neighborhood issues.

Microfinance and Agriculture

There is a huge unmet demand for access to savings both informally and formally. Savings accounts are being engaged at rates up to 12:1 compared to loans, even when both services are available from the same institution. In Uganda, 43 percent of people said a savings account is their greatest financial need, compared to 31 percent who cited credit. [11] Savings – especially informal savings groups that target very poor people – are critical for women's economic and social empowerment. Informal savings-led groups in Niger, Zanzibar, and Nepal have shown and reflected adaptability and resilience in economically and politically charged settings.[12]

Most very poor people depend on agriculture for their livelihoods, yet lack tools to improve yield. For example, most rural households in sub-Saharan Africa are only producing around 40 percent of their potential capacity in terms of crop yield. And although women produce up to 80 percent of food in Africa, women own only 1 percent of the land, and receive only 7 percent of extension services and 1 percent of all agricultural credit.[13] Training in good agricultural practices and access to input finance, already underway by organizations, could move many households from food insecure to producing surpluses for sale.

The efforts that have been made to finance agriculture production in Africa have generally failed due to inappropriate lending policies, disregard for external and internal market influences, and a lack of coordinated interventions among key stakeholders. Farmers may receive a loan for an input, but without training on how to make their land more productive, the farmers' yields are limited. Or, when the cash flow of the entire household is analyzed, a financial institution may not adequately cover or spread the risk associated with lending to the agriculture sector and consequently put its overall portfolio at risk. Similarly, while the financial need of farmers during different times of the harvest cycle may be known, the financial institution will rarely lend in the lead-up to harvest to reduce the risk of side-selling. A comprehensive approach must be taken to achieve maximum results.

Microfinance providers and institutions must understand the dynamics of the farming household and offer tools and services that meet this specific need. When finance is based on a simple formula of providing a loan in the amount it costs

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[11] Daryl Collins, Jonathan Morduch, Stuart Rutherford, and Orlanda Ruthven. *Portfolios of the Poor: How the World's Poor Live on $2 a Day*. Princeton University Press 2009.

[12] Grant, William J. and Henry C. Allen, "Successful Financial Intermediation in the Rural Sahel," *Journal of Microfinance,* Vol 4, No2.
Anyango, Ezra and Ezekiel Esipisu, Lydia Opoku, Susan Johnson, Markku Malkamaki and Chris Musoke, "Village Savings and Loan Associations – experience from Zanzibar," *Small Enterprise Development,* Vol.18, No.1, March 2007, p. 12.
Mayoux, Linda and Valley Research Group, "Women Ending Poverty, The WORTH Program in Nepal: Empowerment through Literacy, Banking and Business," Pact, June 2008. Hereafter cited as WORTH 2008.

[13] Action Aid UK. "Fertile Ground." http://www.actionaid.org.uk/doc_lib/fertile_ground.pdf

to purchase a given input (a bag of fertilizer, for example), lost are the variety of factors that impact the farmer's business, the seasonal cash flow needs, and the ability to repay. For example, MFIs must consider moving away from the traditional "term loan" and look at innovations in long-term loans that meet the needs of farmers' cash flows throughout the year.

Microfinance: Savings

The need for savings services is fundamental. Some poor already save in an unorganized manner, such as loans from money-lenders or relatives and savings kept in their homes, but these methods are not safe and do not meet their needs. 99 percent of survey respondents in Uganda stated that unorganized savings methods such as saving at home, or savings in livestock or assets did not help them meet their goals: money was lost or stolen, or it was too easy to spend funds when saved in their home.[14] Informal but well organized savings-led approaches can enable the most poor to build their financial assets and skills through savings rather than debt, offering a mechanism to access financial services in small amounts that are typically not profitable for formal banking systems or many MFIs.

"The biggest thing for me was starting to save. I had never saved before. Now I have savings to tap when it's time for the school fees and other needs, including more food. My family is better now. We eat better…I want to save more so I can use my own money for the farm instead of taking out loans. And I want to meet people who earn more money so I can learn from them."
— Rita, member of Freedom from Hunger's Credit with Education program.

Microfinance: Insurance

Micro-insurance is one of many financial services, such as savings, that helps manage risk.

Micro-insurance is the protection of low-income people against specific perils in exchange for regular monetary payments (premiums) proportionate to the likelihood and cost of the risk involved. As with all insurance, *risk pooling* allows many individuals or groups to share the costs of a risky event. To serve poor people, micro-insurance must respond to their priority needs for risk protection (depending on the market, they may seek health, car, or life insurance), be easy to understand, and affordable. Most poor people manage risk with their own means. Many depend on multiple informal mechanisms (e.g., cash savings, asset ownership, rotating savings and credit associations, moneylenders) to prepare for and cope with such risks as the death of a family breadwinner, severe illness, or loss of livestock. Very few low-income households have access to formal insurance for such risks.[15]

Opportunity International's MicroEnsure, the world's first micro-insurance intermediary, provides protection against the many risks faced by those living in poverty. Today, more than 3.2 million clients can fall back on our crop, loan, health, life and property insurance products in times of hardship or disaster.[16]

"My life is like this Chutes & Ladders board [game]. The loans…are like ladders, they give me growth. But where are you when disaster strikes? When someone in my family dies?"
— Zambian women to Opportunity International

According to Women's World Banking, women routinely save 10-15 percent of their monthly income for health emergencies that can wipe out savings. Women's World Banking is trialing health insurance in Jordan, where a premium equal to one day's wage per month — or 3 percent of income — provides health insurance that pays out for every night the client spends in a hospital, including stays associated with childbirth. Women's World Banking argues that the insurance provides a sense of security to women who then feel less need to stash away cash, and in turn are able to apply income towards other expenses like education.[17]

[14] Daryl Collins, Jonathan Morduch, Stuart Rutherford, and Orlanda Ruthven. *Portfolios of the Poor: How the World's Poor Live on $2 a Day*. Princeton University Press 2009.
[15] CGAP. Donor Brief. Microinsurance: A Risk Management Strategy. Section taken verbatim. Available at: http://www.cgap.org/gm/document-1.9.2351/DonorBrief_16.pdf
[16] Opportunity International Blog. Micro-insurance: A Powerful Safety Net. http://www.opportunity.org/blog/breakout-session-microinsurance-a-powerful-safety-net/#.Tx8-qqXZAyA
[17] *The Atlantic*. The Future of Microfinance: Savings and Insurance. Available at: http://www.theatlantic.com/business/archive/2011/03/the-future-of-microfinance-savings-and-insurance/71852/