

The marginal cost of integrating microfinance with education using the unified approach

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Introduction

Credit with Education is a methodology that integrates two services: financial and non-financial. Its fundamental purpose is to achieve a greater socio-economic impact on its clients. Credit is a very important resource to address obstacles related to poverty and an optimal instrument to achieve sustainability in any microfinance institution. However, it is not sufficient: Low income people, who are socially isolated, lack self esteem, have limited business experience, and have deficient health and nutritional conditions, need more than financial services. The living conditions of these people not only limit their possibility to become good clients, but also prevent them from developing the knowledge and skills to address their condition.

While credit can make an institution sustainable, training consolidates its sustainability. Several experiences have demonstrated that non-financial services are closely related to satisfaction, loyalty, and indexes of client default. However, apart from these results, the major impact is in the contribution to the struggle for a more equitable world.

The organizations that work with the Credit with Education services have demonstrated that through this integrated service, it is possible to render efficient educational services during the group borrower meetings¹. In this way, not only is the efficient use of resources achieved, but also the consolidation of an institution with social objectives.

¹ Vor der Brugge, Ellen, Joan Dickey, and Christopher Dunford. *The Cost of the Educational Component in the Implementation of the Credit with Education Model*, Freedom from Hunger.

In this paper, cost analysis and the results obtained from the credit with education service are examined. To this purpose, the successful experience of CRECER—a Bolivian institution that works with the unified service approach and has consolidated this service—is used.

In the first part of the document, an analysis of the different forms of integrating education with financial services is presented.

The second part consists of a description of the methodology used by CRECER, which allows a detailed understanding of the procedures used by the institution to provide the service.

In the third part, I present a cost survey of the educational component. This survey was conducted by CRECER. In this part I specify the method used for the cost estimate and the results achieved.

Finally, I present a series of conclusions that go beyond the cost analysis. I share my reflections and arguments related not only to the investments of financial services, but also to the results and impacts generated by them.

WAYS TO INTEGRATE EDUCATION WITH FINANCIAL SERVICES

There are a variety of ways to integrate financial services with non-financial services. There are three main options²:

1. Bound services

The financial institution conducts strategic alliances with other organizations so that their clients may receive educational and/or training services. The great advantage of this model is that the financial institution maintains its speciality and, therefore, its service. The major problem, however, is to assure service delivery to all clients given that there is no control and follow-up in the non-financial area.

2. Parallel services

The same financial institution offers both services, with different and specialized personnel for each service type. One of the advantages of this approach is that specialized personnel are highly committed (exclusively devoted to only one service), and consequently the results tend to be greater.

However, the greatest disadvantage is in the operational costs. The fact that there are two people for each service results in a doubling of expenses. Therefore, it is necessary to seek funding and the institutions often become dependent on foreign donations.

Another challenge is the coordination of personnel from different sectors and, hence, the equilibrium in their treatment. The complaint is

² Dunford, Christopher and Isabel Rueda. "Integrating Microfinance with Education". Presentation at the Latin America & Caribbean Region Microcredit Summit, Santiago de Chile, 2005.

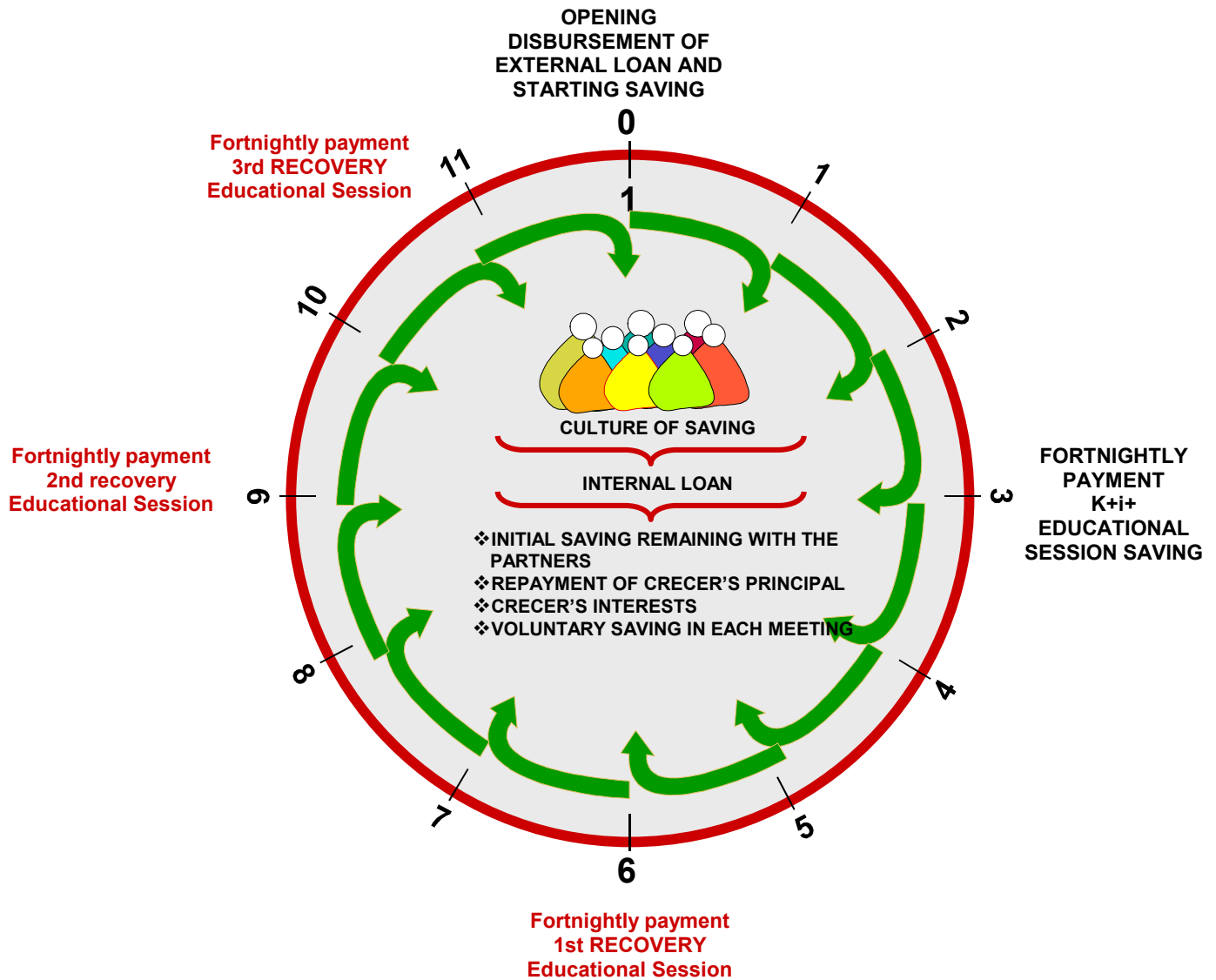
frequently heard that the financial services personnel is considered to have more preferences and/or benefits, but also greater responsibilities.

3. Unified service

The same financial institution renders both financial and non-financial services, but with the same personnel. The greatest advantage is in the costs, given that only one person offers both services. Therefore there is a potential of total recovery of the income of credit operations. It remains clear that the capacity for providing non-financial services is therewith less, and therefore their results are smaller. A frequent challenge to the unified approach is hiring, training, and supervising personnel, due to the fact that all staff at the operational level should be able to provide both services.

CREDIT WITH EDUCATION METHODOLOGY

Description of the process



This diagram explains the regular functioning of a community bank with a credit cycle of 6 months. This process starts with an Opening meeting. Here the money is delivered to the group leaders. These group leaders in turn deliver the loans to each client. In this meeting there is only financial activity.

From the second meeting until the 11th, all the regular meetings include financial activities (principal recovery, interest, internal loans) and an educational activity (training in any of the given modules of education for life). Each meeting lasts an average of 2 hours, of which 25 minutes are designated for the educational session.

These training sessions are based on adult education methodology (interactive method and knowledge/ practice based on experience), which is helpful to achieving the expected results.

Each educational session consists of developing a specific topic. This topic is scheduled at the beginning of each credit cycle. All the topics respond to the demands of the clients and are linked to the institutional mission and vision. Due to the broad and changing demand for covering different themes, CRECER prioritizes the choice of topics based on the clients' requirements and the requirements in line with their strategic objectives.

Training in financial and non-financial services

In order to conduct the cost analysis it is necessary to clearly identify the various processes involved in the provision of both the financial and non-financial services, in order to more precisely determine the expenses incurred by each.

Every institution that works with the community bank methodology requires its own training service on the methodology. That is to say, they definitely

require that the clients receive basic training on handling their community groups: joint guarantees, internal regulation of the group, sanctions, interest estimates, payment frequency, training group leaders, interest rates and others. These topics are basic and indispensable so that every *community bank* is able to function, whether there are additional non-financial services or not. Consequently, this cost should be considered within the expenses of regular operations of any institution that works with community banking.

As opposed to this, training on topics different from financial services, such as health, education and others are additional expenses. Therefore, they should be considered separately, since they would not exist if the institution decided to work only with financial services.

In the example of CRECER, these processes are divided into two main areas: training in the organization of community banks and education for life.

Training in the organization of community banks includes everything from promoting financial services to potential clients, training clients who have just entered the program, and training group leaders to achieve better management of the group itself. The contents of this training are meant to guarantee the functioning of the financial actions of the *community bank*, which are characteristic of financial technology.

Education for life includes three educational modules with topics of common interest to clients. CRECER groups them into:

- i. Health
- ii. Citizen Rights and Self-Esteem
- iii. Business

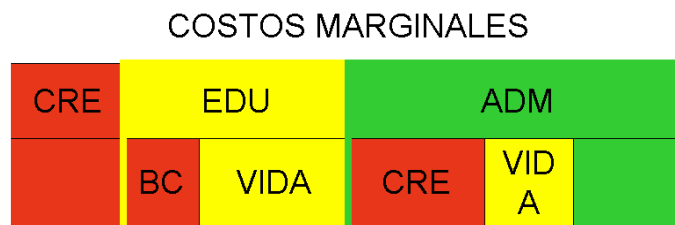
The purpose of the contents of these modules is to develop the clients' knowledge and skills related with basic aspects that allow them to address contingencies characteristic of poverty and a lack of opportunities. In

module I (health) topics on mother-child health, sexual and reproductive health, alcoholism, tropical illnesses and nutrition are covered. In module II, topics related to citizen rights and self esteem are covered, as well as topics related to values, empowerment, decision-making, human rights, family violence, and others can be found. Finally in module III, all topics related to the handling and administration of clients' businesses (money care, budget, sales techniques, assistance to clients, and others) can be found. The purpose of these is to strengthen skills that allow them to have successful businesses.

ESTIMATE OF COSTS FOR THE EDUCATIONAL SERVICE

Marginal Cost

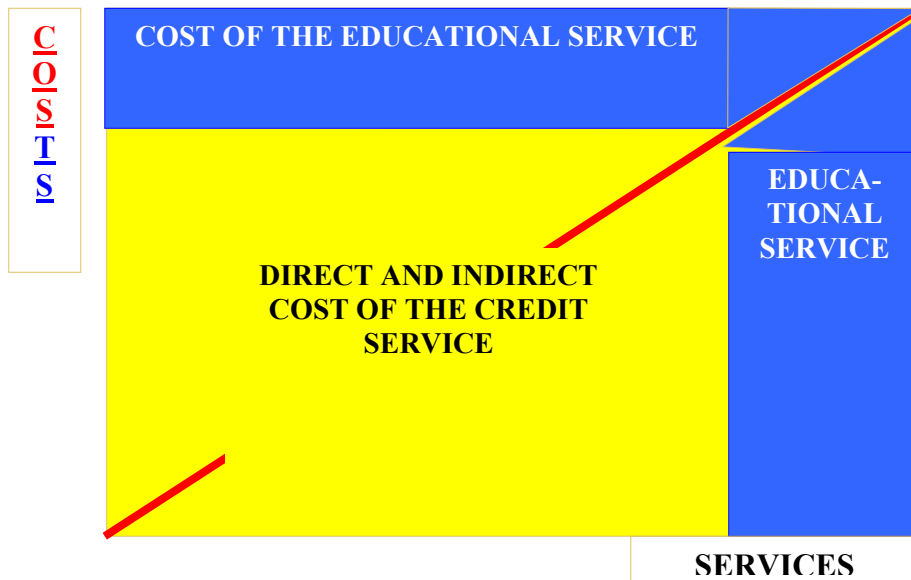
In order to understand this study, it is necessary to make it clear that education is a service provided in addition to the financial services. It is a supplementary service that seeks to reach socio-economic objectives regarding the BC partners and represents a comparative advantage in the market regarding the microfinance institution. Therefore, all the calculations conducted are within that concept. The marginal cost is understood as the increase in the total cost deriving from production of an additional unit. The additional unit, in this case, is the educational service.



The educational service (CRECER calls it "education for life") may or may not be integrated with financial services. This is an institutional decision. If it were so, the financial service would have inevitable operational costs. For example: personnel salaries, transportation expenses, travelling allowance and others. In other words, with or without education these expenses are there.

In view of this, it is presumed that the cost of delivery of credit service with education is the cost charged to financial services. Only marginal expenses are attributed to the non-financial service (education for life). For this purpose, a detailed study of CRECER's expenses was conducted. In this study, costs ascribed to the financial area are separated from those ascribed

to the non-financial area. Within the latter, owned training services are differentiated from the methodology of community banking.



Method for cost estimate in education

CRECER has completed a cost study in the area of education³. This study took year 2005 as the study subject. The theoretical basis for the imputation of the educational costs was based on the Activity Based Cost Method (ABC)

- The ABC assumes that the identification of processes and activities is an essential element.

The studied costs for this analysis are:

³ Sahonero, María del Carmen. “Costs of the Educational Component in the Credit Integrated Service with Education”. Consultancy Study. Bolivia, May, 2006.

Direct costs (production of educational and training materials, training workshop costs –materials, food, travelling allowance of participants; trainers’ salaries and social contributions)

Indirect costs (trips, travelling allowance, communications and others indirectly ascribed to the educational services, salaries of people in different posts). In this category, some costs are calculated through estimations due to their complexity.

The development of the study shows the cost that adds to actions only from the financial area itself and the cost of education by borrower.

The study separates costs of education/training, characteristic of the community bank program and the cost of education as a non-financial service. This separation is necessary to clearly determine the costs ascribed to the service of education for life and the training service, where the institution also incurs with only the credit service.

This research identifies the factors related to the educational area:

- Factors or resources consumed in the educational component
 - Personnel from the area of education
 - Administrative personnel
 - Executive personnel
 - Educational material
 - Buildings
 - Insurance
 - Trips
 - General services
 - Maintenance services
 - Finance

- Key Processes and Activities of the educational component.
Example:

- Training to A.C. partners:
 - Development of the educational session. Group dynamics, reminder of previous topic, development of new topic, summary of the educational session.
 - Training to group leaders (training to leaders of the community banks. This guarantees the handling of the community bank methodology)
 - Development of educational fairs
 - Participation in health campaigns
 - Elaboration of the educational material: definition of the required materials, design, printing, quality control, delivery.
 - Training of personnel in educational topics: definition of the topics to be developed in a given period of time, topic programming, preparation of the required material, definition and summons to facilitators, summons to participants.
 - Training supervision: time during which the field personnel is supervised in situ and a brief training on their management is given.
 - Writing of educational reports and information analysis: monthly reports on the development of the educational sessions.
- Cost transmitters
 - Salaries and other remunerations (for dedicated time),

- Units of educational material (manuals, booklets, paper charts, videos, etc.)
 - Occupied meters (physical space) for rents,
 - Depreciations for use of goods
 - Travelling allowance, transportation expenses, accommodation, fuel
 - Stationery and office materials
- Cost imputation to the activities of the educational component as well as the factors by applying the marginal cost, applying time consumption criteria, use of space of the physical infrastructure, fixed costs (cost transmitters)
 - Personnel costs included in the pay roll (on the basis of time measurement and salary costs)
 - Other personnel expenses not included in the payroll
 - Expenses on education and specific credits
 - Expenses on education and shared credits

Results of cost study

The study shows that the percentage of costs ascribed to all the educational component is 8,4%. Considering that from this direct cost, 7 % is assigned to education for life and the remaining 1,4% is referred to expenses incurred in owned training of the community bank technology.

In other words, the integrated services of credit with education increase the total costs of the service by 7%. The costs of education for life, as well as

training in the owned methodology, within an integrated system are low. The most important premise is in the opportunity costs which are used to offer non-financial services.

Likewise it is possible to identify that the cost of delivery of credit service with education per client comes to \$US 69,03 per year, of which, the cost of a trained client is of \$US 5,80 per year; but if one only pays attention on the trained client on education for life, it is \$US 4,94 per year. According to the study completed in CRECER, it is possible to identify that those costs are related to a scale economy. Apparently, the cost of a trained person in a small institution is higher than in a big institution. It has been possible to verify that the costs on education of the branches over 20,000 clients had a lower cost (8,0%) than those with less than 10,000 clients (8,4%). The scale economy is an aspect that favours reduction of expenses, also in this area.

CONCLUSIONS

So, how much more expensive is it to give education as a unified service to clients, from inside a financial institution? The simple answer is that there is a marginal cost. In the study one can see that this cost is not over 7% of the expenses. However, it is necessary to clarify that this is a study from the point of view of marginal costs. Other approaches are also able to look at shared costs and divide all the expenses into two areas: the financial expenses and the non-financial expenses. The fundamental premise starts from the approach of analysis to be used. What remains clear is that unified service has a comparative advantage in costs in relation to other services. The opportunity cost of the other ways is the best example.

One of the important preoccupations of some institutions is that non-financial service makes the product more expensive and besides not all clients want to be trained. It is important to reflect not only how much more expensive the product is, but how many more benefits are given to the target population and the institution itself. Maybe it is timely to quantify those benefits and compare them (study cost-benefit).

The cost study is a very important tool to be able to analyze the feasibility and sustainability of non-financial services linked to the financial ones, but it loses balance if the benefits with a unified service are not reflected on more carefully.

Institutional Benefits

- Results in attitudes and behavior of the clients that strengthen institutional actions. A study on CRECER⁴ impact indicates that it has been able to identify various aspects closely linked to the non-financial service:

⁴ FINRURAL. CRECER's Study of Impact, Bolivia. May 2006

- Feeling of ownership (incidence on payments, strengthening of the Community Association)
 - Improvement on daily practices
 - Bigger income and success in business
 - Reduction of delay
 - Royalty of clients
- Highly committed personell. Every time training is given to the personnel that are to deliver integrated services; these people not only acquire new knowledge and skills (which are part of their work tools); but this knowledge is used for her personal and professional growth. This makes the employees highly loyal.

For the clients:

- More knowledge and skills on basic health topics, nutrition and own rights that help clients to better address adverse conditions of the environment.
- Further knowledge and skills on Basic topics which help them to strengthen and improve their business and become successful in their activities to support their families.

The most important impact is in the development of a microfinance program with capacity to deliver necessary services to a population in disadvantage by means of a solid, efficient, and sustainable institution.

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Appendix

Total costs Credit with Education

Indicators / Ratios		LA PAZ US\$	ORURO US\$	CONSOLIDATED US\$
Total costs (credit with education)	1	\$1,147,083	\$541,165	\$4,281,503
Direct education costs	2	\$92,013	\$45,675	\$359,646
Direct education costs/Total costs (%)	3=(1/2)	8.0%	8.4%	8.4%
Credit without education costs	4=1-2	\$1,055,070	\$495,490	\$3,921,856
Number of borrowers (Dec.2005)	5	23,455	7,678	62,027
Total costs per borrower	6=(1/5)	\$48.91	\$70.48	\$69.03
Education cost per borrower	7=(2/5)	\$3.92	\$5.95	\$5.80
Cost per borrower (without education)	8=(6-7)	\$44.98	\$64.53	\$63.23
Education for life cost -EFL (%)	9	95.2%	85.1%	85.1%
EFL cost	10=(2/9)	\$87,573	\$38,880	\$306,143
EFL cost per borrower	11=(10/5)	\$3.73	\$5.06	\$4.94
NOTES:				
Preliminary results of the Cost of Education Services Study				
Source: 2005 Financial Statements and Financial Information System				

Costs Credit with Education

	8.00	LA PAZ	8.00	ORURO	8.00	CONSOL.
	Bs	US\$	Bs	US\$	Bs	US\$
Total costs (credit with education)	1	\$9,176,666	\$1,147,083	\$4,329,317	\$34,252,021	\$4,281,503
Direct education costs	2	\$736,105	\$92,013	\$365,398	\$2,877,170	\$359,646
Direct education costs/Total costs (%)	3=(1/2)	8.0%	8.0%	8.4%	8.4%	8.4%
Credit without education costs	4=1-2	\$8,440,561	\$1,055,070	\$3,963,919	\$31,374,851	\$3,921,856
Number of borrowers	5	23,455	23,455	7,678	62,027	62,027
Total costs by borrower	6=(1/5)	\$391.25	\$48.91	\$563.86	\$70.48	\$69.03
Education cost by borrower	7=(2/5)	\$31.38	\$3.92	\$47.59	\$5.95	\$5.80
Cost by borrower (without education)	8=(6-7)	\$359.86	\$44.98	\$516.27	\$64.53	\$63.23
Education for life cost -EPV (%)	9	95.2%	95.2%	85.1%	85.1%	85.1%
EPV cost	10=(2/9)	\$700,587	\$87,573	\$311,039	\$38,880	\$306,143
EPV cost by borrower	11=(10/5)	29.87	3.73	40.51	5.06	4.94

Cuadro 5

COSTOS DIRECTOS E INDIRECTOS DE PERSONAL

	TOTAL		Costo EPV		Costo		EPV		Costo		EPV		Total Costo Cap. y Educ.		Costo Dir e Indir en %		
			Costo	MBC Pers	Pers	Socias	Costo	MBC Socias	Socias	Costo	MBC Socias	Socias	Costo	Cap. y Educ.	Costo Dir	Indir	en %
NAL Costo Directo	350,935		57,204	16.3%	85,506	36,969	10.5%	38,767	218,446			38,767	218,446				7.2%
Costo Indirecto	2,681,302		40,967	1.5%	173,256	0	0.0%	0	214,223			0	214,223				7.1%
Total	3,032,238		98,171	3.2%	258,762	36,969	1.2%	38,767	432,669			38,767	432,669				
CB Costo Directo	1,584,518		45,862	2.9%	83,958	75,707	4.8%	139,472	344,999			139,472	344,999				12.4%
Costo Indirecto	1,201,476		27,993	2.3%	121,246	10,930	0.9%	18,903	179,073			18,903	179,073				6.4%
Total	2,785,994		73,855	2.7%	205,204	86,637	3.1%	158,375	524,071			158,375	524,071				
LP Costo Directo	2,482,697		5,825	0.2%	130,564	21,905	0.9%	416,425	574,719			416,425	574,719				13.9%
Costo Indirecto	1,648,211		25,061	1.5%	178,476	23,063	1.4%	31,518	258,117			31,518	258,117				6.2%
Total	4,130,909		30,886	0.7%	309,040	44,968	1.1%	447,942	832,836			447,942	832,836				
OR Costo Directo	845,359.40		3,878.14	0.5%	99,919.79	37,047.48	4.4%	134,252.54	275,097.94			134,252.54	275,097.94				17.4%
Costo Indirecto	734,135		4,971	0.7%	95,000	9,611	1.3%	19,223	128,805			19,223	128,805				8.2%
Total	1,579,494		8,850	0.6%	194,919	46,659	3.0%	153,475	403,903			153,475	403,903				
SZ Costo Directo	894,512		7,985	0.9%	55,445	3,698	0.4%	168,587	235,716			168,587	235,716				13.9%
Costo Indirecto	806,688		17,517	2.2%	35,771	8,106	1.0%	31,093	92,488			31,093	92,488				5.4%
Total	1,701,201		25,503	1.5%	91,216	11,804	0.7%	199,681	328,204			199,681	328,204				
SU Costo Directo	929,477		24,894	2.7%	52,672	37,538	4.0%	86,913	202,016			86,913	202,016				11.9%
Costo Indirecto	761,745		35,010	4.6%	70,341	24,458	3.2%	20,914	150,722			20,914	150,722				8.9%
Total	1,691,222		59,903	3.5%	123,013	61,996	3.7%	107,826	352,738			107,826	352,738				
CON Costo Directo	7,087,499		145,648	2.1%	508,065	212,865	3.0%	984,416	1,850,994			984,416	1,850,994				12.4%
Costo Indirecto	7,833,557		151,519	1.9%	674,090	76,168	1.0%	121,651	1,023,428			121,651	1,023,428				6.9%
Total	14,921,057		297,167	2.0%	1,182,155	289,033	1.9%	1,106,067	2,874,422			1,106,067	2,874,422				

