

INNOVATIONS FROM THE FIELD
A Daringly Brief Summary of a Huge Phenomenon

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INNOVATIONS FROM THE FIELD

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1.0 I. Introduction

1.1. Behold what is rapidly becoming the largest self-help undertaking in human history—bringing hope, dignity, and empowerment to tens of millions of the world’s poor and poorest families. Behold a movement with global outreach, that has penetrated beyond city slums and market towns to even the most isolated villages. Behold an industry that embraces thousands of NGOs, credit unions, public and private banks, and an infrastructure of hundreds of thousands of community-based peer lending groups that are enabling many of the planet’s most disadvantaged households to generate the additional income and savings they need to keep their children alive, nourished, healthy, and able to attend school. Behold a profession that in theory offers a compellingly simple strategy for breaking the vicious cycle of poverty, but which in practice is extremely difficult to implement—first because it involves myriad adjustments to highly different cultural settings, methodologies, and institutional structures while simultaneously facing complex technical challenges involving client services, scale-up, financing, evaluation, governance, training, technical assistance, government regulation, economic instability, civil disturbances, and natural disasters.

1.2 When the Microcredit Summit Campaign was launched in 1997—with a 9-year goal of providing financial services to 100 million of the world’s poorest families—there were 1,700 members of the Campaign worldwide, of which 800 were members of the Campaign’s Council of Practitioners. Five years later the total number of institutions that have joined the Campaign is more than 4,500, of which more than 2,800 (and still continuing to grow briskly) have joined the Campaign’s Council of Practitioners.¹ These remarkable numbers represent a diverse spectrum of organizations—public and private, indigenous and international, nonprofit and for-profit, independent and networked, urban and rural, regulated and unregulated. Collectively they display many differences with regard to client focus, mission, strategy, products and services, funding, oversight, managerial expertise, technical sophistication, and governance structures. To an increasing degree the rapidly swelling numbers of microfinance institutions (MFIs) are not merely the result of tiny new nonprofit start-ups created to serve the poor. Rather, many of the newest or at least largest entrants are *existing* institutions (mainly banks) that are restructuring themselves to seek new clients among low-income segments of the financial services markets which, until now, were previously seen as un-bankable and credit-ineligible.

1.3 The very quantity and variety of these microfinance practitioners is already producing intensified competition, including market saturation in a growing number of locales. It is also stimulating widespread innovation and, in a few cases, exciting breakthroughs in scale and depth of outreach. Such competition and innovation is good news for the poor and poorest clients because their range of choice is growing steadily wider. As these clients begin to shop for the microfinance products and services that best fit their needs, such behavior will

¹ Taken from the Microcredit Summit Campaign database May 20, 2002.

stimulate even more competition and innovation. Several different *kinds* of innovation are occurring as well. First and foremost, steady improvements are being made in traditional loan and savings products as well as such complimentary products such as insurance. In turn, these changes have in some cases led to major shifts in MFI business strategy—like the grafting of the infrastructures of commercial branch banking with the infrastructure of community-based peer lending groups largely created by NGOs serving the poor. Many innovations are also occurring *outside* the financial services area as MFIs create “strategic alliances” with NGOs or companies offering to channel complimentary client services such as business skills, health care, nutrition, water and sanitation, housing, schooling, human rights, literacy, and many others. At the same time, equally important innovations are occurring in the administration, financing, governance, evaluation, and legal status of the practitioner institutions themselves. Even the traditional profile of clients served is changing, as some MFIs no longer merely seek to serve the poor or the poorest families (as defined by an income or asset criterion) but the most vulnerable or marginal groups within this broad population—such as street children, young adults, families with chronic disease, seniors, refugees, victims of natural disaster or terrorism, pastoral populations, landless rural laborers, outcastes, and tribal groups.

1.4 Faced with such a wealth of innovation on the one hand, and a paper length limitation on the other, the authors have consciously chosen breadth over depth. Rather than covering a few key innovations in detail, we have reported more superficially on nearly four dozen innovations. To counteract a tendency to place disproportionate emphasis on client products and services, we created five additional categories of innovation-- financing, administration and governance, program evaluation, and response to emergencies. In late January 2002 the authors sent out an e-mail request to a Microcredit Summit Campaign mailing list. We received about 60 responses, of which we selected 20 of the best-documented or most interesting innovations. A second source (about ten cases) came from among MFIs that were awarded innovation grants under CGAP’s Pro-Poor Innovation Challenge Program. A third source (five cases) were case studies gathered in direct contacts with MFI representatives attending the 5th Annual Microenterprise Conference held at Brigham Young University March 14-16, 2002. A fourth source was SEEP’s draft manual entitled *New Directions in Poverty Finance*, which mainly reviews innovation in Village Banking programs. And finally, several innovations were “discovered” while doing web research on microfinance programs in certain regions and countries. Unfortunately, given these diverse sources of reporting, we were unsuccessful in structuring the responses to answer a uniform set of questions about the context of innovations received—like (1) background and outreach of the innovating program, (2) problem addressed, (3) cost, (4) proof of effectiveness, (5) risks or tradeoffs encountered, etc. Such deepening of content will need to be incorporated into future efforts to document innovations in our far-flung industry.

1.5 We recognize we may have assigned ourselves a “mission impossible”. No doubt many readers will be disappointed that most of our descriptions of individual innovations have by necessity been limited to a single paragraph. Other readers who are personally familiar with the cases we have chosen will inevitably find fault with the veracity of the descriptions, that are not based on our own first-hand observations but on brief reports submitted by MFI staff in the field (or cited on their web-sites) and are therefore not as objective or complete as one would like. No doubt there will still be other readers who know of more successful examples

of the types of innovations we have reported, or innovations we missed entirely. To these individuals we can only say we mostly reported on innovations from MFIs that took the trouble to answer our e-mails. Those who didn't, or reported late, were simply not well represented in this study. To compensate for some of these defects, however, each innovation description references the name of the sponsoring microcredit institution and its contact information. In this way we hope readers seeking additional detail about a particular innovation will contact the sponsoring institution directly.

2.0 II. Innovations in Client Services

A. Going To Scale

2.1 **1. NABARD/India:** Of all the innovations reported in this paper, the one that has achieved the largest scale of outreach to the world's poorest families is clearly the savings-led, self-help group program of the National Bank for Agriculture and Rural Development (NABARD). Building on an infrastructure of 17,000 rural and semi-urban branch banks that it controls or has partnered with, NABARD has also enrolled the participation of 750 NGOs as facilitators of 462,000 client-managed self-help groups (SHGs), averaging 17 members each, to serve 7.8 million rural saver-borrowers of whom 85% are women. These SHGs mobilize their own savings, transforming them into loans to members (average loan size less than \$22), and plow their earnings from interest income back into equity. After a year or so the experienced SHG is allowed to supplement their member loan portfolio by borrowing from their nearest NABARD-supported bank branch office. In 20001-2 this bank linkage strategy resulted in loans of \$94 million. The program's on-time repayment rate is 95%. NABARD is currently negotiating with international donors for loan funding in excess of \$1 billion to further expand its hybrid public-private-SHG methodology to tens of millions of additional rural clients both within India as well as throughout the Asian region. On a cautionary note it bears mentioning that the term "self-help group" is rather elastic, and how well they function for the long-term has been inconclusively studied.

Reference: Hans Dieter Seibel, "SHG Banking: A Financial Technology for Reaching Marginal Areas and the Very Poor," AEF Development Research Center, Working Paper 2001-3. <http://www.uni-koeln.de/ew-fak/aef/Working%20Papers.htm>

2.2 **2. Palli Karma Sahayak Foundation /Bangladesh:** Palli Karma-Sahayak Foundation (PKSF) was set up in 1990 as an autonomous microcredit fund to facilitate the channeling of funds to microcredit institutions from both government and non-government sources. PKSF partners with more than 200 microfinance institutions in Bangladesh. PKSF performs two major functions: financial intermediation and development of sustainable microcredit institutions. The institution has been successful largely due to its unique organizational structure. Although PKSF was established and is funded by the government, it has been kept as an independent organization outside the government bureaucracy. As such, PKSF has been able to channel funds to microcredit institutions cost-effectively and PKSF funds have been lent to more than 2 million clients. A major advantage of PKSF has been its ability to screen and monitor a large number of microcredit programs according to standard criteria, compared to often inconsistent 'ad hoc' evaluations of individual microfinance institutions by donor and government agencies.

Reference: Dr. Salehuddin Ahmed, "Creating Autonomous National and Sub-Regional Microcredit Funds." <http://www.microcreditsummit.org/papers/fundpaper.htm>
Email - pksf@citechco.net

2.3 3. WEP/Nepal--Women's Empowerment Program (WEP): The WEP provides another example of a savings-led approach to financial institution-building. Launched in 1998, WEP was able to train more than 240 local NGOs to organize some 6,265 self-help savings and credit groups serving more than 130,000 women. These clients have been organized in savings and credit groups (average 20 members apiece) similar to village banks but without access to an external loan fund. The program is sponsored by PACT, a nonprofit agency serving as a time-limited catalyst of group development, that uses literacy classes as its primary organizing and training vehicle. In its first four years the program has mobilized more than \$2 million in savings and retained earnings, it has self-financed loans for \$1.5 million to more than 45,000 group members (average loan \$33), and 74,000 women have learned to read and write. WEP's village bankers meet weekly, and every meeting is used for literacy, management skill-training, or other topics of interest to members. Custody of cash is handled with suitcase-size metallic lockboxes, secured with three separate padlocks, each opened by a different key in the possession of the group's president, secretary, and treasurer. Loans are made for a wide variety of uses: business, personal emergency, schooling, etc. Each village bank is entirely responsible for collecting, managing, and lending its own savings. WEP did not target the very poor, but survey research has shown that about 45% of members were poor, 35% the vulnerable non-poor, and 25% to be better off. Research findings also indicate that 82% of group leaders were able to maintain their group's books without outside assistance. However, as with NABARD, the long-term sustainability of WEP's groups has yet to be proven.

Reference: Jeffrey Ashe, "PACT's Women's Empowerment Program in Nepal: A Savings and Literacy-Led Alternative to Financial Institution Building."
<http://www.mip.org/pdfs/aims/wep-paper-ashe-parrot.pdf> ; Email - Jeffrey Ashe
JAAshe@aol.com

2.4 4. LPWF/China—Poverty Alleviation Chain: Thanks to the restructuring of its rural economic system and a series of poverty alleviation campaigns, since 1978 the Government of China has reportedly reduced its population living in poverty from 250 million in 1978 to 65 million in 1995. China's remaining poverty is primarily rural, mainly scattered among remote, mountainous, and minority nationality areas in the Northwest and Southwest. To address this challenge China is shifting from regional development projects to household-based initiatives that are increasingly directed at women. One especially successful example has been the poverty alleviation program sponsored by the Luliang Prefecture Women's Federation (LPWF) in Shansi province. The LPWF began experimenting with non-collateralized credit and technical training in 1989 when it launched its "Poverty Alleviation Chain" with seed capital funding of \$16,000 from the provincial government and a training grant from UNICEF for \$70,000. This initiative identified "demonstration" households that would be provided subsidized one-year loans mainly for pig farming with the proviso that each household chosen would provide training and supervision to two severely poor neighboring families. By 1996 the initiative had reached 35,400 families, demonstrating in the process that poor families were credit-worthy. The LPWF has now evolved its methodology into a group-lending approach based on the Grameen model, that is currently supported by an

annual provincial government loan of \$625,000 per year plus a \$1 million grant from the World Bank. The program's outreach has now soared to 165,900 participating families.

Reference: Susan H. Holcombe and Xu Xianman, "Microfinance and Poverty Alleviation: United Nations Collaboration with Chinese Experiments, 1997, <http://www.gdrc.org/icm/country/china-mf1.html>.

B. Reaching the Destitute

2.5 1. Centre Béninois Pour le Développement des Initiatives a la Base (CBDIBA)/ Benin—"Weaning" the Hardcore Poor: CBDIBA serves more than 15,000 clients through a village banking program. Realizing that destitute women were not joining its conventional village banks, CBDIBA created a special "weaning" program where the destitute are placed in small groups of less than 10 members. Here each member receives special motivation to establish a savings habit based on very small weekly deposits of about ten cents. Those members who meet their savings plan are rewarded with small loans (average \$17) to be invested in income-generating activities, which in turn enhance their savings capacity. These small loans are made and repaid for three consecutive loan cycles of 4 months each. After a year of successful savings and loan repayment behavior, members are then "graduated" into CBDIBA's normal village banking operations. The program is a recipient of C-GAP's Pro-Poor Innovation Challenge award.

Reference: <http://afrdh.org/cbdiba/> Email- cbdiba@bow.internet.bj

2.6 2. CFTS/India—Poultry Raising for Women Agricultural Laborers: CASHPOR Financial & technical Services (CFTS), working in Uttar Pradesh, India, encountered a similar case of destitute women who worked full-time as farm laborers and had insufficient time to create a self-employment business. CFTS designed a loan product based on the raising of semi-scavenging poultry, that can be locked in a pen when the woman is at work, released when she is home, thus allowing income-generation to occur in the absence of the owner. The program is also a recipient of C-GAP's Pro-Poor Innovation Challenge award.

Reference: CASHPOR Financial & Technical Services Ltd (CFTS), Pili Kothi (Opp. Roadways Bus Station), Mirzapur 231001, Uttar Pradesh, India. <http://www.cgap.org/assets/images/focusonpoverty-latest.pdf>.
Email - ahasan@lw1.vsnl.net.in

2.7 4. Mata Masu Dubara/Niger—Women's Savings and Credit Group Formation: With a GNP per capita of \$190, and an average daily per capita income of less than \$0.40 per day, Niger is one of the five poorest countries in the world, a region that is afflicted by chronic drought and famine. Within this terribly difficult environment CARE International has implemented a savings-led credit project that has facilitated the organization of more than 150,000 destitute mothers in 6,000 self-help groups. Mata Masu Dubara (MMD) is a Hausa

term for “women on the move.” With each member setting aside as little as US 8 cents/week, the movement is generating some \$900,000 per year in savings and nearly \$3 million in aggregate lending. Given the high rate of illiteracy, record keeping is mainly oral, with all members paying the same savings fee each week and the number of payments measured by rocks deposited into the group’s 3-lock steel box. Loans are made entirely from group savings, and the average loan is usually for a one-month period. What is especially noteworthy is that CARE has created a technical assistance model that enables the individual MMD group to become self-managing within eight months. During the first three months a CARE field agent gets a group organized, then identifies and trains a Village Agent who will supervise the group—but whose services are financed not by CARE but by MMD service fees. During the second three-month period the field agent’s visits diminish to bi-weekly and then monthly. During the final two months each group works autonomously, receives a final visit from the CARE field agent, and is certified as “graduated”. CARE research indicates that more than 85% of all groups are able to function autonomously, most increase their savings contributions, and some of the first groups are still operating after ten years.

Reference: CARE International UK, 10-13 Rushworth Street, London SE1 0RB,
www.careinternational.org.uk/projects/women/nigerwomenonthemove.html,
Email- info@uk.care.org

C. Changes in Savings and Credit Products

2.8 1. FINCA/Peru—Putting Savings First: Organized in 1993, FINCA/Peru currently serves more than 6,400 clients through 256 village banks. Total loans outstanding amount to \$856,000 (average loan \$169), but client savings exceed \$1,320,000. One of the smallest programs among FINCA International’s network of 21 affiliates, the average FINCA/Peru client has accumulated four times more savings (\$206 per member) than the average for the network as a whole. It has \$2 in savings for every \$1 of loan capital borrowed from external sources. This result emerged less from conscious design than by necessity, because throughout its history FINCA/Peru has had less access to external sources of loan capital than most other affiliates, so the program learned to depend primarily on the lending of its own savings, much like a credit union. In turn, this strategy has allowed its members to recycle most of their interest income back into group equity.

Reference: FINCA-Peru: Domingo Casanova 151, Lince, Lima, Peru Email:
finca.peru@infotex.com.pe

2.9 2. Pro-Mujer/Bolivia—Loan Flexibility: The first village banking programs of the early 1990s were designed with fairly inflexible loan product features—4 month loan cycles, initial loans with fixed amounts for all clients, weekly loan repayments, etc. But only a decade later, most village banking practitioners are designing much more flexible loan products. Pro-Mujer in Bolivia is a case in point. Organized in 1990, Pro-Mujer today serves more than 30,000 clients through a nationwide network of 24 branch offices and nearly 1,600 “community associations” of 25-30 members apiece, 95% of whom are women. The program

now allows new clients to choose between first loans of \$50 to \$130 (the average is about \$100). After two cycles of weekly payments, clients are allowed to organize sub-groups that can choose between weekly and monthly payments as well as loan terms ranging from 4 months to eight months. Whereas previous policies limited the maximum loan amount to about \$300, Pro-Mujer is now able to “grow with its clients” up to a loan ceiling of \$1,000. These innovations have helped to lower the program’s administrative costs and greatly enhanced its self-sufficiency.

Reference: Pro-Mujer www.promujer.org, Email - lapaz@promujer.org

2.10 3. ASA/Bangladesh—Going Beyond the Group Guarantee: The Association for Social Advancement (ASA) entered the microfinance industry in 1991 and in the space of a decade has become one of the largest and fastest-growing MFIs in the world. The program currently serves more than 1.7 million clients through a network of 1,087 branch offices, has 70,300 village-based client groups, has mobilized \$29.7 million in savings, and has an outstanding loan portfolio of \$112 million distributed via one-year loans with weekly repayments. With this kind of critical mass in its favor, in 1998 ASA took the radical step of going beyond the group guarantee requirement, such that its clients no longer have to pay for each other’s delinquency or default. In its place, ASA enforces a policy of zero tolerance for arrears and currently enjoys an overall repayment rate of 99%. ASA also allows its clients fairly unfettered access to their savings (particularly to confront emergencies or seasonal cash needs) without leaving the program and without having to start all over again with entry-level loans.

Reference: ASA, 23/3 Block-pB, Khilji Road, Shyamoli, Mohamadpur, Dhaka-1207, Bangladesh. <http://www.asabd.org>. See also *New Directions*, op.cit., Chapter 6, p.6
Email: asa@bd.drik.net

2.11 4. FINCA/Samara, Russian Federation—Holiday and Transitional Loans: Organized in 1999, FINCA/Samara currently serves 1,539 clients through 266 village bank groups and manages an outstanding loan portfolio of \$1.2 million (average loan: \$880). Here the loan cycle has been reduced from 4 months to five weeks. Once clients have completed their third 4-month loan cycle, and provided their repayment performance has been outstanding, they are allowed to borrow additional 5-week “holiday” loans repayable with a single “bullet payment” of capital and interest at the end of the loan term. The maximum amount on holiday loans is \$290, and they can be borrowed in addition to the normal loan. FINCA/Samara is also experimenting with a “transitional” loan product that is offered to smaller groups (3-4 members apiece) of clients with greater business experience. In order to offset the risk associated with smaller group size, the credit officer is required to do more due diligence and, if appropriate, require collateral from the borrower. Despite these potentially risky innovations, loan repayment stands at 98.2%. A very similar seasonal loan product has been developed by FINCA’s much larger program (20,000 clients) in Kyrgyzstan.

Reference: FINCA/Samara, Ulitsa Michurina 52 Room 224, Samara Russian Federation, Samara jferry@finca.ru; also *New Directions*, op.cit., Chapter 6, p.7. See also FINCA/Kyrgyzstan, Gogol Str., 127 “a”, Bishkek, Kyrgyzstan, tel. 996-312-681-810 jmeikle@finca.org.kg

2.12 6. CARE/Bangladesh—Family Savings Pilot Project: CARE has started a pilot project to provide flexible microfinance products to the “ultra poor”. In this initiative, savings collectors visit clients five times per week to collect savings and credit installments. The amount saved by a client on any given day is entirely flexible. Clients are allowed to withdraw any amount of their savings at any time, even at the time of the collector’s visit. Clients are also eligible to receive collateral-free loans from the project. Although the loan must be repaid by the end of the designated loan period—usually six months—the amount paid on any given day is also entirely flexible so as to adjust to fluctuations in the daily income of the poor. In certain circumstances of emergency or severe deprivation, the loan period can be extended.

Reference: CARE/Bangladesh, Harun-Or-Rashid, PC-Income II. Contact harun@carebangladesh.org

D. Microfinance Services for Special Purposes and Clienteles

2.13 1. YOSEFO/Tanzania—Education Fund for Children: This program provides more than 1000 destitute families in Dar Es Salaam with microcredit and training services. After discovering that loan repayment problems mostly coincided with the beginning of school terms, YOSEFO created a weekly savings product to help clients accumulate resources for school fees. It also allows its clients to borrow for school fees. YOSEFO has received a CGAP Pro-Poor Innovation Challenge award.

Reference: Youth Self Employment Program (YOSEFO), PO Box 10272, Dar es Salaam, Tanzania (mill@ud.co.tz)

2.14 2. WEEC/Kenya—Credit for Pastoral Communities: Since August 1999, the Women Economic Empowerment Consortium (WEEC) has been providing financial services to Maasai women, who are nomadic herders. Loans are usually made in the form of cattle to help borrowers restock their herds following drought periods. WEEC negotiates bulk purchases of cattle and passes the savings on to its clients. The program links with a public agency that provides training in management practices for cattle breeds that are better adapted to pasture scarcity and yield more milk. The loans are repaid by the borrowers mostly from the sale of milk or excess animals. WEEC has grown to serve more than 2,100 families and has a zero delinquency record. The program is a recipient of CGAP’s Pro-Poor Innovation Challenge award.

Reference: Women Economic Empowerment Consort, Off Magadi Road, PO Box, Kiserian, Ngong, Kenya, Tel. (254) 0303 25192, (weec@swiftkenya.com)

2.15 3. AISol Chiapas/Mexico—Life Insurance for Indigenous Populations: Since 1998 Alternative Solidaria (AISol) has been offering savings and credit services for destitute indigenous families who reside in villages surrounding San Cristobal de las Casas, a region devastated by the Zapatista uprising and subsequent military repression. Currently the program serves more than 1,200 clients. When several AISol clients had to liquidate assets and go into debt because of the funeral expenses resulting from the death of a relative, AISol made an arrangement with Zurich Insurance in which a minimum group of 125 of its clients can qualify for \$1,000 of life insurance coverage for an annual premium payment of \$10. To finance this premium, AISol collects weekly payments of 20 cents. AISol soon hopes to extend the coverage to other family members as well. The AISol program is a recipient of C-GAP's Pro-Poor Challenge Award.

Reference: AISol Chiapas, AC, Francisco Leon No.12, San Cristobal de las Casas, Chiapas, C.P. 29250, Mexico. www.gfusa.org/gbrp/latinamerica.html

2.16 4. UNRWA/Gaza—Solidarity Lending for Female Refugees: The United Nations Relief and Works Agency for Palestine Refugees in the Near East provides education, health, relief, and income-generation services to 3.8 million registered Palestinian refugees in Jordan, Lebanon, the Syrian Arab Republic, the West Bank, and the Gaza Strip. In 1994 UNRWA launched its first microenterprise program based on group-guaranteed loans. Known as the Solidarity Group Lending (SGL) program, by 1998 UNRWA had made 9,075 loans to women (average \$150) organized in groups of 4-10 members, with a current outstanding loan portfolio of \$1.04 million. These clients range in age from 18 to 68 years of age, 40% are illiterate, and they collectively support an average of 6 dependents apiece. Their UNRWA loans enable most of them to work as street vendors, open small shops in their tent homes, work in camp agriculture, raise small livestock, sew piece-work clothing, pickle vegetables, or make cheese. The program continues to make 250-300 loans each month. It is one of the first microfinance projects in the Middle East to achieve operational and financial self-sufficiency. In 1999 the project received UNDP's AgFund Prize for Poverty Alleviation through Microcredit.

Reference: UNRWA, <http://www.un.org/unrwa/progs/ig/p3.html>, P.O. Box 140157, Amman 11814, Jordan, Tel: (972) 8 677 7333

2.17 5. Grameen Bank/Bangladesh—Housing Loans: As the flagship program of the world microfinance movement, the Grameen Bank's accomplishments are well known—its outreach to more than 2.4 million borrowers (95% women) from 40,000 villages. Yet what is less well known, and much less replicated by other MFIs, is the fact that Grameen offers a housing loan program that has benefited more than 546,000 families since its inception. Grameen housing loans target the most destitute clients whose dilapidated shelters barely

distinguish them from the homeless. The average loan is for about \$350, at 8% interest per year, which finances the necessary building materials—four concrete columns, a prefabricated sanitary slab, and 26 corrugated roofing sheets—to erect a standard module one-room dwelling that is flood and water-resistant. The pre-cast materials are mass-produced off site at very reasonable prices. The dwelling itself is constructed by self-help labor. Other building materials are available as needed. Clients (mostly women) who qualify for these housing loans must hold title to the land on which the house stands. The cumulative amount disbursed by Grameen in housing loans is \$188 million. Loan repayment on these loans is reported to be 98%.

Reference: Grameen Bank housing program,

2.18 6. PMUK/Bangladesh—Financial Services for Street Children:

Established as an NGO in 1986, Padakhep Manabik Unnayan Kendra (PMUK) initiated its microfinance program in 1993 to assist street children, of which there are more than 200,000 in Dhaka alone. The program organizes children between the ages of 11 and 18 years of age into groups of 15-20, that meet weekly for discussions about personal hygiene, health awareness, AIDS, security issues, and savings lessons. Credit is only disbursed to groups that have completed 40 weekly meetings and have accumulated savings. Out of 2,000 participating children and about 40 groups, there are currently 329 children who have received loans (average \$10) for selling tea, flowers, shoe-shining, etc. Loans are usually made for six months with an interest rate of about 1.5% per month.

Reference: PMUK (padakhep@bdonline)

2.19 7. Beselidhja-Zavet/Kosovo—Peace and Reconciliation Initiative:

The Kosovo Credit Information Service (KCIS) is a credit bureau that was established in 2000 by Kosovo's MFI community and now includes nearly all major lending agencies in the province. A founding member of the bureau, Beselidhja-Zavet (BZ) is an MFI sponsored by World Relief. BZ has found that by working with both Albanian and Serbian clients, while carefully cultivating the trust and cooperation of each group, it is possible for microfinance-related activity to become an agent of inter-ethnic business dialogue. According to World Relief's Richard Schroeder, "Commerce has a profound ability to make people put aside their differences and interact with each other." Jointly sponsored by BZ and the United Methodist Committee on Relief (UMCOR), a business center has been set up—complete with internet café, photocopy and fax services, business training seminars, and an ATM machine—where Albanian and Serbian businesspeople have a place to share common interests and relate to each other on neutral territory. Furthermore, with the installation of the ATM machine residents of the enclaves have gained their only access to Kosovo's formal banking system. The center's motto is "business is business," a great slogan for inter-ethnic reconciliation.

Reference: Contact Richard Schroeder at World Relief, (RSchroeder@wr.org)

E. Complimentary Client Services & Strategic Partnerships

2.20 1. FONKOZE/Haiti—Managing Remittances: Fondasyon Kole Zepol (FONKOZE) describes itself as "Haiti's alternative bank for the organized poor" and as an "economic alliance of peasant organizations, women's collectives, cooperatives, credit unions, women street vendor groups, and religious communities." Through 18 branch offices nationwide FONKOZE serves more than 25,000 savers and 10,000 borrowers organized into approximately 2,000 solidarity groups, with a loan portfolio outstanding of approximately \$1 million. FONKOZE estimates that Haitians living abroad ("the Diaspora"), mostly in the U.S. and Canada, send back to relatives in Haiti more than \$720 million a year, equivalent to 17% of the nation's gross national product. But the cost of the typical remittance is high. On a transfer of \$100 the sender will pay a commission of \$8-12, plus an additional \$10-15 will be lost when the remittance is converted from dollars into Haitian gourds. To provide a cheaper remittance service, FONKOZE negotiated an agreement with the City National Bank of New Jersey (CNB), whose president and CEO is Haitian-born. It then hired a U.S. Customer Service Representative who works out of her home with a computer, an AOL account, and an 800 number. For all remittances to Haiti, whether \$100 or \$ 5,000 FONKOZE charges a fixed fee of \$10. To qualify, the remittance recipient must open a FONKOZE savings account in Haiti, which is free. The remitter calls the 800 number or sends an email and the amount is transferred to FONKOZE's account with CNB. Once the funds reach CNB, they are immediately available in Haiti. To gain the trust of the Diaspora Haitians residing in the U.S., FONKOZE has organized a series of free "financial literacy" classes for potential remitters. Meanwhile, the biggest remittance clients are NGOs who wish to transfer funds to finance program operations in Haiti. Fonkoze, which is currently a non-profit foundation, is in the process of spinning off its financial services to form a commercial bank, Bank FONKOZE.

Reference: FONKOZE, Ave. Jean Paul II, #7 (a l'interieur), Port-au-Prince, Haiti. Website: www.fonkoze.org Email: Fonkoze@aol.com

2.21 2. FINCA/Uganda—Health Insurance and Health Services: Organized in 1992, FINCA/Uganda is now the largest country program in the FINCA network with an outreach to more than 30,500 low-income clients (100% of them women) through 1,175 village banks. It currently manages an outstanding loan portfolio of \$2 million (average loan is \$169), has mobilized \$1.5 million in member savings, and boasts an on-time loan repayment rate of 98.4%. When survey research findings revealed that (1) 80% of FINCA's clients were raising one or more AIDS orphans, (2) 75% of client income was being spent on health, and (3) that virtually none of its clients had any health or life insurance, FINCA/Uganda began to develop services to meet these challenges. Beginning in 1997 FINCA began to offer life insurance through a partnership with American International Group

(AIG), and today more than 123,000 FINCA clients and their dependents are now covered. In the event of a client's death (including accidental death from AIDS), this policy spares the client's family from repaying the outstanding loan balance, pays for burial expenses, and twice what the deceased village banker had accumulated in savings. Then in late 1999 FINCA/Uganda introduced a health insurance product for clients, their spouses and dependents that includes coverage for AIDS treatment but not medication. Through a partnership with Nsambaya Hospital, the plan pays for up to three weeks of hospital care in any one 3-month period and covers up to \$206 in medical costs. There are about 300 families presently covered by this pilot project. The original monthly premium payment of \$12 proved inadequate and has now been raised to \$14. At \$15 per month it is estimated that this health insurance can be extended to 12,500 families while fully covering all fixed operating costs as well as medical treatment.

Reference: FINCA/Uganda, contact Guy Winship, FINCA Uganda, PO Box 24450, 63 Buranda Road, Kampala, tel./fax. 256-41-231-134; or gwinship@villagebanking.org

2.22 3. WOCCU/FFH/Philippines—Credit & Savings With Education and

“Grafting”: Since the early 1990's, Freedom From Hunger (FFH) has broken from the prevailing paradigm of village banking with two important innovations. First, FFH has been a strong advocate of a village banking methodology that incorporates a strong client training component that emphasizes health, nutrition, family planning, and business skills. Their argument is that poverty is the product of scarcity—not just of economic resources but scarcity of skills and information. Integrating access to money with access to information is a powerful poverty-alleviation tool. Furthermore, FFH research demonstrates such training is highly valued by the clients, enhances group performance, and promotes client continuity in village banking programs even when faced with a variety of choices for improved loan and savings products. Such results go far in establishing what one scholar has called a “culture of service” versus a “culture of collection.” FFH's second innovation was the idea of “grafting” village banking methodology onto existing financial institutions—most notably credit unions—to make them more responsive to the needs of the poorest families. Both innovations were well honed when in 1994 FFH, in partnership with the World Council of Credit Unions (WOCCU), introduced its Credit with Education methodology into the credit union movement of the Philippines. The first loans were made in 1998, and within two years the FFH village banks (functioning as pre-cooperatives) grew from 2,000 clients to 13,000 clients to constitute one-third of the credit unions' total clientele. Those credit unions that adopted the village banking add-on saw a sharp decline in loan delinquency versus those that did not. This result helped to convince WOCCU's affiliates that by partnering with village banking practitioners they could access a new, very large, and very safe market for their financial services.

Reference: FFH, contact <http://www.freefromhunger.org>. Also see *New Directions*, op. cit. Chap.2, p.11.

2.23 4.MEDA/Haiti—Literacy Program: Launched in 1994, the Mennonite

Economic Development Association (MEDA) operates three village banking programs in four rural districts of Haiti with a current outreach of 1,500 clients. MEDA/Haiti offers both conventional micro-business loans as well as loans for agriculture. However, when only 8% of its clients were able to read and write, MEDA/Haiti decided it would have to offer literacy training if its groups were ever going to be able to demonstrate adequate management and leadership skills. The institution designed a two-stage literacy training model. In stage 1 (alfa), participants learn basic words and numbers by participating in a game. After passing a test, graduates of the alfa stage move on to the post-alfa stage where they learn advanced reading/writing and business skills. Through this literacy program MEDA/Haiti expects that 75% of its clients will become functionally literate. The MEDA/Haiti program is also a recipient of CGAP's Pro-Poor Challenge award.

Reference: MEDA, 226 Route de Delmas, BP 2160, Port-au-Prince, Haiti
Website: www.meda.org email: meda@aen2.net

2.24 5. Grameen Bank/Bangladesh –Village Cell Phone Program

With Grameen's village phone program, a micro-entrepreneur can use her loan to buy a mobile phone and operate it as a business. She then sells the use of it on a per minute basis to others in her community. Village phone entrepreneurs in Bangladesh are earning an average net income of more than US\$ 70 a month (in a country where the average annual per capita income is less than \$400), and her entire village benefits. Uses of the phone include being able to communicate with distant relatives, check the market price of goods, search for other important information, or to contact elected officials. By knowing the market price of goods, one is able to negotiate with middlemen for a better price on her products and thus increase her income. With a phone call one is able to avoid the need to travel some distance in person, and therefore save the costs associated with transportation and the loss of productivity. When the village phone program began in 1997, there were 28 village phones. As of spring 2002 there are more than 11,700. Grameen Telecom continues to expand the village phone program in Bangladesh, and projects that there will be 50,000 mobile phones operating in rural villages by the end of 2004. GrameenPhone Ltd, the telecommunications service provider in which Grameen Telecom is an investor, has a total of more than 500,000 subscribers (including urban clients). GrameenPhone is not only the largest mobile phone service provider in Bangladesh, but in all of South Asia. The Grameen Technology Center is working in partnership with Grameen Telecom to recreate the success that has been achieved in Bangladesh with the village phone program by replicating the model in other developing countries.

Reference: Grameen Technology Center Website <http://www.tech.gfusa.org/projects.shtml>

3.0 III. Innovations in Program Financing

3.1 1. FINCA International—Village Bank Capital Fund: In 1996, with an equity loan of \$1 million from the US Agency for International Development (USAID), FINCA International set up its Village Bank Capital Fund (VBCF). The fund's mission is to provide all necessary financial products and services to FINCA affiliates, especially credit enhancements (its original primary service) and direct loans to meet short-term liquidity needs. Additionally, the VBCF functions as a central liquidity fund—transferring capital from capital-surplus to capital-scarce affiliates. It also seeks to protect network assets from currency devaluations by storing excess liquidity in dollar-denominated accounts. As each affiliate reaches break-even and beyond, this, its growing self-sufficiency makes it eligible to borrow from commercial banks in the host country. The VBCF provides these commercial banks with letters of credit (in dollars) to guarantee their local-currency loans (or credit lines) extended to FINCA affiliates. Direct loans normally average about \$250,000 and are repaid in 2-4 months. Between enhancements and direct loans, by the end of fiscal year 2001, an estimated \$10.7 million in total lending occurred thanks to credit enhancement and direct lending originating with the VBCF. Other NGOs have instituted their own loan guarantee programs including Katalysis, CARE, and Accion.

Reference: FINCA's VBCF, contact <http://www.villagebanking.org> or epozo@villagebanking.org.

3.2 2. PRIDE AFRICA—Sunlink Program: PRIDE AFRICA (PA) is a US nonprofit with regional offices in Nairobi, Kenya, that currently serves more than 100,000 clients through a 54-branch network in Kenya, Tanzania, Uganda, Malawi, and Zambia. *Sunlink*, a model created by PA in 1995, seeks to provide financial services to the microenterprise sector while incorporating a direct link with commercial banks to streamline delivery and information services, reduce costs, and enhance client services. The Sunlink model has been designed to be replicated anywhere—a sort of franchising to facilitate rapid growth. Clients are organized in “Enterprise Groups” (EGs) with every 10 EGs forming a “Market Enterprise Committee.” These structures allow for two levels of loan guarantees, plus, by bundling savings and credit transactions, they provide clients with more favorable interest rates and preferred client status. In turn, the partner bank's transaction costs and loan risks are lowered, providing a growing incentive to move down-market to serve ever poorer clients. Sunlink distinguishes itself through its IT focus on modern equipment and software solutions, which is accompanied by a serious investment in training. Sunlink is now starting to incorporate magnetic-stripe “smartcards.” PRIDE Africa hopes that its Sunlink methodology will (1) help liberate MFIs from donor-dependency by facilitating their interface with the commercial banking industry, while (2) creating better incentives for the banks (via NGO partnership) to extend their services to the heretofore under-served market of low-income clients.

Reference: PRIDE/Africa, Website: <http://www.prideafrica.com>
Email: (jfc@africaonline.co.ke)

3.3 3. URWEGO/Rwanda—Consulting Services: URWEGO, which means

“ladder”, was organized by World Relief in 1997 and has since become the largest MFI in Rwanda with a current outreach of almost 10,000 clients. Exploring alternatives to traditional sources of program financing, in June 2001 URWEGO introduced an initiative called “URWEGO Consulting Services” (UCS). Essentially, UCS takes advantage of the expertise of its program staff by offering basic microfinance training as well as evaluation services to other NGOs. All revenue earned from UCS goes directly into URWEGO income and helps the organization towards its target of 100% self-sufficiency. In addition to the financial return, UCS is able to promote sound practices among other MFIs. In its first nine months UCS completed contracts with ten client organizations based in Rwanda and the Democratic Republic of Congo, generating \$9,500 in revenues, equivalent to more than 8% of URWEGO’s operating budget.

Reference: URWEGO, Primary contact: Patrick Kelley, BP 6052, Kigali, Rwanda, tel. 250-0848-36-66 Email: Pkelly@wr.org Secondary contact: Peter Greer (pgreer@nims.wre.org)

3.4 4. Shared Interest/South Africa—Loan Guarantees for MFIs: Shared Interest (SI) is a not-for-profit social investment fund designed to enhance the access of low-income South Africans to loans from commercial banks. In 1996, together with its Swiss associate RAFAD, Shared Interest established its Thembani International Guarantee Fund (TIGF) for the purpose of providing guarantees for loans for microcredit, small business development, low-cost housing, and rural enterprises in South Africa. SI does its principal fundraising for TIGF in the United States, where it solicits minimum \$10,000 investments from individuals and institutions for periods ranging from 3-10 years. These funds are invested in the United States, then used as security for South African bank loans to community development financial intermediaries (CDFIs). With an enlarged loan pool, the CDFIs are able to assist many more low-income clients while simultaneously achieving higher self-sufficiency from increased interest earnings. Such resources, coupled with TIGF technical assistance, also help the CDFIs to develop the skills needed to plan, negotiate, utilize, and monitor bank loans on their own. Shared Interest reports that during its first six years of operation it has—through its CDFI partnerships—managed to impact the lives of some 250,000 low-income South Africans, equivalent to about 42,000 families.

Reference: Website: <http://www.sharedinterest.org> Email: Donna Katzin, donna@sharedinterest.org

3.5 5. SRWRC/Honduras—Recuperated Housing Funds for Microfinance: The Christian Reformed World Relief Committee (CRWRC) has been financing the construction of hundreds of new and repaired homes in Honduras following Hurricane Mitch in 1998. The recipients are expected to pay a portion of the material costs of their new house (from \$200 to \$1,000) with the loan term and monthly payment adjusted to their ability to repay. As these recuperated funds are repaid, they are used to capitalize microfinance loan funds managed by self-help groups modeled on credit unions, all entirely managed by community members. Member savings in the group are also used as collateral on their housing loans.

Reference: CRWRC, 2850 Kalamazoo SE, Grand Rapids, MI 49560.

4.0 IV. Innovations in Program Administration & Governance

4.1 1. WOTR/India—Village Federations of Self-Help Groups: The Watershed Organization Trust (WOT) is an NGO working to organize self-help groups of women in rural villages of Maharashtra State in India. As reported earlier (see NABARD, p.3), rural women are first organized in self-help groups (SHGs) of 12-20 members. Each group is supported by a local NGO (in this case WOT) in charge of training and regular monitoring. The SHGs are likely to differ with regard to savings rates, repayment schedule, and interest rate, but what is uniform is the practice of saving regularly and lending internally. In any given village there may be anywhere from 3 to 15 SHGs. All SHGs in one village then form an apex body called “Samyukt Mahila Samiti” (SMS), which is a joint women’s committee formed by 1-2 representatives from each SHG. This SMS federation is encouraged to become legally chartered, to formally interface with the Watershed Organization Trust, and to establish credit relationships with external sources (NABARD and its branch offices). Thus, when an SHG’s members are ready for external credit, they compile the individual loan requests of their 12-20 members and submit a single, collective loan request. The SMS village federation reviews the requests of its member groups, assesses each SHG’s eligibility, and also makes a single collective loan application to the WOT, which after reviewing the application submits it to the nearest state branch for disbursement of loan funds requested. The system has many advantages. Most of the work is done at the village level, saving time and greatly reducing bank fees. Furthermore, women who are chosen to serve in the village federation (SMS) gain considerable prestige and are often subsequently elected to the local village governing bodies (gram panchayat). Finally, the system is simple and easily replicated.

Reference: Website: www.wotr.org Email: wotr@vsnl.com

4.2 2. TIF/Slovakia—Traveling Road Show: The Integra Foundation (TIF) operates a microenterprise program for women-at-risk in rural Slovakia. It specifically targets single mothers, divorcees with young children, victims of domestic violence, wives of alcoholics or unemployed husbands, women who are unable to re-enter the workforce following maternity leave, women with disabilities, and ethnic minorities. To serve this vulnerable and dispersed population, Integra has developed an innovative response to the delivery of microfinance services in areas where client density is insufficient to sustain a full and continuing program presence. Integra does a “traveling road show” which selects a new municipality each month. Advertising 6-weeks in advance, TIF screens and selects about 20 applicants, provides about 48 hours of part-time business development services training that results in a business plan, receives and approves loan applications, and finally disburses the loans. Child care services are provided for children of the women who participate in training. Clients also get a CD ROM “Small Business ToolKit” which loan officers use to provide distance mentoring. Six months later Integra staff return to repeat the cycle. Thus program momentum is sustained

while avoiding saturation in small, semi-rural marketplaces. Clients keep in touch via trust groups, internet, and phone. They make their monthly loan payments through the local bank or post office. The project reached 178 clients in eight municipalities in 2001 and plans to reach 12 more municipalities in 2001.

Reference: The Integra Venture, Partizanska 6, 81103 Bratislava 1, Slovakia. Website: <http://www.integra.sk> Email: Allan Bussard at allan.bussard@integra.sk

4.3 3. SKS/India—Reducing Costs With Smart Cards: Swayam Krishi Sangam (SKS) is a microfinance program that works in the Medak district of Andhra Pradesh, one of the poorest regions of India, plagued with frequent droughts, soil erosion, and severe deforestation. SKS specifically targets the poorest women, mostly the Dalits (untouchables) and others from the lowest castes. Since their inception in 1998, SKS savings, credit, and training services have benefited more than 3,000 women from 91 villages. Confronted by the twin challenges of high service delivery costs (inherent to working in remote rural areas) and low interest income resulting from small loan size, SKS chose to reduce costs by using smart cards provided to each client. SKS asserts that this technology allows their loan officers to attend three village-level meetings a day instead of two, allowing them to increase their client load and thus economizing about \$2000 per year per branch office, after covering the cost of the cards and the terminals. Computerization of transactions has also helped to minimize errors, provided management with more up-to-date information, and enhanced transparency. Time spent in meetings and on keeping manual collection sheets and passbooks (now eliminated) has been slashed. Each client is provided a smart card. SKS staff come to meetings with a palm-pilot sized hand-held computer (HHC). At the meeting each client's card is inserted in the terminal and her savings and loan transactions automatically recorded and updated. At day's end the loan officer simply uploads the data from the HHC to the branch office computer. Meanwhile, a read-only HHC is left in the village so that members can check their account information. The SKS was awarded a CGAP Pro-Poor Innovation Challenge award for this innovation.

Reference: SKS, 3-2-851 Chitrakoot Building, Kachiguda Station Road, Hyderabad, A.P. 500-027, India. Website: <http://www.Sksindia.com> Email: info@sksindia.com

4.5 4. UMU/Uganda—Bank Draft Facility for the Poor: Self-described as the fastest growing MFI in Uganda, the Uganda Microfinance Union was started in 1997 with the mission of providing quality financial services to the poor via client-driven and client-focused services. UMU is now operational in 7 districts, has reached 13,000 clients, and is operationally self-sufficient. In 2000 UMU discovered that the inability to transfer money between rural areas and urban trading centers was forcing clients to carry lesser amounts in cash because of the prevailing risk of theft, which in turn was causing higher prices on purchases, lower prices on sales, and higher costs due to more frequent trips. In response UMU designed its "Micro Draft Facility". A client now deposits funds in her account at the

UMU branch in return for which the branch issues a UMU bank check or a pre-bought draft from a commercial bank for the amount desired—either of which will be drawn on UMU’s account in a major trading center. To move cash in the opposite direction the procedure is reversed. This innovation has enabled its clients to greatly reduce their risks and losses due to theft dangers and won UMU a Pro-Poor Innovation award from CGAP.

Reference: Uganda Microfinance Union, P.O. Box 10184, Kampala, Uganda,
<http://www.lifeinafrica.com/UgandaMicrofinance.htm> Email: ugandamu@infocom.com.ug

4.6 **5. Opportunity International—Accreditation Program:** Organized in 1971, Opportunity International has created a network of 42 autonomous but affiliated implementing partners in 24 countries. In 2001 the network made 243,654 loans (85% to women) for a total amount of \$ 62.9 million and with a repayment rate of 98%. Since 1999 all OI Network partners with more than 3,000 clients or a portfolio exceeding US\$500,000 must pass a two-stage accreditation process every three years. The aims of this process are to promote institutional learning and reinforce partner commitment to common goals. The first stage is highly participatory in that members of a partner’s board, management staff, and an OI staff member form a self-assessment team. The team performs a two-day performance review that examines seven areas: (1) vision and values, (2) governance, (3) people and internal relationships, (4) funding and external relationships, (5) administration and control, (6) operational performance, and (7) transformational impact. Using standards set by OI, the team then rates the performance of each area, followed by a plan for improvement. During the second phase, a peer review team composed of experts from OI and other partners reviews and verifies the seven ratings. After resolving any discrepancies between the two sets of performance rankings, the review team creates a new plan for improvement, and the partner is accordingly assigned either full or partial accreditation. OI may issue a warning and eventual non-accreditation if recommended improvements are not implemented. The costs of each accreditation review are shared by OI with the affiliate. It bears mentioning that Catholic Relief Services and other NGOs offer similar accreditation programs.

Reference: Opportunity International website: <http://www.opportunity.org>

5.0 V. Innovations in Program Evaluation

5.1 **1.AIMS/SEEP—Evaluation Manual:** Perhaps the earliest and most comprehensive contribution to advancing the state of the art of MFI program evaluation is the AIMS/SEEP evaluation manual entitled *Learning From Clients: Assessment Tools for Microfinance Practitioners* (2001), available free online from the AIMS website (www.mip.org). For anyone contemplating an evaluation project, this document is a goldmine of practical technical information. The core of this manual—chapters 4-8—consists of five evaluation tools: (1) Impact Survey, (2) Client Exit Survey, (3) Loan Use Strategies Over

Time, (4) Client Empowerment, and (5) Client Satisfaction. Each tool includes a sample questionnaire or interview format, hypotheses to be tested and their rationales, guidance for interviewing, and guidelines for data coding, analysis, and statistical treatment. But this manual goes much further. In Chapters 1-3 it provides a conceptual framework for the impact assessment process, its different levels (individual, household, enterprise, and community), and suggests exercises for MFI staff to identify their own “program impact pathways” and “markers of change.” It provides checklists of do’s and don’ts in questionnaire design, translation, field testing, interviewing, and post interviewing. It provides a step-by-step program for training field interviewers and supervisors. In Chapter 9 it provides detailed guidance on scheduling and budgeting an impact assessment and even provides a suggested generic outline for a final evaluation report. In the Appendix there are many pages of guidance for the statistical analysis of most of the hypotheses and questions found in the tools presented in the text. Last but not least, the manual is linked to an on-line “help desk” to assist readers with any questions they might have. And still, with all this, the manual describes itself as a continuing “work in progress,” encouraging readers to pick and choose only those evaluation elements that make sense for their programs, and to provide feedback on their experiences that might further enrich the manual’s content in the future.

Reference: AIMS/SEEP Manual, <http://www.mip.org>

2. *Imp-Act* – Impact Assessment Framework Guide: *Imp-Act* is a 3-year action-research program designed to improve the quality of microfinance services and their impact on poverty. The program is a collaboration bringing together 29 MFIs, International NGOs, policy makers, donors, and a team of academics from the Institute for Development Studies at University of Sussex; the University of Bath and the University of Sheffield.

Microfinance impact assessment is moving away from narrow, donor focused *events*, towards more practitioner-focused *processes*. There is a great variety of organisations with different needs, and using impact assessment in different and innovative ways to fulfill different objectives. It is too easy to follow good practice that has gone before, and to replicate the application of tools without going through the necessary process which leads to the decision of how to approach a particular task, and what tools to select to fulfil our aims. No two impact assessments should be the same unless organisations and the contexts in which they work are exactly the same.

To this end *Imp-Act* has developed a “how to” framework to guide practitioners through the process of designing an impact assessment system or study. (1) The first step is to understand the context in which an organisation works, its institutional profile (mission, structure, methodology), and its needs. (2) This understanding leads to choices about the assessment objectives and whose needs it will meet. (3) Decisions about objectives lead to a general approach to impact assessment – how rigorous does it need to be, who will participate, will it be a one-off study or a routine activity? (4) The next step is to decide on the tools suitable to the objectives and approach. (5) Finally the guide looks at application of findings - to feedback information into organisational systems.

The guide links to a comprehensive annotated literature review that helps readers identify where to go for more information, and to identify what literature will be useful for what purpose.

This material is available on the joint *Imp-Act*/CGAP Impact Assessment Centre on the Microfinance Gateway: www.microfinancegateway.org/impact/resources_guide.htm

5.2 3. CGAP—Poverty Assessment Tool: One of the unifying characteristics of microfinance institutions is that they profess to serve “the poor.” However, it is a well-known fact that most MFIs do not employ a targeting tool sufficiently rigorous to identify with reasonable certainty which of their new clients are severely poor, moderately poor, or non-poor. Targeting tools such as “Participatory Wealth Ranking,” “the housing index”, and “means testing” have been advanced by MFIs like Grameen Bank and CASHPOR, which specialize in serving the poorest, but theirs are methodologies where client selection is controlled by the MFI. In contrast, village banking and most self-help group methodologies have generally preferred less rigorous targeting methods (if any at all) by allowing loan size, geography, and client self-selection to be the determinants of which clients are reached; indeed, these MFIs often prefer mixed clientele (poor and non-poor) to insure minimum local capacity for bookkeeping and other management tasks.

Given the often contentious debate between targeting and non-targeting MFIs, CGAP has stepped into the breach with its Poverty Assessment Tool. While this tool is “primarily for donors” rather than MFIs, it provides donors as well as practitioners with a relatively inexpensive and scientific way to certify (whether or not they use targeting tools) the extent to which they are in compliance with their mission to reach the poorest. Because it employs inexpensive host-country professionals, the cost of the CGAP poverty assessment tool ranges from \$4,000 to \$16,000 (with an average cost of \$10,000)—which is well within the capacity of many MFIs to afford. CGAP’s methodology is based on a survey of 200 MFI clients and 300 comparison households. It collects information on demographics, economic activities, footwear and clothing expenditures, food security and vulnerability, housing indicators, land ownership, and ownership of other assets. For each MFI program evaluated the study establishes a Poverty Index score, that categorizes all non-client respondents into three equal poverty categories (each with their own cut-off)—the bottom one-third, the middle one-third, and the top one-third. Using these same cutoffs, the study then compares the distribution of the entering client households.

Reference: CGAP Poverty Assessment Tool website: <http://nt1.ids.ac.uk/cgap/poverty/>
Email: cgap@worldbank.org

5.3 4. FINCA—Poverty Targeting Tool: With access to the CGAP poverty assessment tool, it will now become much easier for MFIs to design wildly different poverty-targeting tools, based on their unique methodologies, because the effectiveness of any new tool can

now be “certified” by means of a CGAP “poverty assessment survey” Such is the case with John Hatch, founder of FINCA International, who has designed a methodology for targeting not the poorest but the *most vulnerable*. Using this methodology, FINCA field staff—in the very first borrowers organizing meeting—will clearly describe the purpose of the village bank as serving the “most vulnerable.” The field staff will then review different kinds of vulnerability and engage participating women in a discussion of who in their community meets any of the following descriptions: (1) single mother who is sole source of support for at least three children; (2) family that has recently suffered a severe loss (natural disaster, fire, robbery, death, etc.); (3) family with school-age children who are not in school; (4) family with children who are under-nourished; (5) family with a member who is chronically ill; (6) self-employed seniors who are raising grandchildren; (7) other vulnerability (determined by participants). This approach is designed to create a Vulnerability Index, which in turn can be correlated with 10 poverty-surrogate indicators collected in a FINCA loan application interview applied to new borrowers. Financed by a CGAP grant, FINCA’s poverty assessment tool is currently being field tested with results expected by late 2002.

Reference: FINCA website <http://www.villagebanking.org>. Email John Hatch at Jhatch@villagebanking.org.

5.4 5. The Small Enterprise Foundation/South Africa--Participatory Wealth Ranking:

The Small Enterprise Foundation (SEF) has developed Participatory Wealth Ranking (PWR) as a tool to assist the institution in poverty targeting. SEF management argues that unless active poverty targeting is used an institution cannot build microfinance services for the poorest. Their experience suggests that when better-off people are included, this may well discourage the poorest from joining. Hence, even if an institution’s aim is not to *exclusively* reach the poorest, unless active targeting is used it is possible the MFIs may inadvertently miss the poorest altogether. PWR is a cost-effective process in which, with the help of a facilitator, members of a village map out the houses in their village. Then, in three or four separate meetings, villagers sort each house into groups according to its poverty level. The results from each meeting are compared to the results from the others. If all groups give consistent answers, their ranking is considered accurate, and programs that wish to serve the poorest clients begin to motivate the villagers from the bottom income groups. The PWR methodology appears best adapted for microfinance programs where staff selects the clients who will participate, but less useful for other programs (village banking) where the organization of peer-lending groups is based on community self-selection and a mix of poor and non-poor is considered desirable.

Reference: Anton Simanowitz and Ben Nkuna, “Overcoming the Obstacles of Identifying the Poorest Families: Using Participatory Wealth Ranking (PWR), The CASHPOR House Index and Other Measurements to Identify and Encourage the Participation of the Poorest Families, Especially the Women of those Families.”
<http://www.microcreditsummit.org/papers/povertypaper.htm>

5.5 6. The CASHPOR Network/Malaysia --The CASHPOR House Index (CHI):

The CASHPOR House Index is a poverty targeting tool developed by the CASHPOR Network headquartered in Malaysia. If housing is a good indicator of the poverty level of families, then simply examining the houses of potential clients, practitioners can determine with a high degree of accuracy whether those families are among the poorest or not. They do this by inspecting the walls and roof of each house and assigning a numerical score to the condition of each. An assets test is administered to families whose houses had the lowest scores for further verification of poverty levels. Ownership of large farm animals or irrigated land are disqualifiers in such a test. CHI is most widely used in rural Asia, but its use is being expanded and adapted to other areas as appropriate. Grameen Foundation USA has been active in spreading this innovation to its partner programs in Latin America.

Reference: Anton Simanowitz and Ben Nkuna, "Overcoming the Obstacles of Identifying the Poorest Families: Using Participatory Wealth Ranking (PWR), The CASHPOR House Index and Other Measurements to Identify and Encourage the Participation of the Poorest Families, Especially the Women of those Families."

<http://www.microcreditsummit.org/papers/povertypaper.htm>

5.6 7. Opportunity International—Performance Measurement & Benchmarking:

Faced with the problem of limited ability to compare financial and program performance information among its more than 40 partner organizations worldwide, in 1999 OI introduced its Partner Reporting System (PRS) and *Opportunity Quarterly* in order to promote greater accountability, transparency, and performance. The PRS captures information on more than 100 financial and program variables on a quarterly basis. Using ratio and trend analysis, the system tracks 20 quantitative indicators to measure outreach, loan portfolio quality, efficiency, profitability, and sustainability. In addition to measuring total borrowers and average loan size, the PRS also separates portfolio, clients, and arrears by product type—namely, individual, trust bank, and solidarity group loans. Furthermore, partners are classified by small, medium, and large scale of operations and performance outcomes are grouped by region—Africa, Asia, Eastern Europe, and Latin America.

Reference: Opportunity International website: <http://www.opportunity.org> .

Email: reporting@opportunity.net

6.0 VI Innovations in Response To Emergencies

6.1 1. Katalysis—Disaster Response Action Plan: In January 2001 a set of severe earthquakes hit El Salvador. Katalysis' local partner MFIs—PROCOMES and ASEI—had no systematic response to the emergency. This void inspired the development of a 35-page document entitled *When Disaster Strikes: An Action Plan for Preparation and Response for*

the Unexpected in Central America. The manual is divided into three sections: one for the local MFI, one for the regional field office, and one for Katalysis headquarters. Mary Morgan, Katalysis Program director, describes the document as follows: “Each section lays out how to prepare for a disaster, how to provide moral and emotional support when a disaster strikes, and then how to assess the damage. There are charts for the loan officers to assess the impact of the disaster on clients and their businesses, calculate the amount of portfolio affected, and how to assess which loans should be refinanced or restructured.” Copies of the document are available in Spanish and English.

Reference: Katalysis, *When Disaster Strikes*, 2001, <http://www.katalysis.org>.
Email: mmorgan@katalysis.org

6.2 **2. USAID/MBP—Survey of MFI Disaster Responses:** The most definitive summary of MFI disaster responses remains that of Geetha Nagarajan’s *Microfinance in the Wake of Natural Disasters: Challenges and Opportunities* (March 1998) and financed by AID’s Microenterprise Best Practices (MBP) Project. This study begins with a review of the stages of natural disaster mitigation including (1) pre-disaster, (2) relief, (3) rehabilitation, (4) reconstruction, (5) development. The author then explains which MFI products are applicable at each stage, but with a cautionary analysis of how the structure of each product—fund management, staffing, methodology, objectives, sustainability, outreach, client selection, enforcement, coordination, etc.—has to be altered between normal periods versus natural disaster periods. Another cautionary chapter is devoted to the tradeoffs between client protection and portfolio protection. The text is saturated by multiple examples of actual MFI disaster response case studies, the most comprehensive being BRAC/Bangladesh’s 5-stage response. This 46-page document ends with recommendations for disaster response actions for donors, policy makers, and MFIs.

Reference: Geetha Nagarajan, *Microfinance in the Wake of Natural Disasters*, March 1998, USAID, MBP project , <http://www.mip.org/pubs/>

7.0 VII. Concluding Comments

7.1 **A Few Disclaimers:** In this paper we have thrown a broad net and captured a heavy load of fish of many different types and sizes. It is important to emphasize that many of the innovations reported are not necessarily the best or the most important of their respective category. Most of them are neither the first or only example of the innovation they were selected to represent. A good innovation may best be judged not by the claims of success of its creators but by the degree to which it has been imitated by others. As the so-called “father of village banking” I like to make the point that within FINCA programs alone there are over 1000 field staff that can organize, support, and monitor a village bank far better than I can.

Similarly, there may be merit in being the first to innovate, but history clearly shows that the most successful examples of a given innovation will most likely be demonstrated by its replicators, not its creators.

7.2 The Location and Pace of Innovation: Where is it occurring? The answer is *everywhere* there is one or more MFIs. This paper reports on innovations from every continent and from many different countries. One gets the sense there is hardly a country left on the planet where not just one but several MFIs (in some cases dozens) have taken root. Similarly, the competition among MFIs is helping to accelerate the pace of innovation. It has become a fact of life, virtually an imperative, for any MFI to innovate constantly. Indeed, innovation should be considered the rule and business-as-usual the exception.

7.3 Government Involvement: Governments are beginning to get more involved, deploying their financial service infrastructures in a way increasingly intended to meet the demand of *most* (if not all) their citizens, not just the political and economic elites. Some of this involvement may have been sincerely motivated by explicit development and poverty-alleviation agendas. But more likely it reflects the need of the state to re-assert its role as regulator of the financial services sector. In some cases it may represent a belated attempt to become once again the primary channel through which external capital will be channeled to the poor. Given these considerations, non-regulated MFIs can expect increasing pressure from local governments to transform into regulated financial intermediaries or get out of the lending business altogether. So as competition, innovation, and government regulation increasingly shake up the current MFI environment, I think it can be safely predicted that many nonprofit NGOs will be forced either to become regulated MFIs themselves or the partners of regulated MFIs. In the next few years we can expect to see significant innovation in how these partnerships can be structured so as to produce win-win-win results for clients, NGOs, and regulated MFIs.

7.4 Competitive Advantages: Fourth, the largest commercial financial service providers are now fully cognizant of the fact that they have a huge advantage with regard to capital, management capacity, and range of financial products, but they are still particularly inexperienced in knowing how to reach and organize the poor. This latter expertise is largely the province of NGOs. But the trends are perfectly clear: the largest and smallest practitioners have a vested interest in partnering with each other, they are now demonstrating how this can be done, and they will increasingly innovate to move in this direction in the future.

7.5 Information Technology: It is also clear that innovation information technology is not only revolutionizing the microfinance movement but will continue to intensify that revolution. No matter how large an MFI's outreach (even when it serves millions of clients), thanks to computers it is now possible to track *every single client*, to store and evaluate her accumulated transactions, to monitor the seasonal complexities of her cashflow, to track her asset growth, to measure her family's gains in well-being, and to increasingly customize financial or training products to meet her evolving needs—all at lower cost than the obsolete manual bookkeeping that such innovation is rapidly replacing. Happily, this transformation is also making the process of microfinance management far more transparent.

7.6 Recommendations for Going Forward: This paper amounts to a small first step in attempting to organize the breadth and diversity of innovation within the microfinance movement. Judging from the feedback received while preparing and circulating early drafts of this document, there is enormous and growing interest within the microfinance movement for the reporting on innovation. I recommend that the function this paper attempted to serve be institutionalized. There ought to be an annual innovation report. Gathering information on innovation should be somebody's full-time job, or even that of a well-staffed research unit. Contributions to innovation reports need to be standardized. In addition a flexible description of the innovation itself, contributing MFIs would be asked to include (1) background on the sponsoring MFI, (2) the problem which the innovation addressed, (3) measurable benefits or results achieved by the innovation, (4) cost of implementing the innovation, and (5) evidence of replication of the innovation by others. Such an annual innovation report could be divided two-thirds into reporting on new innovations and one-third into up-dating the status of innovations already reported and or being replicated.

In sum, the present document—a one-time, 25-page paper, prepared as a voluntary, unfunded contribution for the benefit of the microfinance movement—is hardly a suitable prototype for the innovation reports of the future. Somebody needs to “hold the energy” for this function so it can be accomplished comprehensively, accurately, and systematically. This paper was a necessary first start, comparable to man's first, clumsy attempt to fly. It is now time to start building many more and far superior prototypes for reporting on innovation. It is now time to start innovating with innovation.

About the authors:

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